

# AuditOne Advisory - From Bud Genovese, Chairman

We at AuditOne have noticed an increase in regulatory scrutiny on banking institutions' compliance with the Flood Disaster Protection Act, so our Compliance Practice Director Stan Mattice put together this column on how banks can stay high and dry in this environment.

## **Avoiding Leaks in Compliance with the Flood Act**

by Stan Mattice, AuditOne Compliance Practice Director

Faulty compliance with Flood Disaster Protection Act (FDPA) serves as the basis for regulators to impose civil money penalties. For instance, in the state of California, 2008 penalties against banks approximated \$102,000, went down considerably in 2009 to about half that amount, but jumped back to 2008 levels in 2010. The state of Washington, in comparison, did much better, experiencing a 90% reduction in violations in 2010 from a high of \$146,000 in 2009.

It's clear that banks need to revisit their control environment to mitigate flood violations. Unfortunately, there are many ways to violate the flood hazard requirements including failure to complete the Standard Flood Hazard Determination Form on covered loans in a proper and timely manner, failure to give the borrower the notice of flood hazards within the right time frame, and incorrectly calculating the amount of insurance required.

**What can your bank do?** It's critical that you review your policies and procedures to ensure they address every aspect of the regulation, provide frequent periodic monitoring to ensure compliance, and utilize independent audits to provide an extra level of compliance validation.

Based on recent examiner focus, here are some specific steps your bank can take to help ensure compliance with a variety of aspects of the FDPA.

1. Compare the appraisal report to the Standard Flood Hazard Determination Form (SFHDF) to ensure it includes all buildings (i.e. unattached to the main structure) identified on that report, and ensure that sufficient/current insurance (bank as loss payee) has been obtained within a reasonable time prior to loan closing (usually within 10 days of funding the loan).
2. Check to see that the flood zones indicated in the appraisal report, determination form, and insurance policy are matched for accuracy/correctness.
3. Ensure that all building values are supported by an authorized party. For example, be sure no buildings are assigned a value based on the bank's estimate just because the structure appears to be low in value.
4. Examine loan files currently listed in a flood hazard zone (outstanding since their past examination) to validate evidence of the borrower's signed acknowledgement (form) that they were apprised that the property(s) securing the loan is in a flood zone.
5. Make sure that when flood insurance policies are renewed that the coverage amount is reasonable (i.e. the loan may have paid down considerably) and the borrower is not charged excessive insurance premiums.

6. If bank uses third parties to service loans covered by the regulation, make sure the contractual agreements between the parties meet the requirements of the regulation.
7. If the bank uses a third party to prepare flood-zone determinations, make sure the contractual agreements between the parties contain provisions to resolve disputes relating to determinations, to allocate responsibility for compliance, and to address which party will be responsible for penalties incurred for noncompliance.
8. Ensure that policies and procedures correctly indicate the conditions when the bank can escrow for flood insurance premiums, and sufficiently address the handling of expired insurance policies and force-place process.
9. Ensure proper and timely completion of the Standard Flood Hazard Determination form on covered loans, give the borrower the notice of flood hazards within the right time frame, and correctly calculate the amount of insurance required.

### **AuditOne Staff Profile**

As an ongoing feature to these AuditOne Advisories, I'd like to provide details of the expertise of some of our AuditOne management and staff. AuditOne's value proposition is to deliver **responsive, exceptional expertise** at a cost-effective price, so let's take a closer look at what we mean by exceptional expertise.

### **STAN MATTICE**

#### **Compliance Practice Director**

25 years of Banking/ Audit/ Compliance Experience

#### *Titles Held*

VP / Chief Auditor

#### *Certifications/ Advanced Degree / Training*

Graduate School, University of Texas, at Austin, Texas (Institute of Financial Education)

Certified Financial Services Auditor

#### *Expertise*

Branch operations

Financial institutions operations and controls expert

Lending and Operations Compliance audit expert

Fair Lending

BSA audit expert

Internal Controls – FDICIA

SOX testing

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Bud Genovese is Chairman of AuditOne LLC, a California-based internal audit firm that focuses only on banks and their service providers. Mr. Genovese pioneered the concept of providing comprehensive, affordable, independent internal audit and credit review services by gathering wide-ranging, extraordinary

expertise within one firm. AuditOne now serves over 160 clients throughout the Western United States, and nationally. Contact Bud Genovese at 408-980-8099 or [bud.genovese@audit-one.com](mailto:bud.genovese@audit-one.com)