

GAO

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Fact Sheet for Congressional
Requesters

August 1990

FLOOD INSURANCE

Information on the
Mandatory Purchase
Requirement



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United States
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Washington, D.C. 20548

**Resources, Community, and
Economic Development Division**

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August 22, 1990

Congressional Requesters

In response to your requests, we are providing information on compliance with the mandatory flood insurance provision of the Flood Disaster Protection Act of 1973, as amended. This act, among other things, directs certain federal regulatory agencies, such as the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, to issue regulations requiring member lending institutions to ensure that certain properties in special flood hazard areas (SFHA)¹ securing a loan be insured against flood damage. The insurance is designed to provide an alternative to disaster assistance.

This fact sheet addresses the views of the Federal Emergency Management Agency's (FEMA) Federal Insurance Administration (FIA)—which manages the National Flood Insurance Program—regulatory agencies, and lenders on issues related to compliance with the mandatory flood insurance provision (see sec. 2); the level of compliance in certain areas of Texas and Maine (see sec. 3); and efforts to increase compliance (see sec. 4). Section 1 of this report provides background information on the flood insurance program.

Views on Compliance

FIA and the regulatory agencies disagree about the level of compliance with the mandatory flood insurance provision. FIA estimates that about 11 million properties are located in SFHAs. The act, however, does not require that all properties in SFHAs be covered by flood insurance. Only those properties in SFHAs secured by federally regulated or insured loans are required to have flood insurance. FIA estimates that 1.4 million policies are in force in SFHAs and concludes that the small number of policies indicates that noncompliance with the flood insurance requirement may be substantial.

In contrast, cognizant regulatory agencies, such as the Federal Deposit Insurance Corporation and the Federal Reserve System, reported at a National Flood Insurance Program reauthorization hearing that noncompliance is not a major problem. They said that most violations of flood insurance regulations by the lending institutions are technical matters, such as the lack of adequate documentation in a mortgage loan file.

¹The Federal Emergency Management Agency defines an SFHA as land in the floodplain within a community subject to a 1-percent or greater chance of flooding in any given year.

Officials of FIA, regulatory agencies, and lending institutions also raised a number of issues they believe affect compliance with the mandatory flood insurance provision, such as the cost of insurance.

Level of Compliance With Flood Insurance Program in Certain Areas of Maine and Texas

We obtained information on all SFHA personal residence properties for which disaster assistance was requested for two disasters in two states, Maine and Texas. We estimate that in Maine and Texas about 22 percent and 79 percent, respectively, of these properties for which flood insurance was required were not covered. Lenders cited various reasons why these properties were not insured as required, including the following: (1) the properties were identified as in SFHAs, but this fact was inadvertently overlooked, so the lenders did not require flood insurance; (2) the properties were incorrectly classified as not being in SFHAs, or were not classified at all, and therefore the insurance was not required; and (3) policies lapsed on properties that originally were covered by the required flood insurance when the loan was made.

Efforts to Increase Compliance

To help improve compliance, FIA has historically provided information on the flood insurance requirement to the regulatory agencies and lender associations. For example, in October 1989, FIA held its third annual meeting with regulatory agencies, which concentrated on lenders' enforcement of the mandatory insurance. Further, FIA officials said they provided a limited scope list to the Comptroller of the Currency in September 1989, with (1) the names of the lenders having loans on SFHA properties that are uninsured against floods and (2) the names of borrowers whose policies have lapsed. FIA plans to issue more complete lists once comments from the Comptroller of the Currency on the limited scope list are addressed. The lists will then be updated and sent periodically to all of the regulatory agencies.

According to regulatory agency officials, they intend to follow up with those lenders we reviewed in Maine and Texas that did not require flood insurance. Their purpose is to ensure that SFHA properties securing loans are insured. Lenders told us that within the last year they have paid more attention to complying with the flood insurance requirement by initiating such activities as developing procedures to ensure that the insurance requirement is reviewed prior to each closure.

We examined federal legislation and regulations relevant to the mandatory flood insurance provision and discussed the subject with officials of FEMA and selected lending institutions in Maine and Texas.

We relied on information that FEMA provided on properties located in SFHAS in Maine and Texas to identify the extent and causes of noncompliance. As agreed with your offices, we limited our review to these two states because at the time we conducted our fieldwork, FEMA had obtained mortgage and SFHA information from disaster assistance applicants in those states. We performed our work between April and December 1989, in accordance with generally accepted government auditing standards. More detailed information on our scope and methodology is presented in section 5.

