



Compliance News...

Revised Bank Secrecy Act/Anti-Money Laundering Examination Manual

It's out! The FFIEC has released the 2007 version of the BSA/AML Examination Manual. You can download it in Adobe here: http://www.ffiec.gov/pdf/bsa_aml_examination_manual2007.pdf.

While we haven't reviewed it in detail yet (it's ONLY 405 pages!), we can tell you the following:

1. The table of contents has "(2007)" next to several topics. This let's us know they updated these pages.
2. There's also an Index at the end – which appears to be a helpful way to navigate the manual.

The FFIEC also released a letter highlighting the changes to the manual. You can find it at: http://www.ffiec.gov/pdf/bsa_transmittal.doc. To save you some time, here's the "meat" of this letter highlighting the significant changes:

Customer Due Diligence – Clarified regulatory expectations between lower-risk and higher-risk customers.

Suspicious Activity Reporting – Enhanced discussion of law enforcement inquiries and requests. Updated the section to include new guidance on maintaining accounts and supporting documentation.

Foreign Correspondent Account Recordkeeping and Due Diligence – Updated section to reflect new enhanced due diligence requirements with respect to correspondent accounts established or maintained for certain foreign banks.

OFAC – Revised and clarified guidance on screening responsibilities in connection with automated clearing house (ACH) transactions. Made corresponding revisions to the ACH section.

Correspondent Accounts (Foreign) – Enhanced the risk mitigation discussion.

Electronic Banking – Added discussion regarding Remote Deposit Capture.

Trade Finance – Clarified regulatory expectations, refined definitions and enhanced the discussion of risk mitigation practices.

Non-Bank Financial Institutions – Expanded the discussion on providing banking services to money service businesses.

Appendix F: Money Laundering and Terrorist Financing "Red Flags" – Expanded examples of red flags for trade finance, ACH transactions, shell company activity and other potentially suspicious customer activity and added new examples for lending activity.

Appendix R: Enforcement Guidance – Added recently issued interagency enforcement guidance addressing noncompliance with BSA/AML requirements.

Regulation E Amendment

On July 5, 2007, the Federal Reserve published a Final Rule amending the Electronic Funds Transfer Act, Regulation E. The changes were effective August 6, 2007.

The amendment was quite minor for financial institutions and did not add or require any additional or subsequent disclosures. Section 205.9 was amended by adding an exemption for receipts of \$15.00 dollars or less at electronic terminals. Basically, if a transaction occurs at an electronic terminal (Automated Teller Machine or Point of Sale) and is an amount equal to or less than \$15.00, no receipt is required. Additionally, the lack of a customer receipt for transactions equal to or less than \$15.00, at electronic terminals does not affect the consumer's right to claim an error under Regulation E.

The Final Rule also states in part that customer notification of this amendment is unnecessary due to the benefit outweighed by the costs and burden that would be imposed upon financial institutions. You will; however, want to review your disclosure and update any inaccurate information with regard to receipts at electronic terminals. This change does NOT require you to send a new EFT disclosure to existing customers. However, you may want to notify your existing customers of this change as a customer service issue (but not as a regulatory requirement).

The final rule can be found at: <http://www.federalreserve.gov/boarddocs/press/bcreg/2007/20070628/default.htm>

FDIC Signs

Don't forget that the new FDIC signs must be displayed by November 13, 2007. In the past, banks and savings associations had different FDIC signage, but the new signs will cover both types of institutions. You will want to make sure you use the new signage in any advertising or promotional materials by this date as well. Free signs and electronic images can be obtained directly from the FDIC's website at: <http://www.fdic.gov/regulations/resources/signage/>.

Advanced Deposit and Lending Seminar Registration

We will have a record number of attendees for our Sioux Falls seminar this year (September 11 – 13). The seminar in Omaha had a high number of registrants also. We suggest if you wish to attend the seminar in Grand Island and you have not registered yet, that you do so as soon as possible.

Banker's Compliance Consulting Q & A Forum...

The following Q & A's were generated by a recent "Flood Part 1" Webinar presented by Banker's Online and taught by David Dickinson, President of Banker's Compliance Consulting. The following website has complete information regarding past and future Bankers Online webinars: <http://www.bollearningconnect.com>.

