



# NATIONAL FLOOD INSURANCE PROGRAM

## Bureau and Statistical Agent

**FEMA**

W-04003

**MEMORANDUM TO:** Write Your Own (WYO) Principal Coordinators and  
NFIP Servicing Agent

**FROM:** WYO Clearinghouse

**DATE:** January 15, 2004

**SUBJECT:** Lender Compliance Activities

Attached for your information are samples of letters dated January 8, 2004, sent by FEMA to the Federal lending regulators, Government Sponsored Enterprises, and lender trade associations.

The letters provide NFIP updates of special significance to the lending industry and emphasize the importance of flood insurance compliance. They also address the issue of lenders who may consider private flood coverage for their clients in lieu of a policy backed by the NFIP.

FEMA has requested the help of these regulatory agencies and lender organizations in encouraging lenders to carefully examine such policies before accepting them as providing sufficient protection under the National Flood Insurance Reform Act of 1994.

If you have any questions, please contact your Program Coordinator.

Attachments

cc: Vendors, IBHS, WYO Standards, FIPNC, WYO Marketing Committee,  
Government Technical Representative

Suggested Routing: Claims, Legal, Marketing, and Underwriting

Dear XXXX:

This is to bring to your attention several matters of concern for the Federal Emergency Management Agency relating to flood insurance and to request your assistance in ensuring that borrowers are insured against floods and other hazards they may face.

#### National Flood Insurance Program (NFIP) Reauthorization

The *National Flood Insurance Reauthorization Act of 2004* extends the NFIP through March 31, 2004. We are hopeful that legislation to continue the program beyond that date will be passed quickly.

#### Flood Insurance Compliance

We appreciate the work done by lenders during the many months of the hectic refinancing boom to review loan applications, determine whether flood insurance would be required, and to fulfill the requirements of the Flood Disaster Protection Act of 1973, as amended by the National Flood Insurance Reform Act of 1994. We understand that you view adequate flood insurance coverage as an important factor in measuring the safety and soundness of a lending institution that extends loans in at-risk areas. In light of this, we hope you will encourage lenders to evaluate and modify their flood insurance programs as needed to comport with both the mandatory flood insurance purchase requirements and principles of safe and sound lending.

As a reminder, it is important for mortgage lenders and property owners to understand the ramifications of not requiring the purchase and renewal of flood insurance coverage for structures located in Special Flood Hazard Areas. The 1994 Reform Act expressly incorporates regulatory sanctions into the law and indirectly influences the potential for civil liability. Congress has designated a specific range of regulatory civil penalties that must be imposed administratively when it is found that a "pattern or practice of committing violations" has occurred. We are very much aware of your continued commitment to enforce compliance with the Act and appreciate those efforts. Not only are lenders compelled to require the purchase of flood insurance coverage, but property owners, too, have a responsibility to carry flood insurance protection in these areas. When they either fail to purchase or renew their flood insurance coverage, their equity and personal property are at risk.

#### Private Sector Flood Insurance Policies

We would appreciate your help in encouraging those lenders who consider private flood coverage in lieu of a policy backed by the National Flood Insurance Program to review FEMA's criteria for the acceptance of a private insurer and the form of coverage. These criteria are contained in the Mandatory Purchase of Flood Insurance Guidelines, Appendix

11, also available at [www.fema.gov/nfip/mpurfi.shtm](http://www.fema.gov/nfip/mpurfi.shtm). Recently, FEMA has reviewed two widely purchased private flood insurance policies and determined that the coverage provided is not adequate to meet the requirements of the National Flood Insurance Reform Act of 1994, and thereby places the property owner at greater risk. Some of the areas found lacking were deductible amounts, cancellation clause, and general exclusions. To the extent that such policies may differ from the NFIP policy, those differences should be carefully examined before acceptance by the lender as sufficient protection under the Act.

#### FEMA Activities Update

To provide greater support in the enforcement of the Act, we have launched an ambitious Map Modernization program to speed the process of updating flood insurance rate maps. This will result in many changes to existing flood maps while improving data accuracy and distribution through the use of state of the art technology. More accurate and current hazard map data will improve the lending institutions' capability to manage their financial risk, as well as protect their investments. For status updates on Map Modernization, visit our website at [www.fema.gov/nfip](http://www.fema.gov/nfip).

We are also working to improve our risk communication efforts so that property owners can better understand the risk of floods and recognize the value of flood insurance protection. We urge you to encourage your lenders/servicers to help property owners understand the real need for flood insurance, because floods can happen at anytime and anywhere.

In the spirit of spreading the message in this regard, I am addressing this letter to the other Federal regulatory entities and Government Sponsored Enterprises and sending a very similar communication to our contacts with the various lender trade associations.

Thank you for your continued support of the National Flood Insurance Program. Please don't hesitate to contact our Lender Compliance Officer, Lena Thompson, at 202-646-3441 or, [lena.thompson@dhs.gov](mailto:lena.thompson@dhs.gov) should the need arise.

Sincerely,

Anthony S. Lowe  
Director  
Mitigation Division  
Emergency Preparedness  
and Response Directorate

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