We discussed the information in the report with officials of FIA, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision. The agencies agreed with the information presented. As requested, we did not obtain official comments on this fact sheet.

Unless you publicly announce its contents earlier, we plan no further distribution of this fact sheet until 30 days from the date of this letter. At that time, we will send copies to interested parties and make copies available to others upon request. If we can be of further assistance, please contact me at (202) 275-5525. Major contributors to this fact sheet are listed in appendix I.



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The Honorable Thomas R. Carper
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Contents

Letter		1
Section 1		8
Background	Disaster Assistance Available From Sources Other Than Flood Insurance	9
Section 2		11
Views on Issues	FIA's Views	11
Relating to	Regulatory Agencies' Views	11
Compliance With the	Lending Institutions' Views	12
Flood Insurance Requirement		
Section 3		14
Level of Compliance in	Maine	14
Maine and Texas	Texas	14
	Flood Insurance Not Required for Many Properties	15
Section 4		17
Efforts to Increase the	FIA's Efforts	17
Level of Compliance	Regulatory Agencies' Efforts	18
	Lending Institutions' Efforts	18
Section 5		20
Scope and Methodology		
Appendix I		22
Major Contributors to This Fact Sheet		
Tables	Table 3.1: Analysis of SFHA Personal Residence Properties in Maine and Texas Disasters for Which Application Was Made for Disaster Assistance and Flood Insurance Was Required	15

Contents

Table 3.2: Applicability of the Flood Insurance Requirement for SFHA Properties Under Our Review in Maine and Texas Disasters	15
Table 3.3: Analysis of SFHA Personal Residence Properties in Maine and Texas Disasters for Which Flood Insurance Coverage Was Not Required	16

Abbreviations

FDIC	Federal Deposit Insurance Corporation
FEMA	Federal Emergency Management Agency
FIA	Federal Insurance Administration
GAO	General Accounting Office
IFG	Individual and Family Grant Program
NFIP	National Flood Insurance Program
SBA	Small Business Administration
SFHA	special flood hazard area

Background

The National Flood Insurance Program (NFIP) is a federal program that provides property owners with flood insurance. The NFIP is administered by the Federal Insurance Administration (FIA), a component of the Federal Emergency Management Agency (FEMA). The insurance is designed to provide an insurance alternative to disaster assistance. The NFIP was authorized by the National Flood Insurance Act of 1968 and became effective on January 28, 1969. The program represented a new approach to assist victims of flooding by providing an opportunity for property owners to purchase, from the federal government, insurance protection for structures and contents exposed to flooding. From 1968 until the adoption of the Flood Disaster Protection Act of 1973, the purchase of flood insurance was voluntary. However, after major flooding in 1972, it became evident that few property owners were purchasing flood insurance policies.

The 1973 act made the purchase of flood insurance mandatory after March 1, 1974, for (1) any federal loan or grant to be used for acquisition or construction of a building or a mobile home in a special flood hazard area (SFHA) of a community participating in the NFIP and (2) a loan secured by improved real property in an SFHA of a participating community if the loan is made by a lending institution that is regulated or insured by the federal government. However, for loans made prior to March 1, 1974, flood insurance is not required.

In order to be covered by a flood insurance policy, a property must be in a community that participates in the NFIP. To qualify, a community adopts and enforces floodplain management regulations to control proposed development in SFHAs, which FEMA defines as land in floodplains within communities subject to a 1-percent or greater chance of flooding in any given year. The objective of the regulation is to ensure that such development will not aggravate existing flooding conditions and that new buildings will be protected from flood damage. Community participation in the NFIP is voluntary. However, if a community chooses not to participate within 1 year after the SFHA has been identified, certain federally guaranteed or insured loans are not available if the building used to secure the assistance is in an SFHA of the community. Almost all of the nation's communities with serious flooding potential have joined the NFIP.

The 1973 act states, in part, that each federal instrumentality responsible for regulating or insuring lender institutions¹ shall issue regulations concerning the mandatory flood insurance program. These regulations should direct them not to make, increase, extend, or renew any loan secured by improved real estate or a mobile home located in an SFHA for which flood insurance has been made available under the 1968 act unless the building or mobile home and any personal property securing such loan is insured for the term of the loan. The flood insurance must cover an amount at least equal to the outstanding principal balance of the loan or to the maximum limit of coverage made available for the particular type of property under the act, whichever is less.

