GUIDANCE FOR SEVERE REPETITIVE LOSS PROPERTIES

I. GENERAL DESCRIPTION

The primary objective of the severe repetitive loss (SRL) properties strategy is to eliminate or reduce the damage to property and the disruption to life caused by repeated flooding. Approximately 8,300 insured properties have been identified with a high frequency of losses or a high value of claims. As these policies come up for renewal, they should be transferred to the NFIP Servicing Agent's Special Direct Facility (SDF).

The close supervision the SDF provides the group of policies and the attention the group of properties receives when mitigation decisions are made contribute to attaining the strategy's primary objective. The SRL group consists of any NFIP insured property that has met at least one of the following paid flood loss criteria since 1978, regardless of ownership:

1. Four or more separate claim payments of more than $5,000 each (including building and contents payments); or
2. Two or more separate claim payments (building payments only) where the total of the payments exceeds the current market value of the property.

In either case, two of the claim payments must have occurred within 10 years of each other. Multiple losses at the same location within 10 *days* of each other are counted as one loss, with the payment amounts added together.

The loss history includes all ownership of the property since 1978 or since the building's construction if built after 1978.

Severe repetitive loss properties with renewal dates of January 1, 2007, and later will be afforded coverage (new business or renewal) only through the SDF.

The agent of record will remain in that capacity while the policy is in the SDF. The NFIP Servicing Agent will pay the agent of record the standard 15 percent commission that is paid on all NFIP Direct business.

II. NOTIFICATION REQUIREMENTS

Policies that renew on or after January 1, 2007, and meet the criteria for severe repetitive loss will be transferred to the SDF for policy issuance. Any policy that meets the SRL criteria during the current term will be transferred to the SDF with the subsequent renewal. As appeals are successful and FEMA or its designee approves properties for mitigation, policies will be transferred out of the SDF.

When policies are to be transferred to the SDF, the NFIP Bureau and Statistical Agent will notify WYO companies and the NFIP Servicing Agent at least 150 days prior to the expiration date. The companies will notify the affected policyholders, their agents, and their lenders 90 days before expiration of the policy. This notice will explain that the policies are ineligible for coverage outside of the SDF. (See agent, lender, and policyholder notification letters, pages SRL 3-8) Offers to renew will be issued by the SDF approximately 45 days prior to the expiration date.

Policies with effective dates on or after November 1, 2006, that are currently written through the SDF as part of the Repetitive Loss Target Group program, but do not match the loss characteristics of the SRL group, will be identified by the NFIP Bureau and Statistical Agent and the SDF. The SDF will notify the policyholder, agent, and lender at least 90 days prior to the renewal date informing them that the flood insurance policy must be issued through a WYO company or the NFIP Servicing Agent.

III. DISPUTE RESOLUTION

When a policyholder has documentation that the NFIP-insured property has not sustained the losses reported by the NFIP Bureau and Statistical Agent, an appeal may be presented, *in writing*, to the SDF. All documentation to substantiate the appeal must be included with the appeal letter. The policy will remain in the SDF until the appeal is settled.

The policyholder and agent will be notified of the results of the appeal. If the policyholder's appeal is successful, the SDF policy will be canceled and the full premium will be returned to the former carrier. The carrier will write the policy using the SDF's effective dates. If, however, a loss occurs both in the current term and before the policy can be returned to the former carrier, the SDF will continue to service the claim and will return the policy at the next renewal cycle.

IV. MITIGATION

Outside of the appeal process, when mitigation efforts (other than buyout or demolition) such as elevation, relocation, or other approved mitigation efforts are approved by FEMA, the property will be removed from the SDF and the target group at the next renewal.

If the property is bought out or demolished under an approved FEMA mitigation project, and the efforts for the specific property are FEMA approved, the policy will be canceled and the pro-rata premium (less Federal Policy Fee and, if applicable, Probation Surcharge) will be refunded. When a property is bought out or demolished, any commission chargeback to the agent will be forgiven.

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

FEMA

IMPORTANT FLOOD INSURANCE POLICY INFORMATION

Insured's Name:

Property Address:

Policy Number:

Dear Agent:

As you may be aware, your client's property, which is covered by flood insurance, has experienced repetitive flood losses under FEMA's National Flood Insurance Program (NFIP). This letter is to inform you that your client's property meets the criteria for a new subset of repetitive loss structures: insured properties with a high frequency of losses or a high value of claims. These properties are designated Severe Repetitive Loss (SRL) properties.

