NATIONAL FLOOD INSURANCE PROGRAM

Mountain CE, LLC
Insurance Continuing Education

TABLE OF CONTENTS

Contents Eligibility

Other Eligible Risks

Ineligible Properties and Risks

Policy Effective Date

Coverage

Miscellaneous Conditions

INTRODUCTION TO NFIP

Definition of Flood

Flood insurance is a single peril policy. It covers direct physical loss caused by "flood." A flood is an excess of water on land that is normally dry. Here is the official definition of flood used by the National Flood Insurance Program (NFIP).

- A general and temporary condition of partial or complete inundation of two or more acres of normally dry land area or of two or more properties (at least one of which is your property) from (a) overflow of inland or tidal waters; (b) unusual and rapid accumulation or runoff of surface waters from any source; or (c) mudflow; or
- Collapse or subsidence of land along the shore of a lake or similar body of water as a result of erosion or undermining caused by waves or currents of water exceeding anticipated cyclical levels that result in a flood.

Other Important Definitions

Other important definitions:

- **Basement** -- Any area of the building, including any sunken room or sunken portion of a room, having its floor below ground level (subgrade) on all sides.
- **Enclosure** -- That portion of an elevated building below the lowest elevated floor that is either partially or fully shut in by rigid walls.
- **Elevated Buildin**g -- A building that has no basement and that has its lowest elevated floor raised above ground level by foundation walls, shear walls, posts, piers, pilings, or columns. Solid (perimeter) foundation walls are not an acceptable means of elevating buildings in V and VE Zones.
- **Mudflow** -- A river of liquid and flowing mud on the surfaces of normally dry land areas, as when earth is carried by a current of water. Movements of more solid earth, such as mudslide, landslide, slope failure, or a saturated soil mass moving by liquidity down a slope, are not mudflows.

National Flood Insurance Program

Flooding is the nation's most common and costly natural disaster and causes billions of dollars in damage each year. Approximately 90% of all natural disasters in the United States involve flooding.

Homeowners, renters, and most commercial property insurance policies do not provide coverage for floods, since private insurers are not adequately equipped to underwrite flood risks and pay for flood losses.

Since flooding is catastrophic and not covered by "regular" insurance, Congress passed the National Flood Insurance Act in 1968 which created the National Flood Insurance Program (NFIP).

The NFIP has three main parts:

- Flood mapping--identifies where floods are most likely to occur;
- Floodplain management--community programs of preventive and corrective measures to reduce the risk of current and future flooding; and
- Flood insurance.

According to www.fema.gov:

"The NFIP aims to reduce the impact of flooding on private and public structures. It does so by providing affordable insurance to property owners, renters and businesses and by encouraging communities to adopt and enforce floodplain management regulations. These efforts help mitigate the effects of flooding on new and improved structures. Overall, the program reduces the socio-economic impact of disasters by promoting the purchase and retention of general risk insurance, but also of flood insurance, specifically."

Who Needs Flood Insurance?

Many homeowners and commercial building owners don't buy flood insurance, because they incorrectly believe that if their property was damaged by a flood, federal disaster funds would pay to repair or rebuild their property. However, federal disaster funds are normally limited to low-interest loans that need to be repaid. Furthermore, some property owners incorrectly think that homeowners and commercial property insurance pays for flood damage.

It's important for all property owners to consider flood insurance, since more than 20% of flood claims come from properties located outside of high-risk flood zones. Just one inch of water in a home can cost more than $25,000 in damage.

Purchasing flood insurance could be mandatory in these situations:

- **Mortgages** -- homes and businesses in high-risk flood areas with mortgages from federally regulated or insured lenders are required to have flood insurance. While flood insurance is not federally required if the property is in a moderate- to low-risk flood area, a lender may still require flood insurance.
- **Received Disaster Assistance** -- if a property is in a high-risk flood zone and the owner received federal disaster assistance in the form of grants from FEMA or low-interest disaster loans from the U.S. Small Business Administration (SBA) following a Presidential Disaster Declaration, flood

insurance must be purchased and maintained in order to be considered for any future federal disaster aid.

Flood Insurance vs. Disaster Assistance

Here is a summary of the benefits of Flood Insurance versus Federal Disaster Assistance.

Flood Insurance	Disaster Assistance
Flood insurance claims are paid even if a disaster is not declared by the President.	Most forms of Federal disaster assistance require a Presidential declaration.
More than 20 percent of NFIP claims come from outside of mapped Special Flood Hazard Areas.	Federal disaster assistance declarations are not awarded in all flooding incidents.
There is no payback requirement.	The most typical form of disaster assistance is a loan that must be repaid with interest.
Flood insurance policies are continuous, and are not non-renewed or canceled for repeat losses.	The duration of a Small Business Association (SBA) disaster home loan could extend to 30 years.
Flood insurance reimburses for all covered building losses up to $250,000 for residential occupancies and up to $500,00 for businesses. Contents coverage is also available up to $100,000 for residential occupancies and up to $500,000 for businesses.	The average Individuals and Households Program award for Presidential disaster declarations related to flooding in 2008 was less than $4,000.
The average cost of a flood insurance policy is about $600 annually. The cost of a preferred risk policy is less than $200 annually, if the property is in a moderate-to-low-risk area.	Repayment on a $50,000 SBA disaster home loan is $240 a month or $2,880 annually at 4 percent interest.

Flood Insurance Policies

Flood insurance policies come in three variations called coverage forms:

- **Dwelling Policy —** for one-to-four family homes, condominium units, townhouses, and rowhouses;
- **General Property Policy —** for apartment buildings and nonresidential commercial structures; and
- **Residential Condominium Building Association Policy (RCBAP) —** for condominium associations (condominium *units* are covered by the **Dwelling Policy**).

All of these flood policy forms cover the structures (buildings) and also the contents (personal property) inside the structures.

Additional details about these policies will be explained in later lessons.

Buying Flood Insurance

There are two main ways that flood insurance under the NFIP can be purchased:

- Directly from the federal government, or
- From a private insurer as a Write Your Own (WYO) policy on a *no risk-bearing* basis; that means the federal government underwrites the flood insurance and pays for flood losses; the insurer who writes (sells) the insurance does not have (bear) any risk.

The NFIP flood insurance coverages and premium rates do not differ based on how or from whom it is purchased.

Write Your Own (WYO) Program

The Write Your Own (WYO) Program is a cooperative arrangement between FEMA and the private insurance industry. The WYO Program operates within the context of the NFIP and is subject to its rules and regulations. WYO allows participating property and casualty insurance companies to write and service Federal flood insurance in their own names.

The companies receive an expense allowance for policies written and claims processed while the Federal Government retains responsibility for underwriting losses. Individual WYO Companies may, to the extent possible, and consistent with Program rules and regulations, match their flood business to their normal business practices for other lines of insurance.

Agent Resources

Important flood insurance resources for agents include:

- National Flood Insurance Program Summary of Coverage (FEMA F-679)
- https://www.fema.gov/flood-insurance-manual
- https://www.fema.gov/nfip
- https://www.floodsmart.gov

COMMUNITY ELIGIBILITY

Participating Communities

Flood insurance may be written only in those communities that have been designated as participating (eligible) in the National Flood Insurance Program (NFIP) by the Federal Emergency Management Agency (FEMA).

Depending on community participation, there are two programs available:

- Emergency Program -- The initial phase of a community's participation in the NFIP. Limited amounts of coverage are available.
- Regular Program -- The final phase of a community's participation in the NFIP. In this phase, a Flood Insurance Rate Map (FIRM) is in effect and full limits of coverage are available. The Community Rating System (CRS) is a program developed by FEMA to provide incentives for those communities in the Regular Program that have gone beyond the minimum floodplain management requirements to develop extra measures to provide protection from flooding.

A community without a Flood Insurance Rate Map (FIRM) enters the National Flood Insurance Program (NFIP) as an Emergency Program Community. Once a detailed engineering study is completed for the community and a Flood Insurance Rate Map (FIRM) has been issued, the community is brought into the Regular Program of the NFIP. The community is required to adopt or amend its floodplain management regulations to incorporate the new flood data on the FIRM. Under the Regular Program, higher amounts of flood insurance coverage are provided than under the Emergency Program, and new construction is charged actuarial rates for flood insurance that fully reflect the building's risk of flooding.

Flood Maps

Maps of participating communities indicate the degree of flood hazard so that full-risk premium rates can be assigned for insurance coverage on properties at risk.