Each regulatory agency has written instructions to its member lending institutions to this effect, and each has provided guidance to its examiners directing them to verify compliance. The responsibility for enforcing the mandatory purchase requirement rests with the regulatory agencies; FIA has no direct role.

Disaster Assistance Available From Sources Other Than Flood Insurance

Disaster assistance may be available to SFHA property owners who have not purchased flood insurance. After a presidential declaration of a major disaster, a range of assistance becomes available to eligible disaster victims, including flood victims who own uninsured properties in SFHAs. Types of assistance available include grants from FEMA's Individual and Family Grant Program (IFG) and disaster loans from the Small Business Administration (SBA).

Currently, the IFG makes grants of up to \$10,400 to individuals and families for unmet disaster-related necessary expenses and serious needs not met by other disaster programs or insurance. The IFG grants may be used for repairing and replacing personal property or vehicles and housing repairs, among other things.

FEMA does not require flood insurance as a prerequisite to obtaining an IFG grant. However, FEMA requires IFG grantees who were flood victims and live in SFHAs to purchase flood insurance as a condition of obtaining the grant. FEMA requires these grantees to maintain the flood insurance policies for 3 years or until they move from the residence, whichever is

¹The act lists these instrumentalities as the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Federal Home Loan Bank Board, the Federal Savings and Loan Insurance Corporation, and the National Credit Union Administration. In August 1989, the Office of Thrift Supervision replaced the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation.

Section 1
Background

less. IFG assistance has been denied to disaster victims who had not maintained flood insurance as required by previous IFG grants.

SBA makes low-interest disaster loans to individuals and businesses to repair or replace most uninsured property that is damaged. SBA assistance is limited to \$120,000 for individuals (\$100,000 for real estate and \$20,000 for personal property) and to \$500,000 for businesses. SBA will make loans only for those considered capable of repaying them. SBA requires its applicants to purchase and maintain flood insurance for the full term of the loan for the insurable value of the property, regardless of the amount of the SBA loan, if the property is located in an SFHA. Applicants are not eligible for SBA disaster loans if, prior to the loss, they have not purchased or maintained required flood insurance.

Views on Issues Relating to Compliance With the Flood Insurance Requirement

FIA, regulatory agency, and lending institution officials raised a number of issues in our discussions with them concerning compliance with the mandatory flood insurance provision.

FIA's Views

FIA has about 2.1 million flood insurance policies in force, of which about 1.4 million are for properties located in SFHAS, and concludes that a large number of properties located in SFHAS that are required to be insured by current law are not insured. FIA officials base their belief on the fact that in 1987, 11 million properties were located in SFHAS and although many may not be required to be covered by flood insurance, 1.4 million policies seems to be too few.

On another matter, according to a special assistant to the Administrator, FIA, one area of concern is loans sold in the secondary mortgage market.¹ According to the official, changes in the mortgage loan industry in recent years have resulted in much greater activity, with mortgage loans being sold and resold in the secondary market. He thought that this increased activity may increase the potential for administrative operations—such as keeping mortgage insurance in force—to be less efficient and result in lapsed insurance.

Regulatory Agencies' Views

Stating an opinion in contrast to FIA's views on levels of compliance, regulatory agencies reported, during the May 1989 NFIP reauthorization hearings, that for the most part, lenders complied with the mandatory flood insurance requirement. A Federal Deposit Insurance Corporation (FDIC) official, for example, reported that while over the last 3 years, from 34 to 38 percent of the lenders examined were found to be in violation of flood insurance regulations, the violations generally were technical in nature, such as the lenders' not maintaining adequate documentation in the loan files. According to the agency, in about 95 percent of the cases examined in the last 3 years, the properties were covered by the required flood insurance. Over 3,000 FDIC-supervised institutions were examined in 1988. Another regulatory agency, the Federal Reserve System, reported that of the lenders examined for compliance in 1988, 83 percent (530 of 639 banks) had no violations of flood insurance regulations and that the majority of violations cited involved

¹The secondary mortgage market is the market for buying and selling existing mortgage loans or securities backed by mortgage loans. The sale of such loans and securities returns funds to the loan originator or lender, creating liquidity and allowing the lender to make additional loans or otherwise reuse the funds.

the lenders' failure to document adequately their determination of whether or not flood insurance was required.

Regulatory agency officials also identified problems they are encountering that, in their view, impede full compliance with the requirement. According to one regulatory agency official, many homebuyers in SFHAs find flood insurance premiums too expensive, so they let the policies lapse. Compliance would improve, he said, if flood insurance premiums were subsidized, especially for people at lower income levels.

