

Flood & Forced Placed Insurance

Be CERTAIN in the bridge.

Be MORE CERTAIN in
who engineered it.

Insurance | Risk Management | Employee Benefits | Financial Services



HARDEN
uncertainty

Introduction

Insurance & Compliance.. Awesome.



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Biggert Waters Act

▲ Why was it designed?

- » Was designed to allow premiums to rise to reflect the true risk of living in high flood areas
- » NFIP is \$24 billion in debt
- » There is \$527 billion insured through the NFIP

▲ What did it do

- » Raised the premiums on “Pre-FIRM” locations.
 - *Pre-FIRM homes were built before the flood plains were outlined*
- » Stopped subsidizing premiums on second homes, businesses and homes flooded multiple times.
- » Private Flood Insurance

Flood legislation

▲ Your liability

- » Civil Money Penalties (CMP) up to \$2,000 per violation vs. \$385
- » Annual cap eliminated (\$135,000)

▲ Grimm-Waters Bill

- » Retroactive refunds for large flood insurance increases
- » “Strive to minimize the number of policies with premium over 1% of the value”
- » Escrows – Not until January 1, 2016 for residential loans
 - *Exceptions to B-W Act escrow rules – junior/subordinate liens, condominiums when assoc. purchases insurance, business purpose loans, HELOC, non-performing loans*

Managing Flood Risk

- ▲ Maps are changing quickly due to additional funding.
 - » Process in place to check flood?
- ▲ Truly covering a risk?
 - » Often times does not take into account tidal surge. Only rainfall.
- ▲ Valuation – How are you doing it?
 - » Banks requiring more flood than really needed
 - » How BoA got in trouble

CFPB Jan 10, 2014 Rules (Best Practices)

▲ Notice Requirements

- » Once evidence of inadequate insurance you must give two notices. First notice 45 days before and second notice 15 days before force placing insurance. There must be 30 days between notices.

▲ What is enough proof of coverage?

- » You may use a declaration page, insurance certificate, the actual insurance policy or other similar forms of written confirmation. (Binders of insurance)

Getting the money

▲ How/When/How Much can We Charge?

- » As long as not prohibited by state law you can charge back to the retroactive date of the insurance. You must collect through lawful and contractual means.
- » You can buy now and charge later (after 45 days of notices) or you can purchase coverage after the 45 days that has retroactive coverage
- » You may charge a “bona fide” charge in addition to premium which are service actually performed that bears a reasonable relationship to your cost.

Refunds & Renewals

Refunds

- » You must refund premiums within 15 days of receiving evidence demonstrating that there is appropriate coverage for the overlapping period.
- » Most forced place carriers reconcile online. Implementing an internal system to expedite is key.

Renewals

- » If you need to renew the forced placed insurance for a borrower you still need to notice them just as if you are putting a new policy in place.

Other Issues

Deceased Borrower

- » You need to have processes in place, once you are aware of the death, to discuss with the successor to get insurance in place and notice them.
- » The CFPB still lacks clarity on what those processes are.

“One Carrier”

- » Confusion around this rule. You are allowed to have different carriers for flood & hazard but you can't have two flood carriers or two hazard carriers.