There are two main types of flood maps:

- **Flood Hazard Boundary Map (FHBM)** – Usually the initial map of a community. Some communities entering the Regular Program will continue to use an FHBM renamed a FIRM if there is a minimum flood hazard.
- **Flood Insurance Rate Map (FIRM)** – The official map of the community containing detailed full-risk risk premium zones.

Additional information about flood maps is provided in a later lesson.

Probation

Probation, imposed by the FEMA Regional Director, occurs as a result of noncompliance with NFIP floodplain management criteria. A community is placed on probation for one year (may be extended), during which time a $50 surcharge is applied to all NFIP policies (excluding the Group Flood Insurance Policy) issued on or after the Probation Surcharge effective date.

Probation is terminated if deficiencies are corrected. However, if a community does not take remedial or corrective measures while on probation, it can be suspended.

Suspension

Flood insurance may not be sold or renewed in communities that are suspended from the NFIP. Under the NFIP rules and regulations, any policies issued or renewed in error on or after the suspension date must be cancelled.

Once the community is reinstated, a new application and premium, subject to the applicable waiting period, must be submitted to obtain new coverage.

Non-Participating Communities

When FEMA provides a non-participating (ineligible) community with an FHBM or a FIRM delineating its floodprone areas, the community is allowed one year in which to join the NFIP. If the community chooses not to participate in the NFIP, flood insurance is not available.

Flood insurance may not be available for buildings and/or contents located in Coastal Barrier Resources System (CBRS) and Otherwise Protected Areas (OPAs).

Federal Land

Buildings and/or contents located on land owned by the Federal Government are eligible for flood insurance if the Federal agency having control of the land has met floodplain management requirements. All Federal land is recorded under the local community number even if that local community does not have jurisdiction.

Certain buildings on Leased Federal Property must be full-risk rated. This includes buildings that the Administrator determines are located on the river-facing side of any dike, levee, or other riverine flood-control structure, or seaward of any seawall or other coastal flood-control structure.

FLOOD MAPS, ZONES, AND RATING

Overview of Flood Maps

The Federal Emergency Management Agency (FEMA) provides all participating communities with copies of their flood maps. The maps are generally kept in community planning or building permit departments where they should be available for review.

FEMA produces two types of maps for rating flood insurance:

- **Flood Hazard Boundary Map (FHBM)** – Initial flood hazard identification generally used for Emergency Program communities.
- **Flood Insurance Rate Map (FIRM)** – Generally used for Regular Program communities. Some Regular Program communities may use a map originally published as an FHBM; however, a letter will accompany the map in conjunction with conversion to the Regular Program stating that the map is to be considered a FIRM. Countywide FIRMs are official sources of flood risk data for several communities that supersede all previous versions of the FEMA flood hazard maps for the communities covered. Countywide FIRMs show flooding information for the entire geographic area of a county, including the incorporated communities within the county.

Rating

Flood insurance rating that is used to calculate premiums is quite complicated. Here are some general rating rules:

- The flood zone is a very important rating factor--the higher the flood risk, the higher the rate.
- Elevated buildings and buildings with no basements or enclosures have a lower rate.

The Elevation Certificate is an important administrative tool of the National Flood Insurance Program (NFIP). It is to be used to provide elevation information necessary to ensure compliance with community floodplain management ordinances, to determine the proper insurance premium rate, and to support a request for a Letter of Map Amendment (LOMA) or Letter of Map Revision based on fill (LOMR-F).

The Elevation Certificate is required in order to properly rate Post-FIRM buildings, which are buildings constructed after publication of the Flood Insurance Rate Map (FIRM). The Elevation Certificate is not required for Pre-FIRM buildings unless the building is being rated under the optional Post-FIRM flood insurance rules.

As part of the agreement for making flood insurance available in a community, the NFIP requires the community to adopt floodplain management regulations that specify minimum requirements for reducing flood losses. One such requirement is for the community to obtain the elevation of the lowest floor (including basement) of all new and substantially improved buildings, and maintain a record of such information. The Elevation Certificate provides a way for a community to document compliance with the community's floodplain management ordinance.

Grandfathering Rules

Flood risks can change over time. Water flow and drainage patterns can change dramatically because of surface erosion, land use, and natural forces. Likewise, the ability of levees and dams to provide the necessary protection can change. As a result, the flood maps for those areas may no longer accurately portray the current flood risks. To reflect the most current flood risks, the Federal Emergency Management Agency (FEMA) is updating and modernizing the nation's flood maps using the latest data gathering and mapping technology. New flood maps (known as Digital Flood Insurance Rate Maps, or DFIRMs) are being issued nationwide.

When the new flood maps become effective, some residents and business owners will find that their property's flood risk has changed. Some will find that their building is mapped into a high-risk flood zone (noted on the flood maps with the letter beginning with "A" or "V"); and if there is a mortgage on the property through a federally regulated or insured lender, they will be required to purchase flood insurance. Others will find that their Base Flood Elevation (BFE) for the property has increased. Either of these changes could result in higher flood insurance premiums.

When flood map changes occur, the National Flood Insurance Program (NFIP) provides a lower-cost flood insurance option known as "grandfathering." Whether or not a building is eligible for lower-cost "grandfathering" depends on if it is considered **Pre-FIRM Construction** or **Post-FIRM Construction**.

Pre-FIRM and Post-FIRM

Pre-FIRM Construction – For buildings constructed prior to the date of the community's initial FIRM or prior to January 1, 1975.

- If a policy was obtained prior to the effective date of a map change, the policyholder is eligible to maintain the prior zone and Base Flood Elevation (BFE) as long as continuous coverage is maintained. The policy can be assigned to a new owner at the option of the policyholder.

- If a policy was obtained prior to a map revision, but then the building was substantially improved, the building must be re-rated using the FIRM that was in effect at the time that the substantial improvement occurred.
- If the community's first FIRM was effective prior to January 1, 1975, and a building has not been substantially damaged or improved since its original construction, the rates can be based on the FIRM zone and/or the BFE on the FIRM in effect at the time of construction (i.e., it can be treated like a post-FIRM structure). In this case, proper documentation must be provided. In all other instances, new policies for pre-FIRM buildings must use the FIRM in effect when the coverage is applied for.

Post-FIRM Construction – For buildings constructed on or after the date of the community's initial FIRM.

- If a policy was obtained prior to the effective date of a map change, the policyholder is eligible to maintain the prior zone and base flood elevation as long as continuous coverage is maintained. The policy can be assigned to a new owner at the option of the policyholder.
- If a building was constructed in compliance related to a specific FIRM, the property owner is always eligible to obtain a policy using the zone and Base Flood Elevation (BFE) for that particular map, provided that proof is submitted to the insurance company. Continuous coverage is not required.

Map Information

The date of the current effective map version for a community can be obtained by calling the appropriate community official or by calling the National Flood Insurance Program (NFIP) office at the toll-free number. Maps provide the community name, community number, suffix, panel number, map type, and the map effective date.

- The maps may have one panel or multiple panels. Most Z-fold maps have multiple panels. Flat maps generally consist of only one panel.
- For multiple-panel maps, individual panels are identified on a community map index.
- Panel numbers are listed for that community's map in numerical sequence. FHBMs and FIRMs are drawn to show: (a) Community boundaries; (b) Special Flood Hazard Areas (SFHAs); and (c) Areas not included in a community's map (A community may be physically located within the overall geographical area, but actually stand on its own as a separate community. Therefore, this community would be shown on a separate map).
- Each panel has a panel number and community number. When there is only one panel (i.e., a flat map), the community number will consist of only six digits. Example: Monterey County, CA 060195-1025 (The first two

digits of the number identify the state and the next four digits identify the community. The last four digits identify the map panel.)
- Most FIRMs also show: Flood Zones; Base Flood Elevations (the elevation of surface water resulting from a flood that has a 1% chance of equaling or exceeding that level in any given year); and/or Base Flood Depths (The depth shown on the Flood Insurance Rate Map [FIRM] for Zone AO that indicates the depth of water above the highest adjacent grade resulting from a flood that has a 1% chance of equaling or exceeding that level in any given year).

Communities with Unpublished Maps

Communities with Unpublished Maps are communities without formally identified Special Flood Hazard Areas (SFHAs) that chose to have flood insurance coverage available even though the local flooding problems are too small to map. For any such community in the Regular Program, all areas within that community are treated as Zone C or X.

Unmapped Areas in Communities with Maps

The flood hazards for some areas within mapped communities remain undetermined and are unmapped. These unmapped areas are to be treated as Zone D. The designation of Zone D can also be used for rating when a community incorporates portions of another community's area where no map has been prepared.

