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Staying Ahead of the Floods

Know how mapping and insurance changes affect your clients

This past spring, heavy floods returned to the banks of the Mississippi River. The images of sunken homes and devastated towns reminded everyone of the dangers posed by life along the water. But the risk of flooding knows few bounds, and the water often rises where you least expect it. Mortgage brokers and loan originators can help. By staying abreast of flood regulations and insurance-requirement changes, you can build a financial levee between your clients and the rising waters of tomorrow.

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Although major flood events in large metropolitan areas make national headlines, communities from coast to coast face flood risks. According to the National Flood Insurance Program, people living outside of high-risk areas receive one-third of disaster assistance for flooding.

In some locales, giant storms previously thought to strike once a century now seem to occur once a decade. They inundate streets and sewer systems and leave a path of destruction and waste in their wake.

Awareness about the risks has grown as steadily as the rising water.

Mortgage brokers and loan originators should keep this in mind when taking loan applications. They also should know how Federal Emergency Management Agency (FEMA) changes affect flood-insurance requirements as well as mortgage underwriting and approval.

Here are some of the key things mortgage professionals should know about flood concerns and FEMA changes.

Notification requirements

Mortgage lenders must comply with requirements that mandate the purchase of



Illustration: Dennis Wunsch

flood insurance in certain geographical areas. Federal regulators strictly monitor flood-insurance compliance and perform ongoing audits to ensure lenders have flood insurance in place when required — and that they keep appropriate flood-threat assessments on file.

It's the lending institution's responsibility to ensure that flood insurance is in place, although some mortgage brokers

also handle this. Typically, the lender will inform borrowers of the insurance requirement and of a deadline for purchase. If borrowers haven't obtained coverage by the specified date, the lender will have the policy placed for them — called force-placed or lender-placed.

When mortgage professionals service a loan, they must notify the property owners when FEMA issues a change in flood-zone status that affects the property. Notification is ultimately the loan servicer's responsibility. This includes properties that are newly identified as being in or out of Special Flood Hazard Areas (SFHAs) as a result of FEMA's Flood Insurance Rate Maps.

Homeowners no longer in an SFHA benefit from this information because they can save money on flood insurance. On the other hand, owners whose properties are newly identified as being in SFHAs must be alerted so they can obtain the appropriate coverage.

Recently, regulators have become more stringent about enforcing the notification rule. Updated guidance can be accessed via the 2009 interagency questions and answers regarding flood insurance. Leading mortgage-information providers have developed tools that enable lenders to comply with published guidance and notification requirements.

Regulators also require mortgage professionals to ensure that flood-determination services supplied by a third-party

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vendor are backed by guarantees to protect the lender adequately. To ensure compliance and adequate vendor management, regulators spot-check offices for up-to-date service agreements with third-party flood-determination providers. Having a copy on hand is a smart move from a liability standpoint.

Providers of flood determinations have dedicated teams of research technicians that specialize in map analysis and lender-compliance requirements. They can provide flood determinations and deliver mortgage professionals comprehensive reports, including detailed maps.

FEMA change

Per the 2009 interagency questions and answers, lenders are required to resolve flood-zone discrepancies. FEMA's Preferred Risk Policy eligibility extension took effect this past Jan. 1. Buildings newly identified to be in SFHAs as a result of FEMA flood-map revisions made on or after Jan. 1 are eligible for a low-cost Preferred Risk Policy for two policy years following the new map's effective date.

Additionally, buildings identified as being in SFHAs because of map revisions made between Oct. 1, 2008, and Dec. 31, 2010, are eligible for Preferred Risk Policies for two years from the time of their next policy renewal. Although insurance agents are responsible for carrying out this process, mortgage professionals should note that the extension program potentially can create perceived flood-zone discrepancies between a lender's determination and the zone used to rate the homeowner's flood-insurance policy.

The flood-insurance policy declarations page will indicate a "current flood zone" and a "rating flood zone" to help alleviate the burden on lenders to resolve these discrepancies. A copy of the declarations page can serve as evidence of resolution of flood-zone discrepancies for bank examiners. You can find a FEMA bulletin with links to federal financial regulators' guidance related to this new program at sctsm.in/FEMAbulletin.

Map modernization

More flood-map revisions can be expected

through FEMA's Risk Mapping, Assessment and Planning (M.A.P.) Strategy, which is initiating new flood studies for coastal, levee and riverine areas. Flood-determination providers are helping lenders keep pace with these and other flood-zone changes. By using digital data to build color-coded maps, flood-determination providers are offering new ways to determine a property's flood-zone status quickly and easily.

Another invaluable technological innovation involves rooftop geocoding, which electronically identifies structures on properties based on parcel maps and aerial photographs. This tool improves the accuracy of flood determinations provided for mortgage professionals' purposes. It can be incorporated into mapping products that allow for visual confirmation of a property's proximity to regulatory flood hazards and other potential causes of concern, such as proximity to a gas station, airport, highway or waste-disposal facility.

Many of today's flood maps were updated as part of FEMA's Map Modernization program, an initiative funded in 2003 that continues to produce updated maps through 2011. New maps that have been funded as part of FEMA's Risk M.A.P. program are already being finalized and published, and this process will continue through 2014. The communities targeted for new studies often are chosen because of their perceived flood risk, large population or rapid development trend — or a combination thereof.

Recognizing the benefits of providing up-to-date data to homeowners, prospective homeowners and land-use planners, city leaders in many recently flooded communities also pursue more-accurate flood maps. Conducting new flood studies and generating new maps generally takes two to five years.

Compliance a priority

Accurate flood-zone determinations are critical to the origination of high-quality mortgages and to ongoing compliance with federal mandates. Mortgage professionals hoping to ease the burden of keeping up with shifting federal requirements

and changing floodplain-management maps can team with information-providers that make it their business to keep you compliant.

These providers typically offer services for the life of a loan, such as:

- **Loan-portfolio compliance review;**
- **Real-time flood determinations;**
- **Tracking and reporting for flood-map changes;**
- **Home Mortgage Disclosure Act services;**
- **Nationwide coverage; and**
- **A premier selection of insurance-providers.**

Mortgage brokers and loan originators with access to accurate and up-to-date flood-zone determinations can better guide clients through property purchases and potentially save themselves, their clients and their lenders untold amounts of time and money. ●

On the Web

- The official website of the National Flood Insurance Program (NFIP) is floodsmart.gov. You can find additional information and sign up for e-mail updates about NFIP at fema.gov/business/nfip. Lender-specific information is available at fema.gov/business/nfip/infol.shtm.
- To review the interagency questions and answers regarding flood insurance, see sctsm.in/FloodInsuranceQA.
- For information about Flood Insurance Rate Maps, see fema.gov/hazard/map/firm.shtm.
- For information about flood-map modernization, visit sctsm.in/FloodMapMod.
- Find details about the Preferred Risk Policy eligibility extension at sctsm.in/PreferredRisk.