



FEMA

## **National Flood Insurance Program Underwriting Bulletin Effective October 1, 2004**

**Subject: Conversion of a Standard Rated Policy to a Preferred Risk Policy Due to a Map Revision or Letter of Map Amendment/Letter of Map Revision**

**Background:** NFIP rules allow a standard rated policy to be rewritten to a Preferred Risk Policy (PRP), with a premium refund for the current year, as long as the building was eligible for the PRP at the beginning of the current policy term. If the building becomes eligible for a PRP mid-term, due to a map revision or Letter of Map Amendment/Letter of Map Revision (LOMA/LOMR), the standard rated policy cannot be rewritten to a PRP until the next renewal. Policyholders in such circumstances, who are no longer required to carry flood insurance by their mortgagees, are likely to cancel their standard rated policies to obtain a full premium refund rather than endorse to a B, C, or X zone, where depending on how the policy is rated, may or may not receive a premium refund.

The Institute for Business and Home Safety (IBHS) Flood Committee, the WYO Marketing Committee, and the Flood Insurance Servicing Companies Association of America (FISCAA) have requested that we revise the current NFIP rules that will allow the writing company to offer the insured the option to cancel and rewrite the standard rated policy to a PRP with the same effective date, and to allow the use of the premium previously paid on the standard rated policy to rewrite the PRP. They feel that this approach will encourage many property owners to retain their flood policies and continue their coverage without a lapse. They also pointed out that this suggested rule change could help attain the program's goal of increasing the NFIP policies by five percent.

FEMA also received a request from California's Sacramento Area Flood Control Agency (SAFCA) informing us that an upcoming map revision in Sacramento communities may result in removing approximately 50,000 structures from the SFHA. They are concerned that these property owners may choose to cancel their policies mid-term if the cancel/rewrite to a PRP option is not available. SAFCA is planning to launch their flood insurance outreach campaign regarding this option if the rule change is implemented by the NFIP.

**Decision:** FEMA understands the challenge of encouraging property owners to purchase or maintain their flood insurance when their buildings are removed from the SFHA due to a map revision or LOMA/LOMR. Therefore, effective October 1, 2004, the WYO companies and the NFIP Direct Servicing Agent will be allowed to convert the existing standard rated policy to a PRP, with the same effective date, due to a map revision or LOMA/LOMR. The premium previously paid on the standard rated policy will be used to rewrite the PRP with any excess premium refunded

following the issuance of the new PRP. This rule applies to the current policy year and one prior year provided that the effective date of the map revision or LOMA/LOMR occurred during the prior year. The current cancel/rewrite procedure applies in determining the eligibility, documentation requirement, coverage, TRRP reporting, and agent's commission (Direct Business) and expense allowance adjustment as outlined in the PRP and Cancellation Sections of the Flood Insurance Manual.

In order for policyholders to be able to take advantage of this new rule, we are requiring the writing company to revise their cancellation processing procedures to ensure that this option is offered to policyholders before processing their cancellation request. A form must be developed and sent to qualifying policyholders explaining the option of converting the standard rated policy to a PRP. The policyholders must make their selection on the form and sign, whether to rewrite it or cancel it, and return this to the company. If the form is not returned within 30 days the policy will be cancelled.

We recognize that this is an additional effort on the part of the companies to implement this new processing requirement by October 1, 2004. However, because of the Sacramento, California, re-mapping, which is scheduled before the end of this year, it is important that we make this option available as soon as possible.

If you have any questions concerning this Underwriting Bulletin, please contact your Program Coordinator. As necessary, we will provide supplementary guidance to all companies based on questions that are received. Once again, your cooperation and assistance in carrying out this requirement is appreciated.

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Date



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