Quarterly Newsletter

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In This Issue:

Flood Insurance: Coverage for Personal Property

Section 339.3(a) of the FDIC's Flood Insurance regulations states in part that a bank shall not make, increase, extend, or renew any designated loan unless the building and any personal property securing the loan is covered by flood insurance for the term of the loan.

With respect to personal property or contents, Flood Insurance rules require coverage if all three of the following conditions are met:

1. the bank has a security interest in the building and its contents or personal property;
2. the contents and/or personal property is within the building that is located in a special flood hazard area (SFHA); and
3. the personal property and/or contents have an insurable value.

Flood insurance for personal property or contents may be required for designated loans based on the language in the mortgage instrument. Language such as "security interest" or similar terms included in the mortgage instrument or other legal documentation is used to determine if securing property requires Coverage A (Building-Only), Coverage B (Personal Property), or both forms of flood insurance.

Banks use various strategies to ensure compliance with Flood Insurance requirements relating to identifying and securing insurance on personal property and contents. Some banks use standardized legal documentation for mortgage loans that take a blanket security interest in personal property or contents. For example, a mortgage instrument that references a security interest in all "*…goods, equipment, inventory, furniture, building materials and supplies and other properties of whatsoever nature, now located in or used or procured for use in connection with that property…*" may trigger the requirement to obtain insurance for both the building and contents. Alternatively, other institutions customize legal documents so they do not take a security interest in contents. Contents coverage would not be required in this scenario, because the bank does not have a contractual security interest in personal property. Also, in cases where personal property or contents securing a loan have negligible or no insurable value, borrowers or insurance agents have used affidavits to document that Coverage B (Personal Property) insurance is not obtainable.

In general, personal property or contents will be considered to have a sufficient amount of flood insurance coverage for regulatory purposes as long as a reasonable method of valuation is used prior to loan origination. There is flexibility in how the bank determines the valuation of contents, but the bank should document and support any valuation method used and establish a consistent methodology.

The following questions from the 2009 Interagency Questions and Answers Regarding Flood Insurance provide additional guidance and examples related to contents coverage:

39. Is flood insurance required if a building and its contents both secure a loan, and the building is located in an SFHA in which flood insurance is available?

Answer: Yes. Flood insurance is required for the building located in the SFHA and any contents stored in that building.

Example: Lender A makes a loan for $200,000 that is secured by a warehouse with an insurable value of $150,000 and inventory in the warehouse worth $100,000. The Act and Regulation require that flood insurance coverage be obtained for the lesser of the outstanding principal balance of the loan or the maximum amount of flood insurance that is

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available under the National Flood Insurance Program. The maximum amount of insurance that is available for both building and contents is $500,000 for each category. In this situation, federal flood insurance requirements could be satisfied by placing $150,000 of flood insurance coverage on the warehouse, thus insuring it to its insurable value, and $50,000 of contents flood insurance coverage on the inventory, thus providing total coverage in the amount of the outstanding principal balance of the loan. Note that this holds true even though the inventory is worth $200,000.

In conclusion, each bank should consider analyzing its Flood Insurance compliance management system to ensure it has established sufficient procedures to determine when insurance coverage is required for contents, and establish comprehensive monitoring processes. The scope of audits and/or monitoring should consider language used in the bank's mortgage instruments and related loan documentation to properly determine whether or not contents coverage is required at the time the bank makes, increases, renews or extends a loan.

April: A Time to Help People Improve their Financial Skills and Confidence

April is National Financial Capability Month, a time when many public, private, and nonprofit organizations highlight consumer education resources and tools. If your bank is planning activities for this month or beyond, did you know that the Money Smart product family has expanded in recent years?