According to several regulatory agency officials, flood insurance rate maps² are difficult to read, not always accurate, and expensive to maintain. They stated that FIA should improve the maps. Another official suggested that procedures be established to require FIA to determine whether a property is or is not in an SFHA.

Several regulatory agency officials said that compared with unregulated lenders, which can also make loans for properties in SFHAs, regulated lenders are at a competitive disadvantage because of the flood insurance requirement. According to the officials, the Flood Disaster Protection Act of 1973 should require all lenders to comply with the mandatory flood insurance purchase requirement, not just the federally regulated lenders.

Lending Institutions' Views

Frequently echoing points made by regulatory agency officials, a number of lenders identified problems they have in complying with the purchase requirement and suggested ways to improve the flood insurance program. Lenders remarked on their difficulties with the flood insurance maps, indicating that reading them is difficult, particularly for rural areas or areas near SFHA boundaries, and the maps are often inaccurate. One lender said the requirement would be easier to administer if the final responsibility for determining whether a property is in an SFHA would not rest with the lender. According to the interviewee, someone with more expertise than the lender in reading the flood maps should make the determination. Lenders also commented that flood insurance is expensive (in May 1990, the national average annual premium was \$276). Also, according to the lenders, limits on the amount of coverage available is a problem, especially for expensive properties located near the ocean. Furthermore, according to the lenders, because

²A flood insurance rate map shows the SFHAs in a community, including boundaries, elevations, and insurance risk zones. The maps are prepared by FIA.

Section 2
Views on Issues Relating to Compliance With
the Flood Insurance Requirement

borrowers can go to unregulated lenders and obtain a loan without having to purchase flood insurance, regulated lenders are at a competitive disadvantage.

Level of Compliance in Maine and Texas

Following a major disaster in Maine in early April 1987, FEMA found that a large number of applicants for disaster assistance did not have flood insurance. The large number of uninsured properties prompted FEMA's Region I (Boston) to perform a special analysis to determine why these properties in SFHAs were not covered by flood insurance.

At the time we initiated our review, FEMA had completed its analysis of the Maine disaster and had obtained mortgage and SFHA information on properties affected by a major disaster in Texas in July 1989. Therefore, we used the information available from FEMA to determine the extent of compliance with the flood insurance requirement and reasons for any noncompliance. FEMA officials said they now routinely obtain mortgage and SFHA information from applicants seeking disaster assistance.

Maine

On April 9, 1987, the President of the United States declared that a major disaster existed in Maine because of flooding. FEMA subsequently determined that 613 of the disaster victims who applied for assistance owned personal residences located in SFHAs and that about 500 of these properties were not covered by flood insurance.

We analyzed information on 600 of the personal residences FEMA identified and found that 147 properties located in SFHAs should have been covered by flood insurance. Of this number, 114 (78 percent) were insured when they were flooded, while 33 (22 percent) were not.

The lending institutions FEMA identified for each uninsured property cited various reasons why the properties had not been insured against floods as required. Reasons given included the following. The lender (1) determined that the property is in an SFHA but inadvertently overlooked this fact and did not require flood insurance at loan closing (11 loans); (2) erroneously classified the property as not being in an SFHA, or did not classify it at all, and therefore did not require flood insurance (11 loans); and (3) required the flood insurance at the time the loan was made, but the policy later lapsed (11 loans). (Table 3.1 provides an analysis of SFHA properties in both Maine and Texas for which flood insurance was required.)

Texas

On July 18, 1989, the President declared that a major disaster existed in Texas because of flooding. FEMA later determined that 314 of the disaster assistance applicants owned property in SFHAs. We analyzed information on 271 of the properties that FEMA identified and found that 43

Section 3
Level of Compliance in Maine and Texas

properties located in SFHAs were required to be covered by flood insurance. Of this number, 9 (21 percent) were insured when they were flooded, and 34 (79 percent) were not.

Reasons cited by lending institutions as to why the properties were not insured varied. The most frequently cited reason was that the lender erroneously classified the property as not being in an SFHA or could find no documentation in the file to indicate whether an SFHA determination had been made (27 loans). Other reasons were that the lender neglected to require the flood insurance at loan closing even though the lender identified the property as in an SFHA (2 loans) and that the property was covered by the required flood insurance at closing, but the policy later lapsed (5 loans).