Map Zones: Special Flood Hazard Areas

A **Special Flood Hazard Area (SFHA)** is an area having special flood, mudflow, or flood-related erosion hazards, and shown on a Flood Hazard Boundary Map. These areas all have flood zones that start with the letter **A** or **V**. These are the **SFHA** zones:

- **Zone A** — The lowest floor elevation is required and the Base Flood Elevations (BFEs) are not provided.
- **Zones A1–A30** — The lowest floor elevation is required and the BFEs are provided.
- **Zone AE** — Used in place of A1–A30 on some maps.
- **Zone AH** — Shallow water depths (ponding) and/or unpredictable flow paths between 1 and 3 feet occur. BFEs are provided.
- **Zone AO** — Shallow water paths (sheet flow) and/or unpredictable flow paths between 1 and 3 feet occur. BFEs are not provided. Base flood depths may be provided.
- **Zone A99** — Enough progress has been made on a protective system such as dikes, dams, and levees to consider it complete for insurance rating purposes. BFEs are not provided. For the purpose of determining

Community Rating System (CRS) premium discounts, all AR and A99 Zones are treated as non-SFHAs.

- **Zone AR** — Area that results from the de-certification of a previously accredited flood protection system that is determined to be in the process of being restored to provide base flood protection. For the purpose of determining CRS premium discounts, all AR and A99 Zones are treated as non-SFHAs.
- **Zones AR/AE, AR/AH, AR/AO, AR/A1–A30, AR/A** — Dual flood zones that, because of flooding from other water sources that the flood protection system does not contain, will continue to be subject to flooding after the flood protection system is adequately restored. For the purpose of determining CRS premium discounts, all AR and A99 Zones are treated as non-SFHAs.
- **Zone V** — An area that is inundated by tidal floods with velocity (coastal high hazard area). BFEs are not provided.
- **Zones V1–V30** — Identical to V Zone, but BFEs are provided.
- **Zone VE** — Used in place of V1–V30 on some maps.

Map Zones: Moderate, Minimal Hazard Areas

These are flood zones in **Moderate or Minimal Hazard Areas**:

- **Zones B, C, and X** -- Areas of moderate or minimal hazard subject to flooding from severe storm activity or local drainage problems. These zones may be lightly shaded or unshaded on the FIRM. Zone X is the designation for B and C Zones and is used in place of these zones on some maps.
- **Zone D** -- An area where the flood hazard is undetermined and which usually is very sparsely populated. The designation of Zone D can also be used for rating when a community incorporates portions of another community's area where no map has been prepared. In addition, if the map shows an area as being unmapped, use Zone D.

STANDARD FLOOD POLICY

Dwelling Form

The **Dwelling Form** can be issued to a homeowner, residential renter, or owner of a residential building containing 1 to 4 units.

This form is available for homes in **Regular Program** communities or **Emergency Program** communities; it provides building and/or contents coverage for:

- Single-family, non-condominium residences with incidental occupancy limited to
  less than 50% of the total floor area;
- 2–4 family, non-condominium buildings with incidental occupancy limited to less
  than 25% of the total floor area;
- Dwelling units in residential condominium buildings;
- Residential townhouses/rowhouses; or
- Personal contents in a non-residential building.

General Property Form

The **General Property Form** can be issued to owners of residential buildings with five or more units or to owners or lessees of non-residential businesses or other non-residential buildings or units.

This form is available for homes in **Regular Program** communities or **Emergency Program** communities.

It provides building and/or contents coverage for these **residential risks**:

- Apartment buildings;
- Residential cooperative buildings;
- Dormitories;
- Assisted-living facilities;
- Hotels, motels, tourist homes, and rooming houses that have more than 4 units where the normal guest occupancy is 6 months or more.

It provides building and/or contents coverage for these **non-residential risks**:

- Hotels or motels with normal guest occupancy of less than 6 months;
- Licensed bed-and-breakfast inns;
- Retail shops, restaurants, or other businesses;
- Mercantile buildings;
- Grain bins, silos, or other farm buildings;
- Agricultural or industrial processing facilities;
- Factories;
- Warehouses;
- Poolhouses, clubhouses, or other recreational buildings;
- Houses of worship;
- Schools;
- Nursing homes;
- Non-residential condominiums;
- Condominium buildings with less than 75% of their total floor area in residential use;
- Detached garages;

- Tool sheds;
- Stocks, inventories, or other commercial contents.

RCBAP Form

The **Residential Condominium Building Association Policy (RCBAP) form** can be issued to residential condominium associations on behalf of association and unit owners.

This form is available for homes in **Regular Program** communities only. It provides building coverage and, if desired, coverage of commonly owned contents for residential condominium buildings with 75% or more of its total floor area in residential use.

FLOOD INSURANCE PRODUCTS

Preferred Risk Policy (PRP)

The **Preferred Risk Policy (PRP)** is a lower-cost Standard Flood Insurance Policy (SFIP), written under the Dwelling Form or General Property Form. It offers fixed combinations of building/contents coverage limits or contents-only coverage. The PRP is available for properties located in B, C, X, AR, or A99 zones, in Regular Program communities that meet eligibility requirements based on the property's flood loss history.

For 1–4 family dwellings, the maximum coverage combination is $250,000 building and $100,000 contents. For other residential buildings, the maximum coverage combination is $500,000 building and $100,000 contents. Up to $100,000 contents-only coverage is available for all residential properties.

For non-residential business and other non-residential properties, the maximum coverage combination is $500,000 building and $500,000 contents. Up to $500,000 contents-only coverage is available.

Only one building can be insured per policy, and only one policy with building coverage can be written on each building except in the case of a Residential Condominium Building Association Policy (RCBAP) and a condominium unit owner dwelling policy.

A building's eligibility for the PRP is based on the building's flood loss history. If there have been too many losses within any 10-year period, regardless of any change(s) in ownership of the building, then the building is not eligible for the PRP.

Newly-Mapped-Rated Policy

The **Newly Mapped** procedure applies to properties previously in Zones B, C, X, D, AR, or A99 that have been newly mapped into a Special Flood Hazard Area (SFHA). The Newly Mapped procedure does not apply to properties mapped into the SFHA by the initial Flood Insurance Rate Map (FIRM).

For 1–4 family dwellings, the maximum coverage combination is $250,000 building and $100,000 contents. For other residential buildings, the maximum coverage combination is $500,000 building and $100,000 contents. Up to $100,000 contents-only coverage is available for all residential properties.

For non-residential businesses, and other non-residential properties, the maximum coverage combination is $500,000 building and $500,000 contents. Up to $500,000 contents-only coverage is available.

Only one building can be insured per policy, and only one policy with building coverage can be written on each building except in the case of a Residential Condominium Building Association Policy (RCBAP) and a condominium unit owner dwelling policy.

A building's eligibility for the **Newly Mapped** procedure is based on the building's flood loss history. If there have been too many losses within any 10-year period, regardless of any change(s) in ownership of the building, then the building is not eligible for the PRP.

Mortgage Portfolio Protection Program

The Mortgage Portfolio Protection Program (MPPP) is an additional tool to assist the mortgage lending and servicing industries to be in compliance with the flood insurance requirements of the Flood Disaster Protection Act of 1973.

Proper implementation of the mandatory purchase requirements usually results in mortgagors, after their notification of the need for flood insurance, either showing evidence of such a policy, or contacting their insurance agent/producer or their insurer to purchase the necessary coverage. It is intended that flood insurance policies be written under the MPPP only as a last resort, and only on mortgages whose mortgagors have failed to respond to the various notifications required by the MPPP.

All mortgagors notified, in conjunction with this program, of their need to purchase flood insurance must be encouraged to obtain a Standard Flood Insurance Policy (SFIP) from their agent/producer or insurer.

When a mortgagee or a mortgage-servicing company discovers, at any time following loan origination, that there is no evidence of flood insurance on a property in a Special Flood Hazard Area (SFHA), then the MPPP may be used by such lender/servicer to obtain (force-place) the required flood insurance coverage. The MPPP process can be accomplished with limited underwriting information and with special flood insurance rates.

It is the Write Your Own (WYO) Company's responsibility to notify the mortgagor of all coverage limitations at the inception of coverage and to impose those limitations that are applicable at the time of loss adjustment.

Scheduled Building Policy

The Scheduled Building Policy is available to cover 2 to 10 buildings. The policy requires a specific amount of insurance to be designated for each building. To qualify, all buildings must have the same ownership and the same location. The properties on which the buildings are located must be contiguous--they must share a common border.

