



**Federal Deposit Insurance  
Corporation**

550 17th Street NW, Washington, DC 20429-9990

## Financial Institution Letter

**FIL-48-2013**

**October 21, 2013**

### **JOINT NOTICE OF PROPOSED RULEMAKING ON LOANS IN AREAS HAVING SPECIAL FLOOD HAZARDS**

**Summary:** The FDIC, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the National Credit Union Administration, and the Farm Credit Administration are issuing a joint notice of proposed rulemaking to amend their respective regulations regarding loans in special flood hazard areas. The proposed rule would implement certain provisions of the Biggert-Waters Flood Insurance Reform Act of 2012 regarding acceptance of private flood insurance, escrowing flood insurance payments, and force-placement of flood insurance. The proposal also would harmonize FDIC flood insurance regulations with the former Office of Thrift Supervision regulations for state savings associations. Public comments on the proposed rule will be accepted until December 10, 2013.

**Statement of Applicability to Institutions Under \$1 Billion in Total Assets:** This Financial Institution Letter applies to all FDIC-supervised financial institutions.

**Distribution:**

FDIC-Supervised Institutions

**Suggested Routing:**

Chief Executive Officer  
Chief Compliance Officer  
Chief Loan Officer

**Related Topics:**

Biggert-Waters Flood Insurance Reform Act of 2012  
Flood Disaster Protection Act of 1973

**Attachment:**

[Joint Notice of Proposed Rulemaking](#)

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**Note:**

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**Highlights:**

The proposed rule would:

- Require regulated lending institutions to accept private flood insurance to satisfy the mandatory purchase of flood insurance requirement if the private flood insurance meets the statutory definition of the term "private flood insurance" as well as the terms and coverage amount required under the Flood Disaster Protection Act.
- Require institutions to disclose the availability of flood insurance from private flood insurance companies, and encourage borrowers to compare flood insurance policies offered under the National Flood Insurance Program with policies offered by private insurance companies.
- Require regulated lending institutions to escrow premiums and fees for flood insurance for any residential loans secured by residential improved real estate or a mobile home with the same frequency as regular payments made on the loan. The proposal specifies when lenders must begin escrowing, and requires lenders to give borrowers 90 days written notice before escrowing for outstanding loans. The proposed rule includes an exemption for certain smaller lenders, as well as for business, commercial and agricultural loans, second lien loans, and residential condominium association policies.
- Clarify that a lending institution may charge a borrower for force-placed insurance coverage commencing on the date a borrower's flood insurance policy lapses or does not provide sufficient coverage. The proposed rule would require an institution to terminate a force-placed insurance policy, and refund any payments a borrower made for overlapping coverage within 30 days of the borrower presenting evidence of flood insurance coverage.