Federal Deposit Insurance Corporation
550 17th Street NW, Washington, DC 20429-9990

Financial Institution Letter
FIL-114-2007
December 21, 2007

Flood Insurance

Managing Risks Associated With Lapses in Flood Insurance Coverage

Summary: Flood insurance is required for the life of a loan that is secured by improved real estate located, or to be located, in a special flood hazard area of a community participating in the National Flood Insurance Program. Often, an insurance policy lapses because the borrower does not renew it. Therefore, it is important for institutions to have adequate internal controls to ensure that borrowers maintain appropriate levels of flood insurance coverage for the term of the loan.

Distribution:
FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:
Chief Executive Officer
Compliance Officer

Related Topics:
Flood Disaster Protection Act of 1973, as amended

FDIC Part 339 - Loans in Areas Having Special Flood Hazards

Interagency Questions and Answers Regarding Flood Insurance (Financial Institution Letter 77-97)

Attachment:
None

Contact:
Mira Marshall, Senior Policy Analyst, at (20[illegible]) 898-[illegible]12 or mmarshall@fdic.gov; or John Jackwood, Senior Policy Analyst, at (2[illegible]) 898-39[illegible] or jjackwood@fdic.gov

Note:
FDIC financial institution letters (FILs) may be accessed from the FDIC's Web site at www.fdic.gov/news/news/financial/2007/index.html.

To receive FILs electronically, please visit http://www.fdic.gov/about/subscriptions/fil.html.

Paper copies of FDIC financial institution letters may be obtained through the FDIC's Public Information Center, 3501 Fairfax Drive, E-1102, Arlington, VA 22226 (1-877-275-3342 or 202-416-6940).

Highlights:

Flood insurance is required by federal law and is a common sense risk management tool for both lenders and borrowers. Institutions are responsible for ensuring that borrowers timely renew their policies.

Flood insurance premiums are not required to be escrowed if an institution does not require the escrow of other funds to cover other loan-related charges. However, escrowing flood insurance premiums helps ensure that borrowers are aware of the cost of flood insurance, and that such insurance is maintained.

If flood insurance coverage lapses, both borrowers and institutions are exposed to the risk of an uninsured loss from flooding. That risk increases in situations where flood insurance premiums are not escrowed. Therefore, it is important for institutions that do not escrow flood insurance premiums to have internal controls in place to verify that borrowers are maintaining adequate flood insurance coverage for the life of the loan. Such controls include:

- Monitoring notices from the insurance carrier about when a borrower's flood insurance is due for renewal, and following up if the policy renewal is not received from the borrower;
- Commencing force placement procedures when the institution determines that required flood insurance coverage is deficient or lapsed; and
- Checking flood insurance policies to confirm that they were written for the risk zone noted in the flood determination and, if not, resolving the difference.