The FDIC's financial education tools can help people of all ages build their financial knowledge and skills to achieve brighter financial futures. The tools include:

- Money Smart for Adults, which was recently updated in late 2018. This instructor-led curriculum provides participants with practical knowledge, skills-building opportunities, and resources they can use to manage their finances with confidence.
- Money Smart for Young People, offering age-appropriate lesson plans for educators along with guides for parents and caregivers.
- Money Smart for Older Adults, developed with the Consumer Financial Protection Bureau to raise awareness among older adults and their caregivers on how to prevent elder financial exploitation and encourage advance planning.
- Money Smart for Small Business, developed with the U.S. Small Business Administration to provide useful information for new and aspiring entrepreneurs.

Want to learn more? Start at www.fdic.gov/education. From there, you can download Money Smart or review ideas on how to use it. Also available through that website are tools that can help you connect financial education to youth employment or youth savings programs.

Tell me more about the updated version of Money Smart for Adults!

The 14 new modules feature design improvements along with new content, activities, and modules that are influenced by instructional best practices and other research, including:

- New content on topics such as Achieving a Better Life Experience (ABLE) accounts for people with disabilities, managing through income volatility, and person-to-person payments.
- Expanded coverage of credit, including coverage of topics such as building productive credit histories, managing credit cards, and strategies to manage debt.
- "Try It" activities to use during training and "Apply It" activities for instructors to incorporate during training or encourage participants to use after training.
- A "Take Action" section in every module that encourages participants to identify at least one thing they plan to do because of the training.

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Adjustable Rate Mortgages — Disclosure Considerations (Part I)

Over the last several years, there has been an increase in financial institutions (FIs) offering Adjustable Rate Mortgage (ARM) products for a variety of reasons, including the introduction of the Ability-to-Repay Rule, the rising interest rate environment, and the elimination of riskier ARM features, such as prepayment penalties and negative amortization. An ARM is defined as a closed-end consumer credit transaction secured by a consumer's principal dwelling in which the annual percentage rate may increase after consummation.

Given the increased availability of these products, we wanted to discuss some of the distinct regulatory requirements of ARMs. This article is the first in a two-part series that addresses areas of common mistakes and concerns with ARM products identified by the FDIC during recent examinations. The information in this article may help provide banks with useful insights as they offer ARM products to their customers.

Regulation Z, which implements the Truth in Lending Act (TILA), generally requires payment change and initial interest rate adjustment disclosures for ARMs with terms of greater than one year. There are general rules governing the distribution of these disclosures; however, the rules provide several exceptions.

A summary is detailed in the following table.

For ARMs…	§1026.20(c) Ongoing Interest Rate Adjustment Disclosure Notice Due…	§1026.20(d) Initial Interest Rate Adjustment Disclosure Notice Due…
General Rule: ARM Disclosure Notice Requirements	60 – 120 days before the first payment at the adjusted level is due for each rate adjustment causing a payment change	210 – 240 days before the first payment at the adjusted level is due for the initial adjustment
If the first payment at the adjusted level is due within the first 210 days following loan consummation	60 – 120 days before the first payment at the adjusted level is due for each rate adjustment causing a payment change, but only if the new interest rate disclosure required by §1026.20(d) at consummation was an estimate	At loan consummation
Frequently adjusting ARMs: If uniformly scheduled interest rate adjustments occur every 60 days or more frequently	25 – 120 days before the first payment at the adjusted level is due for each rate adjustment causing a payment change	Follow the timing requirements above, depending on whether the first payment at the adjusted level is within or outside the first 210 days following loan consummation.
ARMs originated prior to January 10, 2015 with short lookback periods (i.e., the adjusted interest rate and payment are calculated based on an index figure available less than 45 days prior to the adjustment date)	25 – 120 days before the first payment at the adjusted level is due for each rate adjustment causing a payment change	
ARMs adjusting soon after closing: ARMs with first rate adjustment within 60 days of closing and the initial disclosure provided at closing contained an estimated interest rate	For the first adjustment to this type of ARM, as soon as practicable, but not less than 25 days before the first payment at the adjusted level is due. Subsequent ongoing notices depend on the future scheduled interest rate adjustments according to this table	

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Historically, many ARM loan contracts reference the index change date as "the most recent index figure available as of the change date" or "the most recent index figure available as of the date 45 days prior to the change date." The timeframe FIs utilize to review an index is commonly referred to as the lookback period. Examiners have identified a number of instances where FIs have confused the disclosure delivery timeframe of 60 days with the lookback period in the loan contract, or have thought that the 60 days took precedence over the lookback period. Additionally, some FIs have sent the payment change disclosures 60 days prior to the rate change date instead of prior to the first payment due date with the new rate and payment, resulting in the application of an incorrect index value. Let's look at a couple of examples.

