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National Association of Federally-Insured Credit Unions

January 5, 2017

Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

RE: Loans in Areas Having Special Flood Hazards – Private Flood Insurance (RIN 3133-AE64)

Dear Mr. Poliquin:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), the only national trade association focusing exclusively on federal issues affecting the nation's federally-insured credit unions, I am writing in regard to the joint agency proposed rule regarding private flood insurance for loans in areas having special flood hazards, promulgated by the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (Board), the Federal Deposit Insurance Corporation (FDIC), and the Farm Credit Administration (FCA) (collectively, the Agencies).

NAFCU generally supports the Agencies' efforts aimed at continuing to grow a robust private flood insurance market, but is hesitant to fully endorse a rule that makes strides toward a completely non-government-backed flood insurance market. Furthermore, NAFCU and its members are concerned about what this proposed rule will mean for credit unions' bottom lines. Thus, NAFCU requests that the NCUA more carefully consider the overall potential effects of this proposal, both in terms of compliance costs and the overall direction of the flood insurance market.

General Comments

The National Flood Insurance Program (NFIP), as governed by the *National Flood Insurance Act* of 1968 (NFIA) and the *Flood Disaster Protection Act* of 1973 (FDPA) establish federally-subsidized flood insurance for owners of improved real estate or mobile homes located in special flood hazard areas to purchase flood insurance when obtaining a loan from a regulated lending institution. In 2012, the *Biggert-Waters Flood Insurance Reform Act* (Biggert-Waters Act) amended the NFIP requirements that banking regulators have to implement and enforce.

In October 2013, the Agencies jointly proposed rules to implement the escrow, force placement, and private flood insurance provisions of the Biggert-Waters Act. The *Homeowner Flood Insurance Affordability Act* of 2014 (HFIAA) revised the Biggert-Waters Act requirements

related to escrow of flood insurance premiums and created a new exclusion from the mandatory flood insurance purchase requirement for certain detached structures. Accordingly, in October 2014, the Agencies issued a new proposed rule to implement these changes. Then, in July 2015, the Agencies finalized rules to implement the relevant provisions of HFIAA and the force-placed flood insurance provisions of the Biggert-Waters Act. As a result of public comments, the Agencies decided to finalize the force-place insurance provisions of the rule and re-propose the private flood insurance provisions.

Increased Compliance Costs

NAFCU and its member credit unions are appreciative of the increased flexibility and simplified processes encompassed in this proposed rule. Along with these measures, however, come increased compliance costs. In particular, despite the greater flexibility, the discretionary acceptance provision has added rather vague requirements to the process of accepting private flood insurance that does not meet the statutory definition. Vague requirements can lead to confusion, cause unwanted mistakes, and result in heightened costs in an effort to rectify the compliance issue.

Furthermore, the proposal explains that an insignificant amount of small credit unions, those with less than \$100 million in assets, are likely to see a substantial economic impact as a result of this rule. The NCUA estimates that a small credit union is likely to spend approximately \$2,020 per year in implementing this rule. Although this may not seem like a large expense, this is just another cost on an already growing laundry list of compliance costs that have been imposed on credit unions over the past few years. Such increased costs have caused numerous credit unions to close their doors or merge with other, larger credit unions. Therefore, NAFCU requests that NCUA further evaluate any potential cost-savings associated with this proposed rule before it is finalized.

Further Privatization

Another major concern is the pace at which the flood insurance industry is shifting toward full privatization. The NFIP has been the primary source of flood insurance for U.S. homes and businesses for more than half a century, but lawmakers are now exploring the possibility of sharing more of its exposure with private insurers and investors. The NFIP's authorization expires in September 2017 and Congress will have the chance to vote on another five-year extension while contemplating what flood insurance might look like if it was completely privatized. The NCUA should be wary of making the shift to a more private flood insurance market, ahead of concrete congressional action on the issue.

Additionally, the NCUA must keep in mind that credit unions rely on government-backed flood insurance through the NFIP. Moving away from that model too quickly may cause disruptions in the stability of the credit union industry. Even though the NFIP may be deeply in debt, Congress must first address this issue and not government agencies. Thus, NAFCU requests that the NCUA refrain from any further rulemaking that promotes the privatization of the flood insurance market.

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Conclusion

NAFCU greatly appreciates the NCUA's efforts regarding private flood insurance. NAFCU would love the chance to meet with the NCUA to discuss this proposal, its possible implications for credit unions and their members, and other future initiatives. If you have any questions or concerns, please do not hesitate to contact me at akossachev@nafcu.org or (703) 842-2212.

Sincerely,

A handwritten signature in black ink, appearing to read "Ann Kossachev". The signature is fluid and cursive, with the first name "Ann" and last name "Kossachev" clearly distinguishable.

Ann Kossachev
Regulatory Affairs Counsel