

FEMA's Map Modernization Alters Portfolio Protection

The federal agency's multiyear initiative to update flood zones is an expansive effort that warrants sharp monitoring by servicers.

by Mark Reedy

When it comes to portfolio risk, much of the mortgage industry's focus has been directed toward loss mitigation and foreclosures. Of course, that focus is appropriate and important, given the market conditions over the past couple of years. However, servicers must also remain diligent when it comes to keeping other forms of risk out of their portfolios. The ongoing condition of collateral assets is particularly important, because damage to the assets - such as that caused by flooding - can substantially undermine the value of properties in a portfolio.

For decades, servicers have been monitoring their portfolios for changes to flood hazards and corresponding insurance requirements. Up until the past few years, such changes were minimal, because the majority of the nation's flood maps remained unchanged. So, what has changed that has made the past few years different, and how will it impact servicers in the coming years?

In 2003, the Federal Emergency Management Agency (FEMA) launched the Flood Map Modernization program - a multiyear, presidential initiative supported by Congress. At first, the initiative focused primarily on digitizing the majority of the existing paper-based flood maps to more efficiently provide stakeholders with access to the flood data they need.

The initiative's goals also included some minor map updates for areas that were not previously studied or where significant changes had taken place.

In 2006, FEMA reviewed the progress of the Map Modernization program up to that point, which resulted in the issuance of the Mid-Course Adjustment report.

Adjusting program goals

According to this report, FEMA's understanding of the nation's mapping needs and how those needs should be approached had changed since the program's inception. Instead of focusing on digitizing all of the existing maps and then planning subsequent engineering studies for only a few select areas, FEMA shifted its focus to

making sure flood boundary information had been updated prior to the digitalization of the maps. These mapping updates would apply to the highest-risk and most rapidly developing communities, covering approximately 92% of the nation's population.

As a result of FEMA's revised plan, volumes of updated flood maps started to increase in 2006. In 2008, the number of updated maps had doubled compared to 2006, reaching roughly 18,000 map panels. And while 2008 technically marked the end of the original five-year Map Modernization initiative, only 45% of the communities funded for new studies had new maps published by the end of the fiscal year. As a result, updated flood maps for the remaining funded communities will continue to be released through 2010.

The need for two additional years to complete the planned re-mapping process makes sense, given the extensive effort that is required to conduct new flood studies for each communi-



ty. FEMA must identify and oversee groups of engineers who review existing area flood studies, if available. Further, the engineers conduct new studies on an area's flooding dynamics and evaluate the viability of levees and other flood control structures, when necessary.

Compiling all of that data takes a great deal of time - sometimes years. For example, a county slated for re-mapping might literally have thousands of square miles of creeks, rivers and streams that have to be studied.

Engineers will review recent studies when they are available, but those studies often do not include information about creeks that feed into main waterways and what will happen downstream as a result. Another concern is that studies generally only cover a small area around a recently built development, because that is all that is needed to have building permits issued. With these types of partial studies, engineers must evaluate what they have and connect the dots to get all of the data necessary to re-map the entire area. That process certainly increases the time required.

Once the remaining data is gathered, it must be put into map format and provided to the community for approval. Sometimes community appeals can delay the map adoption process. However, once community approval is received, the map can be published and issued to all stakeholders, including servicers.

Portfolio impact

As detailed in the Mandatory Purchase of Flood Insurance Guidelines, servicers are required to have an initial flood hazard determination for each of the loans in their portfolios. For loans on properties falling within FEMA-designated Special Flood Hazard Areas (also known as "100-year flood zones"), servicers must make sure homeowners have flood insurance in place. Since the flood hazards affecting any given area can change over time, servicers must also continually monitor newly issued FEMA maps and their active loans to determine if map changes will impact the properties in their portfolios.

This tracking is more important than ever, because the percentage of an average servicer's portfolio impacted by flood map updates continues to rise. In 2006, approximately 7% of an average servicer's portfolio was affected by FEMA map updates. That percentage has increased each year, rising to 9% in 2007 and 13% in 2008. These percentages are expected to increase to 19% in 2009.

When servicers identify properties with flood hazard status changes that require borrowers to obtain flood insurance, they must reach out to those borrowers immediately.

The Mortgage Portfolio Protection Program (MPPP), provided by the Federal Insurance Administration, assists lenders and servicers with bringing their mortgage portfolios into compliance with flood insurance requirements. Most servicers have a

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process in place, aided by the MPPP, which involves sending out a series of letters and making phone calls to notify borrowers of the flood insurance requirement change.

When re-mapping volumes are low, this process is very manageable. But with the Map Modernization program significantly boosting the number of new maps being issued, servicers may find it challenging to keep pace.

To most effectively prepare to handle the remaining FEMA map updates, servicers should first be aware that updates are under way and will continue through 2010. They must also take steps to connect with borrowers as soon as flood insurance requirement changes are known so that they can remain compliant and avoid unnecessary losses. Lastly, they need to have a good understanding of when

FEMA maps are most likely to be issued so they can address their staffing needs well in advance.

Based on FEMA's fiscal year cycle and past schedules, servicers can expect to receive about half of the year's updated maps in September, and the rest throughout the remaining months of the year. With so many FEMA maps being issued in a single month, servicers will want to increase their staffing starting in September and plan on keeping the elevated staffing level through November. This will help ensure that they can expeditiously notify all affected borrowers and confirm that flood insurance requirements are met.

Servicers can also check FEMA's Web site to locate its official list of communities that are expected to have new flood maps take effect in the next six months. With that information in

hand, organizations can compare those communities against their portfolios prior to the issuance of updated maps, allowing them more time to plan their flood notification strategy. Alternatively, servicers may work with flood data providers that stay abreast of the latest FEMA updates and can monitor their portfolios for them, providing timely reports on any loan properties facing a changed flood hazard status.

Looking ahead

In the future, servicers can expect a higher rate of flood map updates than what occurred prior to the Map Modernization initiative. This is because FEMA and involved stakeholders realize how critical frequent flood map updates are, considering all the ongoing developments occurring across the country. It is tremendously important to the safety and

well-being of the nation as a whole to have current flood map data available. FEMA's long-term goal is to establish a more formal maintenance program for flood maps.

Instead of embarking on a map modernization program every few decades, FEMA executives plan to evaluate the age and effectiveness of the flood map data that is in circulation and initiate ongoing map maintenance as deemed necessary. To accomplish this, FEMA is working to secure the necessary funding, a significant portion of which has already been proposed to Congress and awaits final approval.

Additionally, a fair amount of legislation has been proposed in recent years that stands to modify National Flood Insurance Program guidelines and compliance requirements for financial institutions. While those pieces of legislation are still pending, servicers should remain mindful of how they may be impacted should those changes go into effect.

With the significant volume of flood map updates that have already occurred, several more years of updates to come and proposed legislative initiatives in play, servicers clearly need to stay on top of what is happening with FEMA and its ongoing flood map maintenance efforts.

By staying informed about the latest flood map updates and related legislation, servicers will be able to plan ahead to more effectively manage the flood risks that may be hiding in their portfolios. That, along with the ability to remain compliant with government-mandated policies, certainly makes the effort worthwhile. **SM**



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