Federal Reserve Fines Bank $2.95 Million for Flood Insurance Violations and Practices*

The Federal Reserve recently announced an enforcement action and fines against Alabama-based Regions Bank for alleged violations of the National Flood Insurance Act. It also claimed that the member bank failed to effectively monitor for compliance its home equity lines and loans after changes in loan servicing platforms and third-party service providers. It considered these failures, which were stated to have occurred over a period of more than one year, to be an unsafe and unsound pattern or practice.

It is typical for the federal agencies responsible for supervising regulated lenders to assess a civil monetary penalty (CMP) for individual flood insurance violations on the basis that it engaged in a pattern or practice of individual flood insurance violations. Consent orders have shown that, after weighing individual facts and circumstances, violations involving only a handful of loans are enough to constitute a pattern or practice warranting a CMP.

It is very atypical for regulatory agencies to consider the underlying deficiencies as an unsafe and unsound practice for the institution. For example, since 2020, none of the other 20 Federal Reserve consent orders involving CMPs for flood insurance violations included an unsafe and unsound practice determination. By deeming it so in this case, the Federal Reserve availed itself to heightened penalty authority under the Federal Deposit Insurance Act, resulting in the headline-making fine of $2.89 million as part of the overall CMP.

Whereas mortgage loan refinance demand is down from a year ago, home equity business—and associated compliance risk—appears to be growing for banks as borrowers tap their equity after two years of home price gains. Strong first line training and second line compliance monitoring can help prevent a pattern or practice of flood insurance violations involving these and all other designated loans. For the many BCG members who may rely on loan serving platforms and outsourced flood management of all or certain flood-related activities, such as Special Flood Hazard Area determinations and life-of-loan monitoring, this is a stark reminder that you are ultimately responsible for complying with flood insurance requirements.

The first quarter of 2023 marked the fourth consecutive quarterly increase in home equity lines of credit balances, per the Federal Reserve Board. As loan volumes rise and regulatory scrutiny intensifies, a bank's inherent risk can elevate significantly. Ensure your readiness by joining us on October 12th for an informative webinar titled "The Compliance Ins and Outs of Home Equity Lines of Credit."

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