Loan Contract Calls For:	Example 1	Example 2
Loan Contract Date	May 1, 2016	October 12, 2013
Rate Change Frequency	Annually	Annually
Date of Index for Rate Change	45 days before each change date (May 17)	As of the change date (November 15)
Rate Change Date for Loan	July 1	November 15
New Payment Due Date	August 1	December 15
Delivery Time of Disclosure	May 17 – June 2	November 15 – 20

Example 1:

The index figure available on May 17 should be used for the rate, as this is 45 days prior to the change date of July 1. According to the regulation (shown in the first table in this article), the disclosure must be provided at least 60, but no more than 120, days prior to the first payment due date at the new rate (between April 3 and June 2 in this example.) However, because the index first becomes available on May 17, the payment change disclosure cannot be sent prior to May 17. As a result, the institution could provide the change disclosure any time during the period of May 17 (the date the index value becomes known) to June 2 (the latest date that the disclosure can be sent) to be compliant with the rules. Examiners have occasionally seen the payment change disclosure provided on May 2 (or 60 days before the rate change date), resulting in the application of an inaccurate interest rate (using an index on May 2 instead of May 17) on the loan.

Example 2:

In this example, there is no lookback period included in the loan contract that was originated prior to January 10, 2015; therefore, according to the regulation, the payment change disclosure is to be provided at least 25, but no more than 120, days before the due date of the first payment at the adjusted rate. The appropriate index value would be the index available on November 15. In this example, the disclosure would need to be provided no later than November 20 (25 days prior to the due date of the first adjusted payment). Examiners have found in some similar instances, FIs have been following the 60-120 day delivery period in these scenarios, which again resulted in the application of inaccurate index values.

Another area where examiners have observed violations relates to the content of the payment change and initial interest rate adjustment disclosures. TILA defines the required elements of these disclosures, including the requirement to provide some information in a standard table format as found in Appendix H-4 of Regulation Z. Some of the required language is contract specific, such as the name of the index used and where it can be found; therefore, FIs need to carefully enter this specific information within their templates or vendor systems. In some instances, FIs have not used the required tabular format for these disclosures or have not set up templates properly to disclose all of the required information. When deficiencies have been identified, they often relate to the failure to include the specific index used to calculate the interest rate, as well as where the index value can be located. Additionally, in some instances, banks have included an incorrect or incomplete index name. Section 6 of the Consumer Financial Protection Bureau's Small Entity Compliance Guide provides some additional details, including model and sample forms.

In the next quarterly newsletter, Part II of this two-part series will cover some other areas where examiners have observed concerns related to the disclosure of ARMs.

