



LOANS IN AREAS HAVING SPECIAL FLOOD HAZARDS

FIL-81-2001
September 20, 2001

TO: CHIEF EXECUTIVE OFFICER

SUBJECT: *Strengthening Compliance with Federal Flood Insurance Requirements*

To assist your institution with reviewing its flood insurance compliance program, the Federal Deposit Insurance Corporation (FDIC) has attached summaries of the principal requirements of the National Flood Insurance Act (42 U.S.C. 4001 et seq.) and Part 339 of the FDIC Rules and Regulations (Loans in Areas Having Special Flood Hazards). Also attached are a list of additional resources and a copy of a flood insurance checklist adapted from the FDIC Compliance Examination Manual to assist you in your compliance monitoring efforts.

The 2001 hurricane season began with Tropical Storm Allison causing 41 deaths and at least \$5 billion in property damage. Flooding was so severe in five states that the President declared federal disaster areas. As a result of flooding from earlier storms, there were federal disaster declarations in 15 other states during the first six months of the year.

Typically, flooding annually causes more than \$1 billion in damage in the United States. 2000 was a low year for covered flood losses, but the National Flood Insurance Program still paid out nearly \$220 million. 1995 has been the peak payment year so far at \$1.3 billion. Despite the likelihood of flood damage, less than half of the structures in Special Flood Hazard Areas (SFHAs) are insured against such loss. In fact, the risk of flooding for structures in a SFHA is much higher than the risk of fire. Over the life of a 30-year mortgage, a property located in a SFHA has a 26 percent chance of being flooded, compared with a one percent chance of a loss caused by fire.

These facts from the Federal Emergency Management Agency and the Federal Insurance Administration illustrate the importance of participating in the National Flood Insurance Program. The peak hurricane season of mid-August through late October is an opportune time to review the essential regulatory requirements of the flood insurance program and be certain your bank has incorporated them in its lending procedures. Failure to obtain appropriate flood insurance could result in losses for both your bank and your customers.

The Flood Insurance Reform Act of 1994 requires the FDIC and the other federal financial regulatory agencies to assess a civil money penalty against institutions that have a pattern or practice of violations of the flood insurance regulations. That penalty may be up to \$350 per violation, not to exceed \$115,000 in any one calendar year. Civil money penalties have been imposed against a number of institutions for violations of the flood insurance statute and regulations during the past year. Therefore, we urge all supervised institutions to take special care to meet all the requirements of 12 C.F.R. Part 339.

For further information, please contact your FDIC Division of Compliance and Consumer Affairs (DCA) Regional Office or the following DCA staff members:

- Ken Baebel, Assistant Director, (202) 942-3086, or
- Stacy Messett, Review Examiner, (202) 942-3381.

Stephen M. Cross
Director

Attachments:

[Summary of Flood Insurance Requirements](#)

[Flood Insurance Information Resources](#)

[Flood Insurance Compliance Monitoring Checklist](#)

Distribution: FDIC-Supervised Banks (Commercial and Savings)

NOTE: Paper copies of FDIC financial institution letters may be obtained through the FDIC's Public Information Center, 801 17th Street, NW, Room 100, Washington, DC 20434 (800-276-6003 or (703) 562-2200).