Group Flood Insurance

Group Flood Insurance is issued under the NFIP Direct Program in response to a Presidential disaster declaration. Disaster assistance applicants, in exchange for a modest premium, receive a minimum amount of building and/or contents coverage for a 3-year policy period. The Group Flood Insurance Policy cannot be canceled. However, an applicant may purchase a regular Standard Flood Insurance Policy (SFIP) through the NFIP. When this is done, the group flood certificate for the property owner is void, and the premium will not be refunded.

BUILDING ELIGIBILITY

Building Coverage

Here are the guidelines on what is provided for Building Coverage under the the Standard Flood Insurance Policy (SFIP) Dwelling Form:

- The insured building and its foundation;
- The electrical and plumbing systems;
- Central air-conditioning equipment, furnaces, and water heaters;
- Refrigerators, cooking stoves, and built-in appliances such as dishwashers;
- Permanently installed carpeting over an unfinished floor;
- Permanently installed paneling, wallboard, bookcases, and cabinets;
- Window blinds;

- A detached garage (up to 10 percent of Building Property coverage); detached buildings (other than detached garages) require a separate Building Property policy; and
- Debris removal.

Eligible Buildings

Flood insurance may be written only on a structure with 2 or more outside rigid walls and a fully secured roof that is affixed to a permanent site. Buildings must resist flotation, collapse, and lateral movement. At least 51% of the Actual Cash Value (ACV) of buildings, including machinery and equipment, which are a part of the buildings, must be above ground level, unless the lowest level is at or above the Base Flood Elevation (BFE) and is below ground by reason of earth having been used as insulation material in conjunction with energy efficient building techniques.

Subject to specific conditions and limitations, the following structures may be eligible:

- Appurtenant Structures
- Manufactured (Mobile) Homes/Travel Trailers
- Silos and Grain Storage Buildings
- Cisterns
- Some Buildings Built Entirely or Partially Over Water
- Boathouses Located Partially Over Water
- Buildings in the Course of Construction

Single Building

To qualify as a single-building structure and be subject to the single-building limits of coverage, a building must be:

- Separated from other buildings by intervening clear space; or
- Separated into divisions by solid, vertical, loadbearing walls; each division may be insured as a separate building.

Walls

For an enclosure's wall to qualify as breakaway, it must meet all of the following criteria:

- Above ground level;
- Below the elevated floor of an elevated structure;
- Non-structurally supporting (non-load-bearing walls);
- Designed to fail under certain wave force conditions; and

- Designed so that, as a result of failure, it causes no damage to the elevated portions of the elevated building and/or its supporting foundation system.

Shear walls are used for structural support, but are not structurally joined or enclosed at the ends (except by breakaway walls). Shear walls used as the method of elevating a building are normally parallel (or nearly parallel) to the expected flow of floodwaters.

Solid (perimeter) foundation walls are used as a means of elevating the building in A Zones and must contain proper openings to allow for the unimpeded flow of floodwaters more than 1 foot deep. Solid (perimeter) foundation walls are not an acceptable means of elevating buildings in V/VE Zones.

Determination of Building Occupancy

The following terms should be used to determine the appropriate occupancy classification:

Single-Family Dwelling -- This is either (a) a residential single-family building in which the total floor area devoted to non-residential uses is less than 50% of the building's total floor area, or (b) a single-family residential unit within a 2–4 family building, other-residential building, business, or non-residential building, in which commercial uses within the unit are limited to less than 50% of the unit's total floor area.

2–4 Family Building -- This is a residential building, including an apartment building, containing 2–4 residential spaces and in which commercial uses are limited to less than 25% of the building's total floor area. This category includes apartment buildings and condominium buildings. This excludes hotels and motels with normal room rentals for less than 6 months.

Other Residential Building -- This is a residential building that is designed for use as a residential space for 5 or more families or a mixed-use building in which the total floor area devoted to non-residential uses is less than 25% of the total floor area within the building. This category includes condominium and apartment buildings as well as hotels, motels, tourist homes, and rooming houses where the normal occupancy of a guest is 6 months or more. Additional examples of other residential buildings include dormitories and assisted-living facilities.

Non-Residential Business -- A building in which the named insured is a commercial enterprise primarily carried out to generate income and the coverage is for:

- A building designed as a non-habitational building;

- A mixed-use building in which the total floor area devoted to residential uses is (a) 50% or less of the total floor area within the building if the residential building is a single family property; or (b) 75% or less of the total floor area within the building for all other residential properties; or
- A building designed for use as office or retail space, wholesale space, hospitality space, or for similar uses.

Other Non-Residential -- This is a subcategory of non-residential buildings; a non-habitational building that does not qualify as a business building, or a mixed-use building that does not qualify as a residential building. This category includes, but is not limited to, churches, schools, farm buildings (including grain bins and silos), garages, poolhouses, clubhouses, and recreational buildings. A small business cannot use this category.

Primary Residence Determination

FEMA defines a primary residence as a single family building, condominium unit, apartment unit, or unit within a cooperative building that will be lived in by the policyholder or the policyholder's spouse for more than 50% of the 365 calendar days following the current policy effective date or 50% or less of the 365 calendar days following the current policy effective date if the policyholder has only one residence and does not lease that residence to another party or use it as rental or income property at any time during the policy term.

Where the policyholder and the policyholder's spouse identify different primary residences, they must submit the appropriate documentation for each person's primary residence. A policyholder and policyholder's spouse may have no more than one primary residence per person.

CONTENTS ELIGIBILITY

Personal Property Coverage

Personal Property (Contents) and Building Coverage are purchased separately (for the Preferred Risk Policy, there's an option for combination coverage for both Contents and Building coverage), but there are always separate deductibles. Unless the policy has Contents coverage, flood-damaged contents are not covered.

Here are the guidelines on what is provided for Personal Property (Contents) Coverage under the Standard Flood Insurance Policy (SFIP) Dwelling Form:

- Personal belongings such as clothing, furniture, and electronic equipment

- Curtains
- Portable and window air conditioners
- Portable microwave ovens and portable dishwashers
- Carpets not included in building coverage
- Clothes washers and dryers
- Food freezers and the food in them
- Certain valuable items such as original artwork and furs (up to $2,500)

Eligible Contents

Contents must be located in a fully enclosed building. However, under the Dwelling Form, in a building that is not fully enclosed, contents must be secured to prevent flotation out of the building.

Vehicles and Equipment

The NFIP covers self-propelled vehicles or machines, provided they are not licensed for use on public roads and are:

- Used mainly to service the described location; or
- Designed and used to assist handicapped persons while the vehicles or machines are inside a building at the described location.

Parts and equipment as open stock – not part of a specific vehicle or motorized equipment – are eligible for coverage.

Farm and Commercial Contents

Contents located in silos, grain storage buildings, and cisterns are insurable.

Commercial contents in a residential property must be insured on the General Property Form.

OTHER ELIGIBLE RISKS

Cooperative Building

Cooperative buildings are owned and managed by a corporation, and their ownership differs from the condominium form of ownership. Residents within cooperative buildings buy shares of the corporation, rather than the real estate (building, land, or both building and land). Cooperative buildings where at least 75% of the area is used for residential purposes are considered residential occupancies. Since they are not in the condominium form of ownership, they cannot be insured under a Residential Condominium Building Association Policy (RCBAP).

Units Within a Cooperative Building

Shareholders/tenants residing in cooperative buildings may not purchase building coverage for their units. The residents of a unit within a cooperative building may purchase contents coverage under the Dwelling Form. Ten percent of the contents coverage may be applied to betterments and improvements at the time of loss.

Timeshare Building

Timeshare buildings not in the condominium form of ownership where at least 75% of the area of the building is used for residential purposes are considered as residential occupancies under the NFIP.

Timeshare buildings in the condominium form of ownership are eligible for coverage and must be insured under the (Residential Condominium Building Association Policy) RCBAP. These buildings are subject to the same eligibility, rating, and coverage requirements as other condominiums, including the requirement that 75% of the area of the building be used for residential purposes.

Homeowners Association

When a homeowners association's (HOA) by-laws require the HOA to purchase flood insurance building coverage for its members, the policy must be written in the name of the building owner. The HOA may be listed as an additional insured.

Note: The above information is not applicable to condominium homeowner's associations.

Condominium Association

Only residential buildings having a condominium form of ownership are eligible for the Residential Condominium Building Association Policy (RCBAP).

A condominium association is the corporate entity responsible for the management and operation of a condominium. Membership is made up of the condominium unit owners. A condominium association may purchase insurance coverage on a residential building and its contents under the RCBAP. The RCBAP covers only a residential condominium building in a Regular Program community. If the named insured is listed as other than a condominium association, the agent/producer must provide legal documentation to confirm that the insured is a condominium association.

