



The U.S. Department of Housing and Urban Development (HUD) audited FHA-insured loans serviced in 2020.

HUD identified 31,500+ loans in SFHA flood zones lacking adequate flood insurance

Lenders exposed to at least \$4.5 billion in risk

Three Steps to Flood Insurance Compliance

Step 1: Assess your Flood Insurance Program

- Policies & procedures
- Process maps
- Flood insurance monitoring program
- Document-to-data
- Flood zone designation confirmation
- Insured value
- Flood insurance evaluation and tracking
- Detached structures
- Letter cycle
- Force-placement process
- Refund timeliness and accuracy

- **Premiums escrowed?**
 - **Requirement:** Lenders must escrow flood insurance premiums and fees for loans that are made, increased, renewed, or extended.
- **Proper communication with borrowers?**
 - **Requirement:** Lenders must provide written notice to borrowers of SFHA requirements and have record of borrower acknowledgement
- **Force-placement protocol followed?**
 - **Requirement:** if servicer determines loan lacks or has inadequate flood insurance, lender must notify borrower. If borrower fails to comply within 45 days, lender will force-purchase insurance

Step 3: Remediate to Avoid Penalties

- Conduct QC review of compliance errors
- Develop a remediation plan
- Select remediation populations based on risk tolerance and compliance demographics
- Document flood insurance data on a loan-level basis
- Update policies and procedures for future use

Step 2: Identify Compliance Gaps

- **Adequate flood insurance in place?**
 - **Requirement:** Properties in SFHAs must have flood insurance for term of loan; lender must track insurance expirations/renewals to ensure non-cancellation

Newbold can help!



"Regulators are tightening the screws on lenders and their compliance to flood insurance regulations. You're much better off to self-identify your compliance issues and start remediating before regulators come knocking on your door for a compliance audit."

Robert Simpson, Partner
& Default Expert at Newbold Advisors



Contact Robert for more information:

rsimpson@newboldadvisors.com
972-809-9456

newboldadvisors.com/flood-insurance-audit