



# Bankers Advisory

## COMPLIANCE MONITOR

November 8, 2012

### *National Flood Insurance Update*

By Anna DeSimone

#### **NFIP Authorizes Grace Period for Flood Insurance Premium Payments**

November 7, 2012, the U.S. Department of Homeland Security issued a Service Bulletin regarding the National Flood Insurance Program (NFIP). The memorandum outlines the provisions for homeowners to qualify for an extension of the Grace Period for payment of National Flood Insurance renewal premiums. Below are key sections of the NFIP Memorandum:

On October 29, 2012, Meteorological Storm Sandy struck the East Coast and caused major destruction to homes and businesses across several states. The closing of airports and the damage to homes, United States Postal Service facilities, and infrastructure have caused concerns about delays in receipt of renewal premiums by the NFIP Servicing Agent, Write Your Own Companies, and their vendors. The concern about the possible lapses in coverage and the subsequent denials of claims occurring during a gap in coverage compels the NFIP to extend the thirty (30) day grace period for receipt by the NFIP of flood insurance renewal premiums. Accordingly, pursuant to the provisions of the SFIP dealing with waivers:

1. The SFIP renewal provisions are hereby waived to provide that the 30-day grace period for receipt of the renewal premium payment after a policy's expiration date is extended for an additional thirty (30) days. This extension is applicable to all policies with a grace period ending October 29, 2012, through November 28, 2012. As to a policy with a grace period ending date of November 29, 2012, or later, the normal 30-day grace period will apply for receipt of the renewal premium payment.
2. This waiver applies to all NFIP policies, whether issued by the NFIP Servicing Agent or a Write Your Own Company, written on properties located in the states of:

***Connecticut***  
***Delaware***  
***District of Columbia***  
***Maine***  
***Maryland***  
***Massachusetts***  
***New Jersey***  
***New York***  
***North Carolina***  
***Pennsylvania***  
***Rhode Island***  
***Virginia***

## **Biggert-Waters Flood Insurance Reform Act of 2012**

President Obama signed the Biggert-Waters Flood Insurance Reform Act of 2012 into law on July 6, 2012. The Act increases access to the National Flood Insurance Program (NFIP) for some residents whose homes were impacted by flooding from federal land that resulted from wildfire. The Act authorizes the NFIP and its financing through September 30, 2017. Outlined below is a summary of the Act's key provisions of particular interest to mortgage lenders:

### **Notice of Flood Insurance Availability Under RESPA's Good Faith Estimate**

The Act would require that lenders provide to all purchasers, a disclosure of the availability of flood insurance under the Real Estate Settlement Procedures Act (RESPA).

### **Penalties for Lender Non-Compliance with Mandatory Purchase Requirement**

The Act would increase penalties for lenders that fail to ensure that properties required to have flood coverage purchase such coverage. Penalties are increased from \$350 to \$2000 per violation, and this section removes the limit on annual penalties.

### **Escrow of Flood Insurance Payments**

The Act would require lending institutions to create escrow accounts for the payment of flood insurance premiums.

### **Termination of Force-Placed Insurance**

Within 30 days of receipt by a lender or servicer of confirmation of a borrower's existing flood insurance coverage, the lender or servicer shall terminate any force-placed insurance and refund all force-placed insurance premiums and fees charged to the borrower during any period of coverage overlap. For confirmation of coverage, a lender or servicer shall accept the borrower's insurance policy declarations page that includes the flood policy number and the insurance company.

### **Increase in Average Annual Limit on Premium Growth**

The Act would increase the annual limitation on premium increase from 10% to 20%.

### **Use of Private Insurance to Satisfy Mandatory Purchase Requirement**

The Act would permit lending institutions to accept a private primary flood insurance policy in lieu of a NFIP flood policy to satisfy the mandatory purchase requirements.

### **Payment of Condominium Claims**

The Act would clarify that condominium owners with flood insurance policies should receive claims payments regardless of the adequacy of flood insurance coverage of the condominium association and other condominium owners.



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