U.S. Department of Homeland Security
500 C Street, SW
Washington, D.C. 20472

National Flood Insurance Program

Policy Issuance 1-2006

SUBJECT: Re-Rating of Substantially Damaged Buildings

Background: The National Flood Insurance Program (NFIP) rules require that buildings newly constructed or substantially improved after December 31, 1974, or on or after the effective date of a community's initial Flood Insurance Rate Map (FIRM), whichever is later, no longer be rated using the "chargeable" or subsidized premium rates. They must be actuarially rated using the information provided on the FIRM. The NFIP floodplain management regulations require that the lowest floor of all newly constructed and substantially improved buildings in a community's Special Flood Hazard Area be elevated or floodproofed to or above the base flood elevation.

A "substantial improvement" of a building means any repair, reconstruction, addition, or other improvement of a structure, the cost of which equals or exceeds 50 percent of the market value of the structure before the start of construction of the improvement and includes structures which have incurred "substantial damage" regardless of the actual repair work performed. The term "substantial damage" means damage of any origin sustained by a structure whereby the cost of restoring the structure to its before-damaged condition would equal or exceed 50 percent of the market value of the structure before the damage occurred.

At issue is whether a writing company must classify a building as substantially improved when it is declared substantially damaged by a community official and the building has not yet been repaired. Classifying the building as substantially improved requires that it be rated using the current FIRM and may require a new Elevation Certificate to properly rate the risk.

Policy Decision: In the aftermath of Hurricanes Katrina and Rita, many insured buildings were found to have been substantially damaged, but because of the devastation to their communities, building owners have not been able to make repairs. FEMA understands that requiring the writing company and the NFIP Servicing Agent to re-rate these substantially damaged buildings, before they can be repaired, may significantly increase their flood insurance premiums even though the risk has not changed. For this reason, FEMA is authorizing the writing company and the NFIP Servicing Agent to allow the renewal of these policies using the proper rating prior to the loss.

To ensure that these policies are re-rated when the actual repair is complete, the writing company must inform the insured, agent, and mortgagee, in writing, that the writing company and the NFIP Servicing Agent must be notified when the building has been repaired. The company and the NFIP Servicing Agent must have a procedure in-place to review the policy annually to determine if the repair or reconstruction is complete, before sending out the renewal offer. When the company is made aware of the completed repair, they must re-rate the policy upon discovery. In addition, the company can use their internal procedures when additional information is missing to complete the re-rating.

In cases where the agent/insured indicates on the flood application or change endorsement form that the building has been substantially improved, the writing company and the NFIP Servicing Agent must use the information provided to rate the policy without written confirmation from the community. If the information is submitted through endorsement, the policy is re-rated using the effective date shown on the endorsement request. In the event that the insured decides to change the construction date to Pre-FIRM at a later date, the insurer must request proof to support the insured's request. A statement from the local community official may be used to resolve this issue.

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Date

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