Table 3.1: Analysis of SFHA Personal Residence Properties in Maine and Texas Disasters for Which Application Was Made for Disaster Assistance and Flood Insurance Was Required

Properties required to be covered by flood insurance	Maine		Texas	
	Number	Percent	Number	Percent
Uninsured	33	22	34	79
Insured	114	78	9	21
Total	147	100	43	100

Flood Insurance Not Required for Many Properties

Flood insurance coverage is not required for all properties in SFHAs. Although our review of flood insurance compliance was limited to lenders that are federally regulated or insured, of the residential properties located in SFHAs for which disaster assistance applications had been filed, 76 percent in Maine and 84 percent in Texas did not have to be insured against floods. (See table 3.2.)

Table 3.2: Applicability of the Flood Insurance Requirement for SFHA Properties Under Our Review in Maine and Texas Disasters

Properties in SFHAs	Maine		Texas	
	Number	Percent	Number	Percent
Required to be covered by flood insurance	147	24	43	16
Not required to be covered by flood insurance	453	76	228	84
Total	600	100	271	100

Most of the properties for which flood insurance was not mandatory were not subject to the purchase requirement because they had no mortgage or had mortgages with unregulated lenders. Flood insurance coverage is also not required for properties in an SFHA of a community that

Section 3
Level of Compliance in Maine and Texas

does not participate in the National Flood Insurance Program or properties that have mortgages that predate the flood insurance legislation. Table 3.3 provides an analysis of properties for which flood insurance was not required.

Table 3.3: Analysis of SFHA Personal Residence Properties in Maine and Texas Disasters for Which Flood Insurance Coverage Was Not Required

Properties not required to be covered by flood insurance	Maine		Texas	
	Number	Percent	Number	Percent
Had no mortgage	363	80	21	9
Mortgaged before flood insurance rate map became effective	36	8	0	0
Mortgaged with unregulated lender	26	6	184	81
Mortgaged prior to requirement	19	4	4	2
Identified by lender as not in an SFHA	9	2	10	4
Was uninsurable	0	0	4	2
Located in nonparticipating community	0	0	5	2
Total	453	100	228	100

Efforts to Increase the Level of Compliance

FIA, regulatory agencies, and lending institutions have ongoing and planned activities to help ensure compliance with the mandatory flood insurance provision.

FIA's Efforts

FIA does not have a legislatively mandated role or responsibility to enforce compliance but has taken action to help increase the level of compliance. FIA regularly coordinates with the federal regulatory agencies and lender associations to provide the constituents of both with information and educational material on the mandatory purchase requirement. In October 1989, FEMA published FIA's revised Mandatory Purchase of Flood Insurance Guidelines, designed to provide information to regulatory agencies and lenders. Also in October 1989, FIA held its third annual meeting with the regulatory agencies, this year discussing ways to increase enforcement of the mandatory purchase requirement. In November 1989, FIA sponsored its third NFIP Biennial Conference, which provided an opportunity for lenders; regulatory agencies; insurers; and federal, state, and local governments to discuss flood insurance issues and share experiences and ideas on the NFIP. FEMA also regularly conducts workshops to educate mortgage lenders about the NFIP and to provide technical assistance, for instance, on how to determine (1) whether flood insurance is required and (2) the level of coverage.

Recently, FIA has taken additional actions to help increase compliance. In September 1989, in a pilot project of limited scope, FIA identified flood insurance policies that have lapsed and provided this information to the Office of the Comptroller of the Currency, which, as a member of the Federal Financial Institutions Examination Council, is currently reviewing the data to determine whether additional information is needed.¹ FIA received the Office's comments in June 1990 and expects to issue the first report to the appropriate regulatory agencies after it addresses the comments. FIA plans to update this data periodically. Also, after Hurricane Hugo, FEMA collected information from disaster assistance applicants on affected properties in SFHAs that are not covered by the required flood insurance, and in December 1989, FIA provided this information to certain regulatory agencies. According to FIA officials, the regulatory agencies, in order to help ensure that flood insurance policies are obtained and maintained on lenders' mortgages, intend to follow up

¹The Council was established in 1979 as a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of financial institutions.

with the lenders on cases in which borrowers do not have the required insurance. FIA is also developing an appraiser workshop to assist appraisers in understanding the NFIP, which FIA officials said should be operational by October 1990.

Regulatory Agencies' Efforts

Regulatory agencies' efforts to improve compliance with the flood insurance purchase requirement include training their examiners and keeping lenders informed about the requirement. They do the latter by sending advisory letters, press releases, and news announcements—all providing information on flood insurance. In January 1990, some of the regulatory agencies provided their examiners and lenders with FEMA's recently issued Mandatory Purchase of Flood Insurance Guidelines and clarified related record-keeping requirements.