Question 1. On some occasions, our customer will have covered their property with a catastrophic insurance policy which includes flood. Clearly, this is not a FEMA policy but has been written through a company such as Lloyd's of London. These policies do not appear to be based on the flood risk zone so we typically can't get that information for comparative purposes and the deductibles are typically a percentage of the dwelling coverage, which often exceeds the \$5,000 maximum. How do you recommend that we handle these types of policies from a flood compliance perspective? Do we disregard the zone issue since it is simply not a consideration on these policies? How do we handle the deductibles that exceed the \$5,000 allowed on residential structures? (The insurance agents tell me the deductible is not negotiable on these types of policies.) What other issues should we consider before accepting this type of policy (without being an insurance expert it is difficult to determine all of the particulars).

Answer: Flood insurance must be obtained and maintained during the loan. It is not a requirement that the insurance has to be purchased through FEMA. There are many private insurance companies that can provide this service. When purchasing flood insurance from private companies the deductible can vary in dollar amounts. The \$5,000 maximum deductible is a standard that is followed for FEMA subsidized policies. However, the bank should determine if the customer can withstand such a high deductible. Additional scrutiny should be given to these types of umbrella policies to ensure true flood insurance coverage exists.

Question 2. If a single lot has two buildings and only one of the buildings is in a special flood hazard area, is insurance required covering both buildings? Example - house and detached garage on property. Garage is in zone "A" and house outside of flood zone. Garage replacement cost is \$25,000 and house replacement cost is \$250,000. Loan amount is \$125,000. How much insurance coverage is required?

Answer: A policy needs to be in place for each building within the special flood hazard area. In this example only one policy would be needed. The garage is the only building located within the special flood hazard area. When determining coverage amount it will be the lesser of:

- 1) Outstanding principal balance of all loans;
- 2) The appraised value (replacement cost) of the property minus the land; and,
- 3) The maximum insurance available.

The amount of flood insurance needed for the garage would be \$25,000.

Question 3. Do you need to pull a new flood determination for a renewal loan? By renewal I mean: the same customer, keeping the same loan number, the same collateral and might or might not have new monies advanced. We do pull 'Life of Loan' when we pull the flood determination.

Question 4. Commercial Lines of Credit that have an annual renewal and are secured by Real Estate - Does this after (7) years need a NEW determination, OR going forward should we do 'Life of Loan'?

Answer: Life of Loan monitoring is a service that is provided for the bank. This is not a factor when utilizing a previous flood determination. A bank can rely on a previous flood determination for subsequent loans if three requirements are met:

- 1) The determination is less than 7 years old;
- 2) The map information is still accurate (no map revision); and,
- 3) It was completed on a Standard Flood Hazard Determination Form.

Question 5. Please address the issue of a notice to the customer in all MIRE situations even when a new determination was not required.

Answer: A notice is required EVERY TIME you make, increase, renew or extend a loans secured by improved real estate located in a Special Flood Hazard Area. You cannot rely upon a previous notification.

Question 6. When receiving flood insurance renewals from the insurance agencies, most of the time we received an insurance certificate but it does not indicate the flood zone type for which the coverage is written. Is the lender required to have proof of flood insurance in files with the zone type stated on it? Should we request a copy of the declaration page from the policy instead of insurance certificate since it normally has the zone indicated on it? What about new loans where the certificate does not state the flood zone type?

Answer: The best practice is to have complete proof of adequate flood insurance in place. The only logical way to do this is to obtain a document(s) that includes the dates of coverage, zone coverage, amount, etc. from the insurance company.

Question 7. What does "loan closing" really mean as to when the lender should have the flood insurance in hand? For complex real estate secured transactions, can the customer sign the documents and then the proof of flood insurance be obtained prior to funding the loan? Many other contingencies may push funding out a week or so – can flood be included as one of those? If it can be obtained after document signing but prior to funding is there any special documentation that must be in the file?

Answer: Loan closing is when the customer legally signs the loan documents (consummation). Obtaining flood insurance coverage any time after this has occurred is an unacceptable practice.

Question 8. On loans other than condos we take the original loan amount plus any prior liens minus land value to determine the value of improvements. Appraisals without a land value pose a problem in the equation. The land of course has value. When the appraisal does not give a land value, what do you do?

Answer: When an appraisal does not show a separate value for the land a bank must make a good faith determination of replacement cost. This can be done by referring to the hazard insurance or utilization of the taxed assessed value. A bank could also go back to the appraiser and request to have the land value listed separately. Which ever method is used the bank needs to be able to justify the amount of insurance in place.