INELIGIBLE PROPERTIES AND RISKS

CBRS and OPAs

Flood insurance may not be available for buildings and/or contents located in a Coastal Barrier Resources System (CBRS) and Otherwise Protected Areas (OPAs).

The Coastal Barrier Resources Act is a law that was implemented as part of a Department of the Interior (DOI) initiative to minimize loss of human life by discouraging development in high-risk areas, reduce wasteful expenditures of Federal resources, and preserve the ecological integrity of areas Congress designates as a Coastal Barrier Resources System (CBRS) and Otherwise Protected Areas (OPAs). The laws provide this protection by prohibiting all Federal expenditures or financial assistance, including flood insurance, for residential or commercial development in areas so identified.

To determine whether a building is eligible for flood insurance coverage, the agent/producer should consult the list of communities where coastal barriers and/or OPAs have been identified. The list is included in this section and is available for review on the Federal Emergency Management Agency (FEMA) website at http://www.fema.gov/coastal-barrier-resourcessystem.

Risks Not Insured

Here are guidelines on what is NOT insured under the the Standard Flood Insurance Policy (SFIP) Dwelling Form:

- Damage caused by moisture, mildew, or mold that could have been avoided by the property owner;
- Currency, precious metals, and valuable papers such as stock certificates;
- Property and belongings outside of a building such as trees, plants, wells, septic systems, walks, decks, patios, fences, seawalls, hot tubs, and swimming pools;
- Living expenses such as temporary housing;
- Financial losses caused by business interruption or loss of use of insured property;
- Most self-propelled vehicles such as cars, including their parts.

Section 1316 Properties

Coverage may not be available for buildings that are constructed or altered in such a way as to place them in violation of State or local floodplain management laws, regulations, or ordinances. Contents and personal property contained in these buildings are ineligible for coverage.

Section 1316 of the National Flood Insurance Act of 1968 allows States to declare a structure to be in violation of a law, regulation, or ordinance. Flood insurance is not available for properties that are placed on the Section 1316 Property List. Insurance availability is restored once the violation is corrected and the 1316 Declaration has been rescinded.

Container-Type Buildings

Gas and liquid tanks, chemical or reactor container tanks or enclosures, brick kilns, and similar units, and their contents are ineligible for coverage.

Buildings Entirely Over Water

Buildings newly constructed or substantially improved on or after October 1, 1982, and located entirely in, on, or over water or seaward of mean high tide are ineligible for coverage.

Buildings Partially Underground

If 50% or more of the building's actual cash value (ACV), including the machinery and equipment, which are part of the building, is below ground level, the building or units and their contents are ineligible for coverage unless the lowest level is at or above the Base Flood Elevation (BFE) and is below ground by reason of earth having been used as insulation material in conjunction with energy-efficient building techniques.

Examples of Ineligible Buildings

These buildings are generally not eligible for coverage under the NFIP:

- Boat Repair Dock
- Boat Storage Over Water
- Boathouses (exceptions listed on page GR 4)
- Camper
- Cooperative Unit within Cooperative Building
- Decks (except for steps and landing; maximum landing area of 16 sq. ft.)
- Drive-In Bank Teller Unit (located outside walls of building)
- Fuel Pump
- Gazebo (unless it qualifies as a building)
- Greenhouse (unless it has at least 2 rigid walls and a roof)
- Hot Tub or Spa (unless it is installed as a bathroom fixture)

- Open Stadium
- Pavilion (unless it qualifies as a building)
- Pole Barn (unless it qualifies as a building)
- Pumping Station (unless it qualifies as a building)
- Storage Tank – Gasoline, water, chemicals, sugar, etc.
- Swimming Pool Bubble
- Swimming Pool (indoor or outdoor)
- Tennis Bubble
- Tent
- Timeshare Unit within Multi-Unit Building
- Travel Trailer (unless converted to a permanent onsite building meeting the community's floodplain management permit requirements)
- Water Treatment Plant (unless at least 51% of its ACV is above ground)

Examples of Ineligible Contents

These contents are generally not eligible for coverage under the NFIP:

- Automobiles – Including dealer's stock (assembled or not)
- Bailee's Customer Goods – Including garment contractors, cleaners, shoe repair shops, processors of goods belonging to others, and similar risks
- Contents Located in a Structure Not Eligible for Building Coverage
- Contents Located in a Building Not Fully Walled and/or Contents Not Secured Against Flotation
- Motorcycles – Including dealer's stock (assembled or not)
- Motorized Equipment – Including dealer's stock (assembled or not)

POLICY EFFECTIVE DATE

Standard 30-Day Waiting Period

The effective date of a new policy will be 12:01 a.m., local time, on the 30th calendar day (30-day waiting period) after the application date and the presentment of premium. This includes new policies obtained when a lender determines that flood insurance is required for an existing loan on a building that does not have flood insurance.

Example: A policy applied for on May 3 will become effective 12:01 a.m., local time, on June 2.

Loan Transaction

Flood insurance that is initially purchased in connection with the making, increasing, extending, or renewal of a loan shall be effective at the time of loan closing (there is no waiting period), provided that the policy is applied for at or before closing.

Map Revision

Flood insurance initially purchased during the 13-month period beginning on the effective date of a map revision shall be effective 12:01 a.m., local time, the day after the date of application and the presentment of premium (1-day waiting period).

Residential Condominium Building Association Policy (RCBAP)

When a condominium association is purchasing a Residential Condominium Building Association Policy (RCBAP), the 30-day waiting period does not apply (no waiting period) if the condominium association is required to obtain flood insurance as part of the security for a loan under the name of the condominium association. The coverage is effective upon completion of an Application and presentment of premium.

COVERAGE

Limits of Coverage

Federal law dictates the maximum amount of flood insurance that can be purchased. These maximum amounts are known as the **statutory coverage limits**.

Coverage may be purchased subject to the limits available under the Program phase (Emergency or Regular) in which the community is participating. For example, as shown below under the Regular Program, the owner of a single-family home is eligible to purchase up to $250,000 of building coverage and up to $100,000 of contents coverage.

BUILDING COVERAGE	EMERGENCY PROGRAM	REGULAR PROGRAM		
		Basic Insurance Limits	Additional Insurance Limits	Total Insurance Limits
Single-Family Dwelling	$35,000	$60,0000	$190,000	$250,000
2-4 Family Dwelling	$35,000	$60,000	$190,000	$250,000
Other Residential Building	$100,000	$175,000	$325,000	$500,000
Non-Residential Building (including Business Buildings and Other Non-Residential Buildings	$100,000	$175,000	$325,000	$500,000
CONTENTS COVERAGE				
Residential Property	$10,000	$25,000	$75,000	$100,000
Non-Residential Business, Other Non-Residential Property	$100,000	$150,000	$350,000	$500,000

Purchasing more than one policy (duplicate policies) to obtain additional coverage is not allowed. If there is more than one policy with building coverage covering the same building, all but one of the policies must be canceled or endorsed to remove building coverage.

To determine the **amount of insurance required** for a dwelling immediately before the loss, do not include the value of:

- Footings, foundations, piers, or any other structures or devices that are below the undersurface of the lowest basement floor and support all or part of the dwelling;
- Those supports that are below the surface of the ground inside the foundation walls if there is no basement; and
- Excavations and underground flues, pipes, wiring, and drains.

The Coverage D—Increased Cost of Compliance limit of liability is not included in the determination of the amount of insurance required.

Deductibles

Deductibles apply separately to building coverage and to contents coverage, and can be different. The choices of deductibles vary based on the policy rating and the amount of coverage purchased.

For Residential 1-4 family homes, deductibles can be as low as $1,000 and as high as $10,000.

For Other Residential, Non-Residential Business, or Other Non-Residential Policies, deductibles can be as low as $1,000 and as high as $50,000.

The higher the deductible, the lower the premium.

The standard deductible for Preferred Risk Properties (PRPs) is $1,000 each for building and contents, applied separately. Optional deductibles are not available for Preferred Risk Properties (PRPs).

Increased Cost of Compliance

Increased Cost of Compliance (ICC) Coverage is also known as Coverage D. This coverage pays for the costs a property owner incurs to comply with a State or local floodplain management law or ordinance affecting repair or reconstruction of a structure suffering flood damage. The Standard Flood Insurance Policy (SFIP) comes with an ICC limit of $30,000.

Compliance activities eligible for payment are: elevation, flood-proofing, relocation, or demolition (or any combination of these activities) of the insured structure. Eligible flood-proofing activities are limited to non-residential structures and residential structures with basements that satisfy FEMA's standards published in the Code of Federal Regulations.