According to an official of the Office of the Comptroller of the Currency, the Office intends to review the files of lenders that did not require flood insurance on properties flooded during Hurricane Hugo and determine why the insurance was not required. If a lender did not require the flood insurance at closing, the lender will be responsible for ensuring that the policy be issued, according to the official.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 was enacted in August 1989. Its purpose, among other things, was to reform the federal deposit insurance system and enhance the regulatory and enforcement powers of federal regulatory agencies. The act also expands and increases penalties, such as civil money penalties, regulatory agencies may impose on lenders that do not comply with federal statutes or regulations, including the flood insurance requirement. This action is consistent with suggestions by the Federal Financial Institutions Examination Council. Prior to passage of this act, penalties and fines to encourage compliance had not been established specifically for lenders that did not comply with the flood insurance requirement.

Lending Institutions' Efforts

We interviewed loan officers or other officials of lending institutions in Maine and Texas on the mandatory flood insurance requirement. Several lenders said that they are paying more attention to complying with the mandatory flood insurance legislation than they did in the past. They admitted that in the past, lenders did not strictly observe the flood insurance requirement. However, with recent congressional interest and increased flooding, they view the requirement more seriously.

Section 4
Efforts to Increase the Level of Compliance

Some lenders in Maine and Texas said that they try to comply with the flood insurance provision, citing either that they are required to or that they desire to protect their collateral. Lenders are developing procedures to help ensure that they review the flood insurance requirement prior to loan closing. They are also sending their employees to FIA's lender seminars. In addition, some lenders are trying to ensure compliance by escrowing flood insurance premiums from the borrowers' accounts.

Some lenders told us they use private companies to provide flood insurance information and services. These companies audit lenders' loan portfolios to determine which loans are on properties located in SFHAS. These companies can perform an array of additional services for lenders, including notifying borrowers of the flood insurance requirement, collecting flood insurance policy premiums, offering flood insurance coverage, and imposing coverage on borrowers who fail to comply with the lenders' requirements.

Scope and Methodology

We examined the federal legislation and regulations pertaining to the mandatory flood insurance provision and relevant FEMA documentation. We discussed this subject with officials of FEMA and selected lending institutions in Maine and Texas. We interviewed officials of the cognizant regulatory agencies and examined flood insurance regulations provided to their member lending institutions and the guidance provided to their examiners. We reviewed a limited number of lender examination reports.

FEMA now routinely obtains mortgage and SFHA information from applicants seeking disaster assistance, but at the time we initiated our review, FEMA had mortgage and SFHA information only on properties affected by two major disasters in Maine and Texas. Therefore, we limited our review to the affected properties in SFHAs in these two states. FEMA obtained, either from the disaster assistance applicant or through a title search, the name of the applicant's lender. The Maine data identified whether the property was covered by flood insurance; the Texas data did not. Because FEMA had determined whether each applicant lives in an SFHA, this data yielded lists of mortgaged properties in SFHAs in Maine and Texas—properties potentially not in compliance with the mandatory flood insurance requirement.

The data FEMA provided included only information on personal residence properties for which application for disaster assistance was made. We limited our review to this information. The data did not include information on those properties in SFHAs in Maine and Texas for which disaster assistance was not requested, and we did not attempt to develop this information. As a result, information in this report does not necessarily apply to other types of properties covered by the flood insurance legislation. Also, because of the limited geographical area of our review, the information cannot be extrapolated to other areas or the nation as a whole.

We reviewed FEMA's data that identified the number of disaster assistance applicants' properties in SFHAs. We then contacted about 70 lenders in Maine and Texas and determined possible reasons why these properties were uninsured. Because we could not determine compliance with the flood insurance requirement regarding loans about which lenders were unable to provide information, we excluded them from our compliance estimates. In some cases, lenders had closed loan files and were unable to reconstruct whether an SFHA determination had been made. Because we excluded these loans, the total number of properties

that should be insured against floods may be greater than our analysis indicates.

Because we do not have audit access to lending institutions' loan files, we were unable to verify independently whether and how the lenders made SFHA determinations and whether they required flood insurance. Your offices agreed that additional work, beyond that done in Maine and Texas, was not necessary.

We performed our work between April and December 1989, in accordance with generally accepted government auditing standards.

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