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COMMUNITY AFFAIRS EVENTS

Date/ Quarter	Event Description	City	State
3/15/2019 4/19/2019 5/17/2019 6/14/2019 7/14/2019 8/16/2019 9/20/2019	**Money Smart Alliance – Member Meetings** The FDIC will host monthly meetings to discuss module content in the revised Money Smart for Adults. Money Smart Alliance Members attending will focus on mastering module content and share tips for increasing their reach in Milwaukee where high concentrations of unbanked and underbanked people live and work.	Milwaukee	Wisconsin
4/24/2019	**Interagency Community Development Forum: "Connecting Healthcare & Community Development: Investing in Healthy Communities** The FDIC, Office of the Comptroller of the Currency, and Federal Reserve Bank of Cleveland will host a community development forum discussion about the connection between health and community development, as well as present examples of innovative approaches to improving the social determinants of health and innovative funding and investing opportunities to build healthy communities.	Cleveland	Ohio
4/24/2019	**Financial Capability Training - Money Smart** The FDIC will provide a review of the updated Money Smart for Adults curriculum for community organizations, and banks interested in supporting financial stability will get hands-on exposure to the materials. They will also have an opportunity to discuss how they can leverage resources to connect consumer education to safe, affordable, and insured financial products.	Indianapolis	Indiana
5/21/2019	**Southeastern Illinois Rural Small Business Roundtable** The FDIC, Office of the Comptroller of the Currency, and Small Business Development Center at Champaign County Economic Development Corporation will host a roundtable discussion designed to foster productive business financing partnerships among banks, Community Development Financial Institutions, and small business development organizations.	Effingham	Illinois
5/22/2019	**Money Smart Train the Trainer** The FDIC in collaboration with the Wisconsin Community Action Program Association will provide a Money Smart for Adults training for members working with low– and moderate-income (LMI) consumers statewide.	Madison	Wisconsin
5/28/2019	**Interagency Community Development Listening Session** The FDIC, Office of the Comptroller of the Currency, and Federal Reserve Bank of Cleveland will host a community development listening session to gather information on economic inclusion issues and promote and disseminate FDIC resources.	Columbus	Ohio
5/29/2019	**Interagency CRA Workshop for Community-Based Organizations (CBOs)** The FDIC, Office of the Comptroller of the Currency, and Federal Reserve Bank of Cleveland will host training on Community Reinvestment Act (CRA) basics for CBOs and promote and disseminate FDIC resources.	Columbus	Ohio
June	**Economic Inclusion Workshop - Affordable Small Dollar Mortgages** The FDIC will host a small dollar mortgage event to highlight success stories and resources that can be used to provide small dollar mortgages (under $100,000) to facilitate lending that may be helpful in developing strategies to address mortgage credit needs in LMI communities.	South Bend	Indiana

For information on any of these events, please contact the FDIC's Chicago Region Community Affairs Program at (312) 382-6000

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COMMUNITY AFFAIRS EVENTS

Date/ Quarter	Event Description	City	State
2nd Quarter	**Advancing Economic Inclusion in Appalachia - Financial Institution Roundtable** The FDIC will meet with financial institutions to identify the top economic inclusion issues, as well as credit and investment needs, affecting the Appalachian Region.	Hazard	Kentucky
2nd Quarter	**Money Smart for Small Business Train the Trainer - Bowling Green, KY** The FDIC will facilitate a Money Smart for Small Business (MSSB) Train-the-Trainer workshop to increase awareness and use of the MSSB curriculum and improve understanding of the instructor-led curriculum while strengthening small business development partnerships.	Bowling Green	Kentucky
7/19/2019	**Money Smart Train-the-Trainer** The FDIC will work in collaboration with the National Disability Institute and Urban Economic Development Association of Wisconsin to provide a Money Smart for Adults training for organizations working with people with disabilities in the Milwaukee Metropolitan Statistical Area.	Milwaukee	Wisconsin
2nd Quarter	**Advancing Economic Inclusion in Appalachia – Financial Institution Roundtable** The FDIC will meet with financial institutions to identify the top economic inclusion issues, as well as credit and investment needs, for LMI consumers and communities in the Ohio Appalachian Region.	Youngstown	Ohio
2nd Quarter	**Advancing Economic Inclusion in Appalachia – Financial Institution Roundtable** The FDIC will meet with financial institutions to identify the top economic inclusion issues, as well as credit and investment needs, for LMI consumers and communities in the Ohio Appalachian Region.	Athens	Ohio
2nd Quarter	**Money Smart for Small Business Chicago Region Webinar** The FDIC will conduct a regional MSSB webinar for banks and small business development organizations. This webinar will provide information about the new credit and banking modules and the MSSB Training Alliance.	Region-wide	
2nd or 3rd Quarter	**Affordable Mortgage Credit Update Webinar** The FDIC will host an Affordable Mortgage Credit webinar to inform stakeholders about updates to the FDIC's Affordable Mortgage Lending Center and Guide, which can be helpful in meeting the credit needs related to LMI consumer homeownership.	Region-wide	
2nd or 3rd Quarter	**Money Smart Train the Trainer** The FDIC will work in collaboration with the Carl D. Perkins Job Corps Center to provide training for in-house staff working with LMI consumers.	Prestonsburg	Kentucky
3rd Quarter	**Money Smart for Small Business Train-the-Trainer** The FDIC will conduct a train-the-trainer workshop to educate bankers and organizations engaged in providing micro-loan packaging, business planning, entrepreneurial training, one-on-one business technical assistance, tax preparation assistance, accounting assistance, or legal assistance about delivering financial education to their clients.	Chicago	Illinois
3rd Quarter	**Affordable Housing Workshop** The FDIC will conduct an affordable housing workshop to help local banks identify resources to increase their lending potential. The session will inform banks, housing counseling organizations, and others on how to leverage state and federal programs to increase home ownership and multi-family development lending to LMI consumers. FDIC will also share an update on the Affordable Mortgage Lending Center.	Champaign	Illinois