Question 9. We are having a difficult time obtaining proper flood zone insurance coverage from insurance companies. For example, we will have a flood zone determination that indicates a zone A2; however, the insurance company is adamant that the zone is AE and will not write it as an A2 or state that A2 is the same as AE. We have had legal counsel contact FEMA and they have stated that A2 and AE zones are not the same and the coverage for these zones are different as well. Can you clarify this? Are A2 and AE zones different and require different coverage?

Answer: AE actually is equivalent to all zones numbered from A1-A30. Please refer to the following link: <http://www.massagent.com/inmarkets/Flood%20Insurance%20Basics%20FloodSmart%201-10-06.pdf>

Question 10. Can you please review the process in detail as to how a borrower can contest flood determination findings report zone classification? Please include details as to exhibits/paperwork needed and who is involved.

Answer: This is a very detailed and lengthy process. Please see the information provided by FEMA at the following link: http://www.fema.gov/plan/prevent/fhm/fmc_loma.shtm

Question 11. Forced Placed Insurance - If the customer has 45 days to acquire flood insurance, how is the bank protected during that period of time?

Answer: During this time period the bank is not completely unprotected. Flood insurance policies have a 30 day “add on” period after the expiration date. However, it is not recommended the bank rely on this. Banks do have the option of purchasing an umbrella policy to cover any gap in coverage that may arise.

Question 12. When going through our loan portfolio and discover that a borrower is underinsured and refuses to increase their flood insurance, is there a company that will force place the difference of what the borrower has and what is required?

Question 13. If we have force-placed insurance because of inadequate insurance - i.e. wrong zone or not sufficient amount - can our company that provides this service issue a policy for the difference? If not, and they have to issue for the full amount - do we have to cancel the 'inadequate' insurance? We were told that there could be only one policy on each structure.

Answer: If a customer maintains an inadequate amount of flood insurance, a bank must force place additional coverage to make up the difference. There are companies that will provide an “umbrella” coverage for the bank during the 45 day period following the insurance expiration. However, once the 45 days has expired, the bank must purchase flood insurance on behalf of the borrower that is specific to the borrower’s property.

Force placed insurance must be purchased on behalf of the borrower, not on behalf of the bank. If there is an existing policy that is inadequate, you don’t cancel the “inadequate insurance”. rather, the bank adds to the existing policy. This maintains the “one policy per structure” issue.

Question 14. On the max amount allowed through NFIP, is it \$250,000 per unit on a 50 unit apartment building?

Answer: A general apartment building would be classified as one residence and have a maximum amount of \$250,000 in flood insurance coverage. A condominium would have multiple units and have a maximum flood insurance coverage of \$250,000 per unit. Banks are encouraged to confirm with the insurance agent which type of policy the structure would be classified under.

Question 15. If there are two detached structures on one lot (a home and a garage) are separate policies required for each structure?

Question 16. Did we understand you correctly? Is a detached garage really considered non-residential?

Answer: A detached garage can be covered up to 10% of the dwelling policy depending on certain factors. Please see the FEMA Flood Insurance Manual starting with GR-3 (link below) for further details. Also, you are encouraged to contact the insurance agent for further clarification.

<http://www.fema.gov/pdf/nfip/manual200705/03gr.pdf>

Question 17. What is the bank to do when we point out to the Agent that the zone on the insurance does not match the bank’s determination and they state that their determination shows a different zone; therefore, the agent/their determination company refuses to change the policy’s zone to match the bank’s determination?

Answer: A difference in the zone on the insurance policy and flood determination must be reconciled prior to loan closing. Work with your vendor by providing them with any information that may help in resolving the inconsistency.

Question 18. If the loan is for inventory held in a leased, not owned, building should we perform a flood certification?

Answer: It does not appear that you have a security interest in any “improved property” (defined in the Mandatory Purchase Guidelines as, “property on which a building is located or will be located”). Therefore, a flood certification would not be required.

A flood determination is only required for loans secured by “improved property.”

Question 19. On a revolving construction loan, where we are building 25 homes at a time but the subdivision has 100 lots, do we need flood insurance for all 100 lots at time of loan closing since that is our collateral?

