Issue 2a

1st Quarter 2008

Lenders News

Lenders Financial Insurance Services
2838 East Long Lake Rd. #110
Troy, MI 48085
(248) 689-2001

www.lenders-financial.com

Update: New Flood Legislation Should Impact Lenders

Congress is poised to once again reform existing federal flood regulations. The current authorization for the National Flood Insurance Program (NFIP) expires in 2008, necessitating passage of new authorization to, according to the legislation, "meet the needs of the 21st century."

Many of the expected reforms deal with NFIP coverage and eligibility. But, other new aspects will impact financial institutions.

The new legislation calls for greater accountability and financial responsibility at the NFIP, by addressing a number of weaknesses that were exposed by the unprecedented 2005 hurricane season. That year, NFIP claims from Hurricanes Katrina and Rita amounted to almost $25 billion, far surpassing the total claims paid in the entire history of the NFIP program. The NFIP, which is intended to be self sufficient, was forced to borrow $20 billion of that amount. (Still, Less than 20 percent of Mississippians whose homes suffered storm surge from Katrina had purchased flood coverage.)

In September 2007, The U.S.

House of Representatives passed **H.R. 3121**, the *"Flood Insurance Reform and Modernization Act of 2007"*.

In October, 2007, the Senate Banking Committee began work on it's version of Flood reform.

Of primary interest to financial institutions will be the increase in fines and penalties for lenders that <u>do not properly enforce</u> the mandatory purchase requirements. The maximum fine "per violation" will increase from

(Continued on page 2)

Corporate Insurance

Financial Institution Bond

Directors and Officers Liability

Employee Practices Liability

Mortgage Impairment / E & O

Professional Liability

Property and Casualty

Umbrella Liability

Series: How Well Do You Know Your Corporate Insurance?

<u>Financial Institution Bond</u>

Financial Institution Bond is perhaps the most important insurance protection of a financial institution. Simply, it protects the financial institution against loss of the institution's assets.

FI Bond deals primarily with acts of dishonesty and fraud, both *internal* (those committed by employees), and *external* (such as robbery.)

The Bond's wide range of coverage is found in its clearly identified *Insuring Agreements.* Each individual insuring agreement addresses specific areas of risk to the institution. Most Insuring Agreements are standard (I.e. required coverage), while others are optional.

Coverage is very comprehensive. It is also very <u>exact</u>, and the financial institution is advised to have an excellent understanding of its coverage.

Bond losses, by their nature, can involve the element of *deception.* As a result, the actual dollar amount of the loss can escalate before the dishonest or fraudulent act is exposed.

Reflecting the importance of Financial Institution Bond, it will often have the <u>highest limit of insurance</u> of any insurance policy in the institution's insurance portfolio. For its members, The American Bankers Association provides recommended limits which are based on the institution's total asset size.

In the recent decades, the banking industry has seen

(Continued on page 2)

Flood Legislation

(Continued from page 1)
$350 to $2,000. The maximum annual fine "per institution" will increase from $100,000 to $1,000,000. Clearly however, the intent is to reserve the higher penalties for flagrant violators, not necessarily those institutions that show good faith attempts to comply.

Financial institutions should also take note of other changes from current NFIP guidelines. The maximum coverage limits for both residential and commercial properties will be increased - for the first time since 1994. Subsidized rates for commercial properties, vacation properties, and second homes (built before 1974) will be phased out. Business Interruption coverage will be available on commercial flood policies. Flood maps will be reviewed and updated more aggressively than in the past.

Also of note – HR3121 calls for a study of the expansion of the Mandatory Purchase requirement to include, for the first time, non-federally regulated lending institutions.

The Bush administration has pledged to veto the House bill.

A complete copy of HR 3121 can be found at:
http://www.lenders-financial.com/lendersnews/HR3121.pdf

The Flood Insurance Reform and Modernization Act of 2007

Phases out subsidized rates on commercial properties, vacation homes, and second homes built before 1974

Business owners can purchase business interruption insurance

Provides for higher limits for residential and commercial properties

Calls for more frequent updating of flood maps

Better disclosures, and outreach, about flood insurance availability

Simplified language in flood insurance policies

Requires landlords to notify tenants of contents coverage availability.

Coverage can be effective immediately upon purchase of a home

Provides for a study of how to increase participation by low-income families

Increases the fines on lenders who do not enforce the mandatory flood insurance policy purchase requirement for those who live in a floodplain and hold a Federally-backed mortgage.

Financial Institution Bond

(Continued from page 1)
unprecedented change to the ways it does business. The Financial Institution Bond must continuously adapt its coverage to keep pace with these changes, particularly in growing high-risk areas like technology and communication.

When purchasing a multi-year FI Bond, a financial institution should consider its coverage needs at the end of the bond term, as well as at the beginning of the term.

Common "Insuring Agreements"

- **Dishonesty / Fidelity**
- **On Premises**
- **In Transit**
- **Check Kiting Fraud**
- **Automated Device**
- **Counterfeit Money**
- **Computer Systems**
- **Data Processing Service Operations**
- **Defective Signatures**
- **Voice Initiated Funds Transfer**
- **Telefacsimile Instructions**
- **Cash Letter**
- **Safe Depository**
- **Securities**
- **Servicing Contractors**
- **Stop Payment or Wrongful Dishonor**
- **Trading Loss**
- **Kidnap-Ransom-Extortion**

About Lenders Financial Insurance Services

Lenders Financial Insurance Services provides specialized insurance products and services to banks, thrift institutions, credit unions, mortgage companies, and other institutions involved in consumer lending.

We view our role as "partner" to our financial institution clients. We work together with the institution to 1) determine the proper insurance coverage – limits, endorsements, etc., 2) reduce the risk of financial loss, and 3) m