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COMMUNITY AFFAIRS EVENTS

Date/ Quarter	Event Description	City	State
3rd Quarter	**Southeast Michigan Alliance for Economic Inclusion Summit - Building Financial Capabilities for Youth** The FDIC will convene a one-day summit for community organizations, non-profits, education providers, service organizations, financial institutions and others in Washtenaw, Macomb, Wayne and Oakland counties to promote collaborations, increase awareness and share best practices on linking financial education and low-cost savings accounts for youth.	To Be Announced (TBA)	Michigan
3rd Quarter	**Money Smart for Small Business Train-the-Trainer** The FDIC will host a MSSB Train-the-Trainer workshop to increase awareness and use of the MSSB curriculum and improve understanding of the instructor-led curriculum while strengthening small business development partnerships.	Hazard	Kentucky
3rd Quarter	**MSSB Train-the-Trainer Workshop** The FDIC will conduct a train-the-trainer workshop to educate bankers, chambers of commerce, and organizations engaged in providing micro-loan packaging, business planning, entrepreneurial training, one-on-one business technical assistance, tax preparation assistance, accounting assistance, or legal assistance about delivering financial education to their clients.	TBA	Michigan
3rd Quarter	**CRA Workshop for Rural Communities in Michigan** The FDIC will host a CRA workshop for rural communities in Michigan. Attendees will include financial institutions, CBOs, government agencies, and community stakeholders.	TBA	Michigan
3rd Quarter	**CRA Workshop for Rural Communities in Wisconsin** The FDIC and Office of the Comptroller of the Currency will co-host a CRA workshop for rural communities in Wisconsin. Attendees will include members of the Wisconsin Indian Business Alliance, community organizations, and government agencies primarily serving non-metropolitan areas.	TBA	Wisconsin
3rd Quarter	**Community Development Forum - Flint** The FDIC will host a forum for CBOs, financial institutions, government agencies, and other community stakeholders to facilitate potential collaborative opportunities to meet local credit, service, and investment needs.	Flint	Michigan
3rd Quarter	**Financial Capability Forum** The FDIC will convene a forum to share promising practices, resources and training to CBOs and HUD EnVision Centers serving clients throughout Youngstown, Ohio. Training on the content of the updated Money Smart financial education products will be provided.	Youngstown	Ohio
3rd Quarter	**Affordable Rental Housing Roundtable** The FDIC will conduct an affordable housing roundtable to discuss and foster productive business financing partnerships between banks, Community Development Financial Institutions, and real estate development organizations working to address the affordable rental housing needs in the region. This roundtable discussion will be co-hosted with United Way of Racine and United Way of Kenosha County.	Racine	Wisconsin
3rd Quarter	**CRA for Community Based Organizations** The FDIC and the Office of the Comptroller of the Currency will host CRA training that will provide community organizations with current information and training on CRA and how it can benefit their organization, exploring constructive ways to work with financial institutions to improve their communities.	Lexington	Kentucky
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