Reduction of Coverage or Reformation

If the premium payment received is not sufficient to purchase the amounts of insurance requested, the policy shall provide only such insurance as can be purchased for the entire term of the policy for the amount of premium received. If the rating information received is not sufficient to determine the correct premium amount, a claim may not be paid until complete rating information is received.

In all cases the property must be insured using the correct policy form before any claim payment may be made.

Loss Assessments

The Dwelling Form provides limited coverage for loss assessments against condominium unit owners for flood damage to common areas of any building owned by the condominium association. The RCBAP and General Property Forms do not provide loss assessment coverage.

Tenant's Coverage

The building owner must be named on the policy. If building coverage is purchased by a tenant due to a lease agreement, the tenant may also be named on the policy.

Coverage for contents owned by the tenant must be written on a separate policy in the name of the tenant only. Under the Dwelling Form and General Property Form, tenants may purchase contents coverage, which includes coverage for improvements and betterments.

The maximum amount payable for improvements and betterments in the building occupied by the insured is 10% of the contents limit of liability shown on the declarations page. Under the Dwelling Form and the General Property Form, such property includes improvements such as fixtures, alterations, installations, and additions that become part of the building.

Other Coverages

The **dwelling policy form** comes with these other coverages:

- Debris Removal -- (a) The policy pays the expense to remove non-owned debris that is on or in the insured property and debris of insured property anywhere; (b) If the insured or a member of the household performs the removal work, the value of the work will be based on the Federal minimum wage; (c) This coverage does not increase the Coverage A or Coverage B limit of liability.
- Loss Avoidance Measures -- The policy will pay (a) up to $1,000 for the costs incurred to protect the insured building from a flood or imminent danger of flood, for reasonable expenses such as sandbags, including sand to fill them; fill for temporary levees; pumps; and plastic sheeting and lumber used in connection with these items and the value of the work; and (b) up to $1,000 for the reasonable expenses to move insured property to a place other than the described location that contains the property in order to protect it from flood or the imminent danger of flood.

MISCELLANEOUS CONDITIONS

Policy Term

The policy term available is one year for both NFIP Direct business policies and policies written through WYO Companies.

Application Submission

Flood insurance applications and premium payments must be made promptly to the insurer. The date of receipt of premium by the insurer is determined by either the date received at its office or the date of certified mail. In the context of submission of applications, endorsements, and premiums to the insurer, the term "certified mail" includes the U.S. Postal Service and certain third-party delivery services.

Agents/producers are encouraged to submit flood insurance applications by certified mail. Certified mail ensures the earliest possible effective date if the Application and premium are received by the insurer more than 10 days from the application date. The date of certification becomes the date of receipt by the insurer.

Delivery of the Policy

The policy contract must be sent to the insured on new business or when changes are made to the policy form. The policy declarations page must be sent to the insured, agent/producer, and, if applicable, lender.

Evidence of Insurance

A copy of the Flood Insurance Application and premium payment, or a copy of the declarations page, is sufficient evidence of proof of purchase for new policies. The NFIP does not recognize binders. However, for informational purposes only, the NFIP recognizes certificates or evidences of flood insurance, and similar forms, provided for renewal policies if the following information is included:

- Policy Form/Type (GP, DP, RCBAP*, PRP)
- Policy Term
- Policy Number
- Insured's Name and Mailing Address
- Property Location
- Current Flood Risk Zone
- Rated Flood Risk Zone (zone used for rating, including when grandfathering or issuing coverage under the Newly Mapped procedure)
- Grandfathered: Y/N

- Mortgagee Name and Address
- Coverage Limits and Deductibles
- Annual Premium

* For an RCBAP, include the number of units and Replacement Cost Value (RCV) of the building.

Assignment

A building owner's flood insurance building policy may be assigned to a purchaser of the insured building with the written consent of the seller. The seller must sign the assignment endorsement on or before the closing date. If applicable, primary residency must be validated at the time of assignment. Failure to submit primary residency documentation will result in non-primary residence charges effective the assignment date.

Policies on buildings in the course of construction and policies insuring contents only may not be assigned.

Transfer of Business

When an agent/producer moves any or all of their existing books of business from one insurer to another, this is considered a transfer of business. The new insurer must collect all underwriting information required at the time of the transfer in order to verify the correct rating and issuance of the policy.
A declarations page usually does not provide all the required underwriting information.

The insurer must also obtain, either from the insured or the agent, the documentation required to verify the necessary information about the property and the flood insurance on the property.

Commissions (NFIP Direct Business)

This topic relates to agents'/producers' commissions for NFIP Direct Business only--not for Write Your Own (WYO).

The earned commission may be paid only to property or casualty insurance agents/producers duly licensed by a State insurance regulatory authority. It shall not be less than $10 and is computed for both new and renewal policies as follows: Based on the Total Amount Due (less the Reserve Fund Assessment, Probation Surcharge, HFIAA Surcharge, and Federal Policy Fee) for the policy term, the commission will be 15% of the first $2,000 of annualized premium and 5% on the excess of $2,000.

Contract Agent Rule

A “Contract Agent” is an employee of a WYO Company, or an agent/producer under written contract with a WYO Company, empowered to act on the company’s behalf and with authority to advise an applicant for flood insurance that the company will accept the risk. The effective date for a policy written through a Contract Agent has a waiting period that begins on the agent’s/producer’s or employee’s receipt of the premium and completion of the Application.

An agent/producer under written contract to a WYO Company is not a Contract Agent if the WYO Company reserves the right to reject the risk.

To establish a Contract Agent relationship acceptable to the NFIP, the WYO Company must include the stipulations above in its written contract with the agent/producer or employee.

Rebating of Commissions

This topic relates to Rebating of Agents’/Producers’ Commissions (NFIP Direct and WYO Companies).

Insurance rebating is a practice whereby insurance agents/producers return a portion of their commission as an incentive to applicants to purchase flood insurance. Insurers shall not allow any form of rebating or other form of compensation to applicants from commissions on new or renewal NFIP policies written with an effective date of October 1, 2012, or later.

Cancellations

Flood insurance coverage may be terminated mid-term or for a full term by either cancelling or nullifying the policy, only in accordance with a valid reason. If coverage is terminated, the insured may be entitled to a full or partial refund under applicable rules and regulations. In some instances, the insured might be ineligible for a refund.

There are 25 reasons for cancellation. A few of them are listed here:

- Building Sold or Removed, Destroyed or Physically Altered to no Longer Meet the Definition of an Eligible Building (TRRP Reason 01)
- Contents Sold or Removed or Destroyed (TRRP Reason 02)
- Policy Cancelled and Rewritten to Establish a Common Expiration Date with Other Insurance Coverage (TRRP Reason 03)
- Duplicate NFIP Policies (TRRP Reason 04)
- Non-Payment (TRRP Reason 05)
- Risk Not Eligible for Coverage (TRRP Reason 06)
- Property Closing Did Not Occur (TRRP Reason 08)

CLAIMS HANDLING

Claims Handbook

The U.S. Department of Homeland Security, Federal Emergency Management Agency (FEMA), created the Claims Handbook. It provides step-by-step guidance on the things an insured needs to know about filing a flood claim. The handbook also explains what to do when the insured is not satisfied with the result of a claim, including filing an appeal.

Many of the Claims Handbook details are shared in the remainder of this lesson.

Insured's Duties

After a flood loss, an insured under the National Flood Insurance Program (NFIP) should do these tasks immediately:

- Step 1 – Contact the insurance agent or company promptly to report the loss.
- Step 2 – File a notice of loss with the insurer.
- Step 3 – Separate the property. The policy requires separation of damaged property from undamaged property. Nothing should be discarded before an adjuster sees it, unless local law requires it to be discarded, or the damaged item presents a health hazard. In case property is discarded, photographs and/or samples should be taken before the items are disposed. Every effort should be made to protect undamaged property.
- Step 4 – Make a list of damaged personal property. Homeowners, renters, and businesses that purchased personal property coverage should make a list of damaged personal property and include any related details or documents. The following should be noted: (a) Quantity of each item; (b) Description; (c) Brand name; (d) Where each item was purchased; (e) Approximate age; (f) Purchase price of each item; (g) Model and serial number; and (h) The amount it will cost to replace the item with like kind and quality at current pricing.
- Step 5 – List areas of structural damage.

Adjuster Contact

Generally, the adjuster will contact the insured within one to two days after receiving the notice of loss. However, depending on local conditions and the severity of flooding, it could take longer. A date and time will be set up for the adjuster to view the property.