Congress recognized that SRL properties represent the greatest risk of sustaining repeated flood losses and, through the Flood Insurance Reform Act of 2004 (FIRA 2004), made it a top priority to reduce the number of SRL properties nationwide. As of March 2006, FEMA has identified approximately 8,300 properties that meet the standard for SRL. The loss characteristics of an SRL property must meet one of the following criteria based on paid flood losses since 1978, regardless of ownership:

(1) Four or more separate claim payments of more than $5,000 each (building and/or contents payments); or

(2) Two or more separate claim payments (building payments only) where the total of the payments exceeds the current market value of the property.

In either case, two of the claim payments must have occurred within 10 years of each other. If there are multiple losses at the same location within 10 days of each other, they are counted as one loss, with the payment amounts added collectively.

The strategy for reducing the number of SRL properties is twofold: First, the NFIP has centralized the processing of all flood insurance policies of SRL properties in order for FEMA to obtain additional underwriting information, verify loss information, and collect information about the flood risk to the SRL properties. Second, FEMA is implementing a new mitigation grant program authorized by FIRA 2004 to mitigate SRL properties. You need to be aware of the following:

- The Write Your Own (WYO) Insurance Companies that sell and service flood insurance under the NFIP will assign flood insurance policies for SRL properties, upon renewal, to a centralized processing center operated by the NFIP's Servicing Agent. This center is the Special Direct Facility (SDF).

- As a result, your client's policy will not be processed by the chosen WYO Company or by the traditional NFIP Direct Program. You will, however, continue to be the agent of record throughout the process. While the policy remains in the SDF, you will receive the same 15 percent commission that the NFIP Direct agents are given.

- Approximately 45 days prior to the renewal date of the policy, your client will receive a premium bill from the NFIP Servicing Agent. **This bill is the only bill that should be paid by your client.**

- For the time being, the SDF will be the only source for NFIP flood insurance coverage for your client's property. As always, the full premium amount and any related fees should be paid by the date indicated. The policy sent to your client will meet all the requirements of any mortgage company to the same extent as the current policy.

- You should encourage your client to continue to contact you directly for any service needs on the policy because you will remain the agent of record.

- The NFIP provides a procedure for your client to follow if he or she believes that FEMA has incorrectly included his or her insured property on its list of SRL properties.

The new mitigation grant program authorized by FIRA 2004 may provide Federal grant funds to pay for up to 75 percent (up to 90 percent if certain state mitigation floodplain requirements are met) of the cost of eligible mitigation activities, such as elevating your client's NFIP-insured structure. Mitigated properties may qualify for reduced flood insurance rates. You should encourage your client to obtain additional information and refer them to the appropriate local floodplain manager or state hazard mitigation official.

FEMA's goal is to reduce the devastating effects of repetitive flood losses. If you have questions about this letter and the SRL procedures, please contact the NFIP Help Center by telephone at the toll-free number 1-866-395-7496.

Sincerely,

David I. Maurstad
Director
Mitigation Division

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

FEMA

IMPORTANT FLOOD INSURANCE POLICY INFORMATION

Insured's Name:

Property Address:

Policy Number:

Dear Lender:

As you may be aware, your client's property, which is covered by flood insurance, has experienced repetitive flood losses under FEMA's National Flood Insurance Program (NFIP). This letter is to inform you that your client's property meets the criteria for a new subset of repetitive loss structures: insured properties with a high frequency of losses or a high value of claims. These properties are designated Severe Repetitive Loss (SRL) properties.

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- The Write Your Own (WYO) Insurance Companies that sell and service flood insurance under the NFIP will assign flood insurance policies for SRL properties, upon renewal, to a centralized processing center operated by the NFIP's Servicing Agent. This center is the Special Direct Facility (SDF).

- As a result, your client's policy will not be processed by the chosen WYO Company or by the traditional NFIP Direct Program.

- Approximately 45 days prior to the renewal date of the policy, your client will receive a premium bill from the NFIP Servicing Agent. **This bill is the only bill that should be paid by your client.**

- For the time being, the SDF will be the only source for NFIP flood insurance coverage for your client's property. As always, the full premium amount and any related fees should be paid by the date indicated. The policy sent to your client will meet all the requirements of any mortgage company to the same extent as the current policy.

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Director
Mitigation Division

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

FEMA

IMPORTANT FLOOD INSURANCE POLICY INFORMATION

Insured's Name:

Property Address:

Policy Number:

Dear Policyholder:

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