Answer: The Mandatory Purchase of Flood Insurance Guidelines states, “When a structure is to be built in a Special Flood Hazard Area that, when completed, will be a walled and roofed building that will be eligible for coverage, flood insurance must be purchased to provide coverage during the construction period”.

You would need to purchase flood insurance for every home that is to be built in a Special Flood Hazard Area prior to closing the loan.

Stay tuned. I believe we will see significant changes to this requirement when the proposed FFIEC Flood Q&A’s are released (reportedly, by year end).

Question 20. Does an elevation certificate expire? We understand the form that the surveyor submits can expire, but does the information itself expire?

Answer: I am not familiar with elevation certificate guidelines and there are no regulatory requirements on this matter. I am unable to answer your question.

Question 21. The company that force places our flood insurance is concerned about covering prior liens of other mortgage lenders because it would not list them as loss payee. Have you addressed this concern?

Follow up to the Force Placed Policy question - The issue has to do with listing the prior lien holder/other institution as loss payee on the policy. In other words, are we required to identify and name prior lien holders on the force placed policy for it to be effective? Does it make a difference if the force placed policy is a private policy?

Answer: Insurance claims paid on a flood policy are paid “in lien status priority order”. I don’t believe it is a requirement to identify other lien holders on the force placed policy you purchase. However, if you purchase insurance only for your subordinate lien, any settlement amount paid out would go to the first lien holder.

Question 22. Can you please explain what life of loan includes?

Answer: Life of loan monitoring is when the vendor tracks the property for future map changes.

Question 23. Page 202 of the Banker’s Compliance Consulting Advanced Lending Manual, in the section titled 'How Much Insurance is Needed', refers to coverage at least equal to the minimums described. Isn't the required coverage based upon the lesser of the listed items?

Answer: Yes. I think we’re saying the same thing.

Question 24. The FDIC's FIL-81-2001 states: *"The amount of flood insurance should not be less than the value of the improved structure."* Doesn't this contradict the actual requirement that insurance be the lesser of the NFIP limit, the loan amount or the value of the improvements?

Answer: You must read the paragraph as a whole. It states the lesser of the three things. *"If improved real property securing a loan is located in a SFHA and flood insurance is available, then the lender must require the borrower to obtain the proper amount of flood insurance before closing the loan. The minimum required coverage is the lesser of the outstanding principal balance on the loan, or the maximum amount available from the NFIP. The amount of the insurance should not be less than the value of the improved structure."*

Question 25. SCENARIO #1: The bank filed a lien on a residential property consisting of a dwelling and two detached buildings (which are insurable). The entire parcel is in a SFHA. The loan amount is \$200,000; therefore, a conforming appraisal was not required (an automated property valuation is used). The valuation provides a value for the principal dwelling (\$300,000), but not for the detached buildings.

1) How should the bank proceed in determining the value of the detached buildings in order to determine the amount of flood insurance required for these structures?

Answer: In your example, the loan amount is less than the value of the improvements; therefore, you may not need to determine the value of the other structures. You are required to have a policy on each structure and the three policies combined must total \$200,000.

2) If the borrower purchases insurance for the primary dwelling for \$200,000 (the amount of the loan), do the detached buildings need to be insured?

Answer: Yes. The Mandatory Purchase of Flood Insurance Guidelines state: *"Each building securing a loan must be covered by a separate NFIP policy"*. (page 33).

3) If the borrower has purchased a \$200,000 flood insurance policy for the primary dwelling, and assuming that the bank is able to determine the value of the detached buildings (and determines that each building is valued at more than \$500), what method or formula should be used to determine the amount of insurance required?

Answer: There are no standards on how you divide the amount of insurance for each improvement; however, each structure must have a separate policy with a minimum of \$200,000 spread between them.

4) If the detached structures have a value greater than \$500, but are used as storage units (for example, for gardening tools, patio furniture, etc.), can these structures be exempted from flood insurance? If they flood and the primary dwelling doesn't, it likely won't have a bearing on the collectability of the loan.

Answer: No, these structures cannot be exempted. If the value is greater than \$500, you must have flood insurance on the structure. The only exemption is for a detached garage (call your agent for the definition of this) and it is covered for up to 10% of the dwelling.

SCENARIO #2: Insurance companies have significantly increased the issuance of Acord Insurance Policies (and in particular, all perils coverage) for commercial properties. The insurance forms state the maximum amount of flood insurance coverage and the flood insurance deductible.