The insured may ask the adjuster for an advance or partial payment providing money to begin recovery before the insurer settles the full claim. The insured must work with the adjuster to obtain the information necessary to support the request. Then the insured will sign either a partial Proof of Loss or Advance Receipt when requesting an advance or partial payment. The request should not be for more than 50 percent of the anticipated total claim payment to avoid an overpayment on the claim, which the insured would be required to repay. If there is a mortgage on the property, the mortgage company must sign all checks covering structural losses that are received. The insurer issues the personal property loss advance payment check directly to the insured. The insurer reduces the amount of the final payment by deducting the amount of the advance or partial payment when settling the claim.

Assessing the Loss

The adjuster will take measurements and photos, and notes of the damage caused directly by the flood event during the initial visit to the property. This is called “scoping” a loss. The adjuster is an experienced claims professional trained to notice damage the insured may have overlooked. However, the insured should point out any damage that he or she has noticed. The adjuster will provide a contact telephone number and set expectations concerning the time needed to complete the damage estimate after completing the scoping process. The adjuster may need to make additional visits to the property if the damage is extensive.

Preparing a Detailed Estimate

The adjuster uses his or her understanding of the extent, type, and location of the damage along with knowledge gained from his or her visit(s) — including any documentation the insured provides — to complete a detailed estimate of the flood event-related damage. The insured will receive a copy of this estimate. It is important that the insured reviews the estimate and speaks with the adjuster concerning any questions about the estimate; or if items were omitted or require further review. The estimate serves as a guide when obtaining bids from licensed professional contractors for repair work.

Proof of Loss

The flood claim must be supported with a Proof of Loss detailing the information required by the flood insurance policy. The insured must submit a completed and signed Proof of Loss with all supporting documentation to the insurance company within 60 days of the loss. (After a severe flood, FEMA may authorize Proof of Loss extensions. FEMA notifies the insurance company if this is the case.)

The Proof of Loss includes a detailed estimate of the cost to replace or repair the damaged property. In most cases, the adjuster provides the insured with a suggested Proof of Loss. It is the insured's responsibility to make sure the Proof of Loss is complete, accurate, and filed in a timely manner to meet the requirements of the policy.

The insured should keep a copy of the Proof of Loss and copies of all supporting documentation for his or her records.

Loss Settlement

The value of flood damage covered under the Dwelling Form is based on either Replacement Cost Value or Actual Cash Value.

Replacement Cost Value (RCV) is the cost, without depreciation, to replace that part of a building that is damaged. To be eligible, three conditions must be met:

1. The building must be a single-family dwelling; and
2. The building must be the insured's principal residence at the time of loss, meaning he or she lives there at least 80 percent of the year; and
3. The building coverage is at least 80 percent of the full replacement cost of the building, or is the maximum available for the property under the NFIP.

Actual Cash Value (ACV) is Replacement Cost Value at the time of loss, less the value of its physical depreciation. Some building items such as appliances and carpeting are always adjusted on an ACV basis. For example, wall-to-wall carpeting could lose from 10 to 14 percent of its value each year, depending on the quality of the carpeting. This depreciation would be factored into the adjustment. Personal property is always valued at ACV.

The Residential Condominium Building Association Policy Form (RCBAP) contains a coinsurance clause, which provides for a pro-rata reduction in the building claim payment if the building is not insured to 80 percent of its replacement value.

Payment of Claims

The claim is payable after the insured and insurer agree on the claim’s damage payment amount and the insurer receives the insured's complete, accurate, and signed Proof of Loss.

The claim payment includes the names of anyone with a legal interest in the property. Payments for the building property covering structural flood losses will include the name of the company (or companies) or individuals holding the mortgage, if there is a mortgage lien on the property. The insured must send the check to the mortgagee(s) for endorsement before depositing the check. Each mortgage company handles claim payments differently and the insured should contact the mortgage company as soon as possible to confirm their payment process. The insurer will issue payment for personal property in the name of the policyholder unless the insured financed the personal property through a Small Business Administration (SBA) loan or a financial institution.

Request for Additional Payment

If, after submitting the claim and Proof of Loss, the insured notices additional damage to the building structure or to the insured personal property inside it, he or she may file a request for an Additional Flood Payment. This means the insured must repeat the documentation and filing process, including a Proof of Loss for the newly discovered damage. This must be completed within the 60-day limit or within extensions of time granted by FEMA. The insurance carrier may contact FEMA to directly accept a claim in the event the insured makes an additional claim after the time limitation.

ICC Claims

ICC is Increased Cost of Compliance.

Flood policies do not cover compliance with building codes except as provided for by an ICC claim. The insured may be eligible to file an ICC claim if the home or business sustains flood damage that the local community determines is equal to or greater than 50 percent of the value of the property, or if flood has repeatedly damaged the property in the past ten years.

ICC coverage is part of the standard flood insurance policy and provides up to $30,000 to help cover the cost of eligible mitigation measures to reduce flood risk, including elevation, demolition, and structure relocation (or any combination of these). Floodproofing is available for non-residential structures and residential structures with basements that meet certain requirements. A flood policy will not pay more than the maximum amount permitted under the National Flood Insurance Act of 1968, and any amendments to it - $250,000 for residential and $500,000 for commercial properties. Therefore, if the insured received payment for the maximum permitted amount, he or she is not able to receive the $30,000 ICC limit.

Appeals Process

The insured has a right to file an appeal with FEMA if he or she disagrees with the claim denial after receiving a letter from the insurer denying all or part of the claim. During the appeal process, the insured may continue working with the flood insurer to resolve any outstanding issues. The insured must submit a written letter of appeal to FEMA within 60 days of the date on the denial letter from the flood insurer.

The Named Insured (as it appears on the NFIP policy) or legal representative should submit the appeal. The representative should clearly identify his/her relationship to the Named Insured.

The following information should be included in the appeal:

- Policy number;
- Policyholder name(s);
- Property address;
- Contact information;
- Copy of the insurer's written denial of all or part of the claim;
- Specific details about the concern; and
- Documentation of everything that supports the elements of the appeal.

FLOOD INSURANCE LEGISLATION

Flood Insurance Reform Act of 2004

The Flood Insurance Reform Act of 2004 required FEMA to develop supplemental forms to be issued in conjunction with the issuance of a flood insurance policy that set forth, in simple terms the following:

- the exact coverages being purchased by a policyholder;
- any exclusions from coverage that apply to the coverages purchased;
- an explanation, including illustrations, of how lost items and damages will be valued under the policy at the time of loss;
- the number and dollar value of claims filed under a flood insurance policy over the life of the property, and the effect, under the National Flood Insurance Act of 1968 of the filing of any further claims under a flood insurance policy with respect to that property; and
- any other information that FEMA determines will be helpful to policyholders in understanding flood insurance coverage.

The law requires the above forms be given to:

- all holders of a flood insurance policy at the time of purchase and renewal; and
- insurance companies and agents that are authorized to sell flood insurance policies.

The law also required FEMA to develop an acknowledgement form to be signed by the purchaser of a flood insurance policy that contains the following:

- an acknowledgement that the purchaser has received a copy of the standard flood insurance policy, and any forms developed as listed above; and
- an acknowledgement that the purchaser has been told that the contents of a property or dwelling are not covered under the terms of the standard flood insurance policy, and that the policyholder has the option to purchase additional coverage for such contents.

Copies of an acknowledgement form shall be made available to the purchaser and the Director.

NFIP Debt

According to www.gao.gov, the NFIP has had to borrow from the Department of the Treasury to pay claims from major natural disasters. Most notably, FEMA borrowed:

- $17.5 billion for claims related to Hurricanes Katrina, Rita, and Wilma in 2005;
- $6.25 billion for claims related to Superstorm Sandy in 2012; and
- $1.6 billion for claims related to a series of floods in 2016.

As of March 2017, FEMA's debt stood at $24.6 billion, but later that year, Hurricanes Harvey, Irma, and Maria produced policyholder claims that FEMA would be unable to pay before reaching its borrowing limit. In October 2017, the Additional Supplemental Appropriations for Disaster Relief Requirements Act canceled $16 billion of NFIP's debt to enable FEMA to pay these claims.

Despite all this debt forgiveness, as of February 2018, FEMA's debt stood at $20.5 billion.

Recent Legislation

The National Flood Insurance Program (NFIP) has undergone some changes in recent years due to two important federal laws:

- Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters); and
- Homeowner Flood Insurance Affordability Act of 2014.

