



# Muni Monitoring

New year, new requirements for state and local debt securities

By Jim Reber

**B**lame it on Barney. That's what more than one community banker has said to me during conversations concerning new banking regulations for the acquisition and management of certain debt securities. Section 939A of the nearly three-year-old Wall Street reform legislation removes the ability for an investor to rely exclusively on external credit ratings on securities issued by municipal and corporate borrowers.

Beginning this month, all banks must have tangible procedures for managing these sectors of their investment portfolio in place. The good news is that institutional broker/dealer firms, and ICBA Securities in particular, have built out an entire package of municipal monitoring tools that make compliance with the new mandates easier.

Let's tour compliance tools ICBA Securities created with community bank investment managers in mind.

## Recent changes

It is no longer sufficient to make a purchase decision for municipal debt based on the old two-step method. This entailed 1) looking at the credit quality as defined by Moody's, Standard & Poor's or Fitch; and 2) giving a thumb's up to your favorite broker. These third-party ratings are only one of a number of variables that should be considered *prior* to purchase.

Now, the official statement or prospectus should be in hand while a purchase is being considered. ICBA Securities provides that data at the

time of offering in the form of MuniPOINTS, a two-page summary of the purpose, credit enhancements, source of repayments and demographics of the issuer. Documenting the review of MuniPOINTS for a given purchase should count as significant due diligence for examination purposes.

## Up to date

Beyond the acquisition stage, regulators will expect that you know what's in your bank's municipal portfolio. This means the current credit ratings, financials and other material events of each issue. These are provided via MuniDOCS, a bank of subsequent-events documents that pertain to a specific municipal bond issue. Accessing this service simply involves mailing ICBA Securities your bank's security inventory.

Also, ICBA Securities has a Demographic Data tab on the "My Portfolio" page of its interactive website that allows for trend analysis. This report maps every bond to its local labor force trends, unemployment and housing price indices. Each of these criteria has current, one- and two-year historical information.

Further, the line-item listing of your community bank's munis will display


color-coded credit ratings, both underlying and insured. The color coding will allow you to quickly identify how current any given bond's ratings are.

Finally, there is a search function on the same webpage, titled "Recent Changes," that allows you to enter a date. This will create a list of all bonds in your bank's portfolio that have had material events, continuing disclosures or credit ratings updates after the given date. All this makes for very easy maintenance.

## Electronic alerts

We have not stopped there. ICBA Securities has created an electronic notification system called "Municipal Alert" that sends an email to a subscriber whenever updated information is made public that would appear in MuniDOCs. This eliminates the risk of not being aware of a material event. A simple registration on ICBA Securities' website allows you to begin receiving these e-notices.

Fortunately, most alerts will not require any action. Financial statement filings, budgets or a notice of review for updated credit ratings will create an alert. Actual ratings changes, notices of pre-refundings or the rare instance of a default, which are events that should trigger a response by the manager, will also be ushered automatically to your inbox.

That's part of the comprehensive reporting ICBA Securities has built into its online municipal tool kit, something even Barney should approve of. 



## Now Hear This

ICBA Securities has produced a webinar series on its muni monitoring service. The webinar is posted at [www.icbasecurities.com](http://www.icbasecurities.com), under an "Education & Resources" tab. All registered users of the ICBA Securities website can view the webinar.

For more information, contact your ICBA Securities rep or Jim Reber at (800) 422-6442.

# Flood Insurance Update

Check out new flood-zone requirements and procedures to stay above water

By Kris Welch

**F**lood insurance compliance continues to be a hot button for federal regulators, and the vast damage caused by Hurricane Sandy and other storms will only guarantee that flood insurance requirements will stay in the regulatory spotlight.

Whenever a financial institution makes, increases, extends or renews any loan secured by improved real property or a mobile home, it must use the Standard Flood Hazard Determination Form (SFHDF) developed by the Federal Emergency Management Agency. The SFHDF helps lenders determine whether the improved real property or mobile home securing the loan is located in a special flood hazard area.

An institution may use a previous flood determination if *both* of the following conditions are met:

- » The previous determination is not more than seven years old; and
- » The basis for the original determination was recorded on the SFHDF mandated by the National Flood Reform Act of 1994.

An institution may *not* rely on a previous determination if any one of the following applies:

- » It is making a new loan;
- » FEMA's map revisions or updates show that the security property is in a special flood hazard area; or
- » FEMA has made map revisions or updates affecting the security property since the date of the previous determination.

An institution may only rely on a previous determination set forth on a SFHDF when it increases, extends, renews or purchases a loan—not when



it makes a new loan. Subsequent transactions with respect to the same property—such as assumptions, refinances and junior-lien loans—are to be treated as loan renewals. In those limited circumstances, a new determination is not required, assuming that the other requirements are met.

Most life-of-loan insurance coverage purchased from third-party vendors will only trigger a notification and alert the institution if a map revision causes a building to be located within a flood hazard area. But such coverage will not notify an institution if a flood-map revision occurs after the date of the previous determination and the map revision does not cause the property to be located in a flood hazard area.

In recent years, FEMA has remapped most of the U.S. What should your community bank do if a determination over an original flood-zone determination has changed?

Review your bank's contract with its life-of-loan insurance provider. If the coverage provider does not provide flood-zone map-change notifications, establish other internal procedures to check for any map changes. One procedural option is to obtain a new determination with each loan

renewal, modification or extension. Another is to obtain a recertification of an original flood determination, which would not affect the date of the determination but would provide the updated National Flood Insurance Program information.

The SFHDF number has been changed from FEMA Form 81-93 to the revised FEMA Form 086-0-32. The new form expires on May 30, 2015. Review it carefully. Banks can use the new form anytime before May 2015 while preparing their software systems for the new format.

The new form contains some small changes:

- » Box 2 previously contained the property address; the new form states "Property Address and Parcel Number." The form instructions make no mention of the parcel number. A statement was added to further identify the property (such as latitude/longitude).
- » Box B3 on the previous edition was titled "LOMA/LOMR" with a location to check "yes" and a notation to enter the date. The form instructions for this box did not change and, if there is a LOMA/LOMR, require the user to mark "yes" and give a date, even though the form no longer includes this notation.

When the new SFHDF is released, you can rely on the expired form under three conditions:

- » The previous determination must be less than seven years old;
- » No flood-map revisions or updates have been issued on the property; and
- » The previous determination was completed on a SFHDF.

In most cases, this new SFHDF should not jeopardize your community bank's ability to rely on the FEMA's previous flood hazard form. **IB**