1): If the policy also lists the amount of coverage per structure (if there are multiple structures), can the bank accept the policy?

Answer: I'm not sure what you mean by an "Acord" insurance policy. If you are referencing private flood insurance, you are not required to purchase FEMA subsidized insurance.

SCENARIO #3: The bank is a 2nd lien holder. When the borrower's loan application was processed, a new flood determination was obtained. The new flood determination indicated that the property was in a SFHA that was different from the flood determination that was obtained when the 1st mortgage was made. The 1st mortgage was made by a different lender. The flood determinations were obtained through different vendors, yet they both reflect the same date and map number.

1) Does the 2nd lien holder have an obligation to notify the 1st lien holder of the situation? Should the flood insurance policy be re-written to cover both lien holders and be based on the SFHA status of the most recent flood determination?

Answer: First, the determination discrepancies must be reconciled. Second, the 2nd lien holder is not required to notify the 1st lien holder; however, they must ensure there is enough flood insurance to cover the balance of both loans and that the policy is written for the correct zone. Remember, flood insurance losses are paid out in lien status order. Therefore, if you don't make sure the first lien is covered you may not be covered.

2). What should be done if the same bank is both the 1st and 2nd lien holder? Can the "grandfather" rule apply?

Answer: Again, you must ensure there is enough insurance in place to cover both liens. The grandfather rule only applies if the borrower(s) had flood insurance in place and FEMA updates the flood maps and zone changes. (i.e. borrower purchases flood insurance when the property is located in a B zone. The maps change and the property is now in A zone. As long as there is no interruption in the policy, the borrowers are allowed to continue to have flood insurance coverage at the B zone rate.)

3) Why would the same map produce different information with respect to the SFHA zone? What action is FEMA taking to address this situation?

Answer: The maps will not have different information. It is how the flood determination companies interpret the maps. The property is probably right on the line between two different zones and the companies are interpreting the maps differently.

Question 26: When tracking flood insurance, I often come across declaration pages with building coverage's that do not include the entire amount of structure/improvement values. The recent one is improvements on the appraisal are \$139,200.00, but the building coverage is only \$100,000.00. His loan balance is \$370,200.00. I e-mailed the loan officer and his response was that they approved the \$100,000.00 amount of coverage at the time of the initial loan. The loan officer stated the bank's attorney handled this request for them when the loan originated and the bank approved it. Please advise me on this matter.

Answer: Page 23 of the Mandatory Purchase of Flood Insurance Guidelines states flood insurance must be obtained in an amount equal to the lesser of:

- A. The outstanding principal balance of all loans secured by the improvements; \$370,200.00
- B. The value of the improvements (less land); or \$139,200.00
- C. The maximum amount available under the NFIP. \$250,000.00 (residential) or \$500,000.00 (non-residential)

Therefore, your answer in this case is the value of the improvements \$139,200.00. Neither the loan officer/loan committee nor the financial institution may approve an amount of flood insurance less than the required amount. Remember it's not about you. These rules are designed to protect the government.

Question 27: If a flood determination lists the flood zone as AE and the flood insurance policy lists the flood zone as one of these (A01 – A30) is the flood insurance policy acceptable or must we have the insurance company change the flood zone to AE and reissue an updated policy?

This question also applies to flood zone VE on the determination and the flood insurance policy lists one of these (V01 – V30).

Answer: AE actually replaces all zones numbered from A1-A30 as well as VE replacing all zones numbered V1-V30. Please see the following link:

<http://www.massagent.com/insmarkets/Flood%20Insurance%20Basics%20FloodSmart%201-10-06.pdf>

Question 28: If a customer's flood policy has an incorrect zone, should we force place?

Answer: Page 37 of the Mandatory Purchase of Flood Insurance Guidelines states, *“The Act requires the force placement of flood insurance if a servicer or lender determines that the building securing the loan is not adequately insured.”*

Question 29: In terms of responsibility and regulatory needs could you please clarify whether simply having a blanket insurance policy for flood insurance in the event of a lapse of coverage is sufficient. How does this interact with the requirements of the regulation or doesn't it suffice?

Answer: Page 39 of the Mandatory Purchase of Flood Insurance Guidelines states the following:

“Most loans in which flood insurance is force placed must be processed with a limited amount of underwriting information. Therefore, placement is appropriate through the Mortgage Portfolio Protection Program (MPPP), where only limited underwriting information is required.”