The 2014 law repealed or modifies some provisions of Biggert-Waters. However, it maintains the requirement that flood insurance rates for business properties in high-risk areas reflect true risk. This means that the subsidized rates that previously applied to some older business buildings will continue to be phased out.

Some of the initiatives of these laws are explained on the following topics.

Phasing Out of Subsidies

A flood zone is a geographical area shown on a Flood Hazard Boundary Map or a Flood Insurance Rate Map (FIRM) that reflects the severity or type of flooding in the area. Prior to Biggert-Waters, many older business buildings in Special Flood Hazard Areas and Zone D, constructed before the effective date of the community's first FIRM and never substantially damaged or improved, were eligible for subsidized rates. On October 1, 2013, the subsidized rates for these pre-FIRM buildings began to phase out. At renewal, nonresidential policyholders received a 25 percent rate increase. As required by both the 2012 and 2014 laws, the 25 percent rate increases are set to continue until rates reflect the property's true risk.

However, a provision of the 2014 law temporarily slowed that rate of increase. Currently, business properties and other non-residential buildings such as schools, churches, hospitals, and apartment buildings are included within a single non-residential policy rating class. The 2014 law caps increases for these other buildings at 18 percent a year. Until FEMA determines how best to identify and separately classify businesses, all non-residential properties—including businesses—will receive no more than an 18 percent annual increase.

Refunds

Biggert-Waters required an immediate move to full-risk rates when a pre-FIRM building that had been eligible for subsidized rates was sold or purchased, when a policy was issued for the first time on a pre-FIRM building, or when a pre-FIRM-rated policy was reissued after being allowed to lapse. The new law reinstates subsidized rates under these conditions, and calls for refunds of the difference between the subsidized rates and the higher, full-risk rates that policyholders first paid. The new 18 percent cap on increases for non-residential policies will also result in refunds for some policyholders who experienced a 25 percent increase.

Surcharges

A Congressionally mandated surcharge has been added to all policies to offset the subsidized policies and achieve the financial sustainability goals of Biggert-Waters. A policy for a business property includes a $250 surcharge. The fee is included each year on all policies, including full-risk-rated policies and those in moderate- to low-risk areas, until all pre-FIRM subsidies are eliminated. The surcharge is not considered part of the premium and is not included in the annual caps on premium increases.

SEVERE REPETITIVE LOSS

Definition

Severe repetitive loss (SRL) properties are properties that impose a significant drain on the National Flood Insurance Program (NFIP).

FEMA defines an SRL property as a residential property:

- That has at least four NFIP claim payments over $5,000 each, when at least two such claims have occurred within any ten-year period, and the cumulative amount of such claim payments exceeds $20,000; or
- For which at least two separate claims payments have been made with the cumulative amount of the building portion of such claims exceeding the value of the property, when two such claims have occurred within any ten-year period.

The Problem

According to NFIP data:

- Nearly all of the severe repetitive loss (SRL) properties are concentrated in 13 states with large populations near the ocean or a major river: Louisiana, New Jersey, New York, Massachusetts, Maryland, Virginia, North Carolina, Florida, Texas, Alabama, Mississippi, Missouri, and Illinois.
- There are currently about 11,000 severe repetitive loss (SRL) properties in the nation that have flood insurance through the NFIP.
- Some of these SRL properties have been flooded dozens of times, and each time the NFIP has paid to repair the damage.
- In numerous cases, the NFIP has paid multiple losses for a specific home totaling several times more than the value of the home itself.
- Even though the 11,000 SRL properties represent a very small fraction of the approximately 5,000,000 properties insured by the NFIP, they account for approximately 30% of the flood claims.

Future Projections

Due to rising ocean levels and construction along coastal areas--the number of severe repetitive loss (SRL) properties is expected to rise significantly.

According to a 2018 press release by the Union of Concerned Scientists, tidal flooding is expected to worsen in the next 30 years, "putting as many as 311,000 coastal homes with a collective market value of about $117.5 billion today at risk of chronic flooding."

In 2017 the National Oceanic and Atmospheric Administration (NOAA) released a projection stating, that by 2100, the Atlantic Ocean along the East Cost of the U.S. could rise by as much as 9.8 feet.

POTENTIAL REFORM ACTIONS

GAO Reform Areas

Considering the grave financial status of the NFIP, in 2017 the U.S. Government Accountability Office (GAO) released a study identifying ways to improve NFIP solvency and enhance national resilience to floods.

The GAO report states that Congress should consider comprehensive flood reform covering six areas: (1) outstanding debt, (2) premium rates, (3) affordability, (4) consumer participation, (5) barriers to private-sector involvement, and (6) NFIP flood resilience efforts.

These six reform areas are explained next.

Outstanding Debt

As stated previously:

- In October 2017, the Additional Supplemental Appropriations for Disaster Relief Requirements Act canceled $16 billion of NFIP's debt to enable FEMA to pay claims.
- Despite the $16 billion bailout in 2017, as of February 2018, FEMA's debt stood at $20.5 billion.

FEMA is unlikely to collect enough in premiums to repay this debt. Eliminating the debt could reduce the need to raise rates to pay interest and principal on existing debt. However, additional premiums still would be needed to reduce the likelihood of future borrowing in the long term. Raising premium rates could create affordability issues for some property owners and discourage them from purchasing flood insurance, and would require other potential actions to help mitigate these challenges.

Premium Rates

NFIP premiums do not reflect the full risk of loss, which increases the federal fiscal exposure created by the program, obscures that exposure from Congress and taxpayers, contributes to policyholder misconception of flood risk (they may not fully understand the risk of flooding), and discourages private insurers from selling flood insurance (they cannot compete on rates).

Eliminating rate subsidies by requiring all rates to reflect the full risk of loss would address an underlying cause of NFIP's debt and minimize federal fiscal exposure. It also would improve policyholder understanding of flood risk and encourage private-sector involvement. However, raising rates makes policies less affordable and could reduce consumer participation. The decreases in affordability could be offset by other actions such as providing means-based assistance.

Affordability

Addressing the affordability issues that some consumers currently face, or might face if premium rates were raised, could help ensure more consumers purchase insurance to protect themselves from flood losses. GAO previously recommended that any affordability assistance should be funded with a federal appropriation (rather than through discounted premiums) and should be means-tested. Means-testing the assistance could help control potential costs to the federal government, and funding with an appropriation would increase transparency of the federal fiscal exposure to Congress.

Many industry and non-industry stakeholders with whom GAO spoke said affordability assistance should focus on helping to pay for mitigation—such as elevating buildings—because mitigation permanently reduces flood risk (thus reducing premium rates). Mitigation efforts can have high up-front costs, and may not be feasible in all cases, but many stakeholders suggested that federal loans could be used to spread consumer costs over time.

Consumer Participation

According to many industry and non-industry stakeholders with whom GAO spoke, some consumers might not purchase flood insurance because they misunderstand their flood risk. For example, consumers located outside of the highest-risk areas, who are not required to purchase flood insurance, may mistakenly believe they are not at risk of flood loss. Consumers also may choose not to purchase flood insurance because they overestimate the adequacy of federal assistance they would expect to receive after a disaster.

Expanding the mandatory purchase requirement beyond properties in the highest-risk areas is one option for encouraging consumer participation in flood insurance. However, doing so could face public resistance and create affordability challenges for some, highlighting the importance of an accompanying affordability assistance program. Increasing consumer participation could help ensure more consumers would be better protected from the financial risk of flooding.

Other Barriers

Industry and non-industry stakeholders with whom GAO spoke cited regulatory uncertainty and lack of data as barriers to their ability to sell flood insurance, in addition to the less than full-risk rates charged by FEMA. For example, some industry and non-industry stakeholders told GAO that while lenders must enforce requirements that certain mortgages have flood insurance, some lenders are uncertain whether private policies meet the requirements. Clarifying the types of policies and coverage that would do so could reduce this uncertainty and encourage the use of private flood insurance.

In addition, some stakeholders said that access to NFIP claims data by the insurance industry could allow private insurers to better estimate losses and price policies. FEMA officials said they would need to address privacy concerns to provide such information but have been exploring ways to facilitate more data sharing.

NFIP Flood Resilience Efforts

Some industry and non-industry stakeholders told GAO that greater involvement by private insurers could reduce funding available for some NFIP flood resilience efforts (mitigation, mapping, and community participation). For example, some of these stakeholders said that as the number of NFIP policies decreased, the policy fees FEMA used to help fund mitigation and flood-mapping activities also would decrease.

Potential actions to offset such a decrease could include appropriating funds for these activities or adding a fee to private policies. This would allow NFIP flood resilience efforts to continue at their current levels as private-sector involvement increased.