

FEDERAL RESERVE BANK
OF NEW YORK

10845.ATLCO
April 4, 1996

LOANS IN AREAS HAVING SPECIAL FLOOD HAZARDS

Forced Placement of Flood Insurance

Civil Money Penalty Provisions

*To All State Member Banks and Domestic Bank Holding
Companies in the Second Federal Reserve District:*

The Riegle Community Development and Regulatory Improvement Act ("Act"), which was enacted on September 23, 1994, comprehensively revised the Federal flood insurance statutes. Proposed changes to the Board of Governors' Regulation H, "Membership of State Banking Institutions in the Federal Reserve System," to implement the Act were distributed with our Circular No. 10811, dated November 15, 1995. The purpose of this letter is to focus special attention on provisions of the Act that became effective on the date of enactment, including provisions concerning mandatory forced placement of flood insurance under certain circumstances, and the imposition of civil money penalties.

Specifically, with respect to loans secured by buildings or mobile homes for which flood insurance is required, the Act requires the lender or loan servicer to notify the borrower if the lender or servicer determines, at origination or at any time during the term of the loan, that the building or mobile home is not covered by flood insurance, or is covered for less than the required amount. If the borrower fails to purchase the required flood insurance within 45 days after such a notification, the lender or servicer must purchase the insurance on behalf of the borrower. The lender or servicer may charge the borrower for the cost of premiums and fees incurred by the lender or servicer in purchasing the insurance.

The Act also mandates civil money penalties against any regulated lender found to have a pattern or practice of failing to require flood insurance or to provide borrowers with the notification specified above.

(Over)

Accordingly, an institution's failure to provide notification to borrowers of the lapse of required flood insurance, or to ensure that the flood insurance is renewed or replaced in the required amount, may subject the institution to civil money penalties of as much as \$350 for each violation, for a total maximum amount of \$100,000.

Finally, in determining the amount of flood insurance required for a building or mobile home, institutions should be aware of the increased maximum coverage amounts that were made available as of March 1, 1995. These amounts include the following:

Residential property (including single family):
\$250,000.

Residential property contents: \$100,000.

Nonresidential property (including churches) and
contents: \$500,000 for each structure, and \$500,000
for any contents related to each structure.

Questions regarding this matter may be directed to our
Compliance Examinations Department (Tel. No. 212-720-5914).

JAMES K. HODGETTS
Vice President