“The MPPP is an annual policy and, although it cannot be renewed, it can be rewritten each year if the required procedures are followed. The MPPP policy is rated based on the FIRM or FHBM in force at the time the policy is written. The rates allowed to be charged for force-placed policies are considerably higher than those rates available for voluntary policies because of the absence of any underwriting data. Under this program, the mortgagee obtains coverage for itself as well as the borrower; the NFIP insurance policy is a dual interest policy, whereby one contract covers both the borrower and the lender.

The NFIP Flood Insurance Manual should be consulted for additional information about using the MPPP to force place policies.”

Question 30: On a new home construction where the flood hazard line is on just part of the land and the house is to be built outside the hazard area (according to proposed house-spotting), is insurance required until the structure's foundation is surveyed and found to truly be outside the hazard area?

Answer: No. If the improvements are not to be located in a Special Flood Hazard Area, flood insurance is not required.

Question 31: Can you advise on the most effective way to get insurance companies to cooperate with the banks' need for certain documentation requirements within a flood insurance policy? One of the most common problems we have is a differentiation of flood zones on the flood insurance and determination or the flood zone is not documented at all. Will NFIP representatives get involved and contact an insurance company if they are not following the regulation's insurance guidelines?

Answer: I have not heard of NFIP representatives getting involved in this type of issue. Basically, the burden is on the lender to not close the loan until adequate insurance is purchased. I recommend contacting the determination vendor and having them recertify their findings (they work for you). If they believe their information is correct, contact the insurance agent and attempt to reconcile the information with the determination. They both can't be right. If you believe the insurance agent is incorrect, you might contact the agent's home office or state insurance commission. Other than this, we don't have any guidance on how to proceed.

Question 32: We need clarification on who needs to sign the notification. If there are two or more borrowers, is one signature sufficient?

Answer: On page 220 of the Banker's Compliance Consulting Advanced Lending Manual it states:

3. Retain evidence that the notice was provided to the borrowers.
 - a. Inter Agency Q & A, FIL I77 – 97, §VIII, #1 indicates one borrower can receive the notice for all borrowers.
 - b. Page 29 of the Mandatory Purchase of Flood Insurance Guidelines indicates all borrowers must receive the notice.

Unfortunately, we have conflicting answers to this question. However, if you always have all borrowers sign the notice, you cannot be criticized.

Question 33: We have interpreted the regulation to require proof that the borrower has paid the insurance premium prior to closing, but most insurance companies will provide written proof of insurance and allow the premium to be paid at loan closing. This is how all other closing costs, insurance and taxes are handled, as well. Is this acceptable? It seems to be the most efficient way to handle this, especially in a home purchase situation, where something can still happen, between buyer and seller, which would make the closing fall through.

Answer: We recommend that you obtain a copy of the check used to purchase the insurance. This way you ensure the policy will be dated on or before loan closing.

Question 34: What is acceptable proof of insurance? Some insurance companies provide a one page insurance declaration, instead of the FEMA application for insurance.

Answer: This is an area that FEMA is addressing and may be amending in the future. At this time, there are no specific requirements for "proof of insurance". However, we recommend you receive something that indicates the zone coverage, amount and date of coverage as well as a copy of the check used to purchase the policy. When you receive the policy, be sure to check these items again.

Question 35: We know the NFIP flood insurance is the industry standard, and should be the least expensive, but if the borrower prefers to obtain flood insurance, in the proper amount and coverage, from another insurance source, is this acceptable? On occasion this will be the case when the structure has a much greater value than the maximum NFIP coverage available, and the borrower wants the additional coverage.

Answer: Yes. You do not have to obtain FEMA subsidized insurance through the NFIP.

Question 36: NFIP representatives, as well as flood program gurus, have explained that insurance coverage is necessary on a structure in the flood hazard area, even though the land value, alone, is much more than necessary to secure the loan. They say this is because the insurance coverage is required to protect the government against loss, as well as the lender, and borrower. However, there seems to be a contradiction in this position when the insurance coverage required is the lesser of the loan amount, structure value, or maximum NFIP insurance available. For example, if the house is worth \$250,000 but the loan amount is only \$50,000 isn't the government left substantially unprotected?

Answer: Absolutely. As I have stated many times, this program is not logical in many areas. You bring up a great issue to support my point. There are many contradictions in the NFIP.