



FEMA

July 29, 2005

W-05033

MEMORANDUM FOR: Write Your Own (WYO) Company Principal Coordinators
NFIP Servicing Agent

FROM:

David I. Maurstad
David I. Maurstad
Acting Director
Mitigation Division
Emergency Preparedness
and Response Directorate

SUBJECT: Implementation of the Flood Insurance Reform Act of 2004

As a follow up to my memo of May 19, 2005, regarding the Flood Insurance Reform Act of 2004 (FIRA), enclosed are the documents for your printing and distribution to policyholders on and after October 1, 2005.

- Summary of Coverage
- Cover document

Also attached is my response to Patty Templeton-Jones, Chair, Institute for Business and Home Safety Flood Committee. It provides direction applicable to all WYO companies.

I appreciate the input received from many insurance industry representatives as we worked to fulfill the intent of Congress. I believe National Flood Insurance Program (NFIP) policyholders will benefit from the new descriptions of coverage and claims procedures.

If you have questions, please contact your Program Coordinator.

IMPORTANT INFORMATION ABOUT THE NATIONAL FLOOD INSURANCE PROGRAM

Federal law requires insurance companies that participate in the National Flood Insurance Program to provide you with the enclosed Summary of Coverage. It's important to understand that the Summary of Coverage provides only a general overview of the coverage afforded under your policy. You will need to review your flood insurance policy, Declarations Page, and any applicable endorsements for a complete description of your coverage. The enclosed Declarations Page indicates the coverage you purchased, your policy limits, and the amount of your deductible.

You will soon receive additional information about the National Flood Insurance Program. This information will include a Claims Handbook, a history of flood losses that have occurred on your property, as contained in FEMA's data base, and an acknowledgement letter.

If you have any questions about your flood insurance policy, please contact your agent or insurance company [which ever is applicable, to be supplied by the WYO company]

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This document was prepared by the National Flood Insurance Program (NFIP) to help you understand your flood insurance policy. It provides general information about deductibles, what is and is not covered by flood insurance, and how items are valued at time of loss.

This document is based on the Standard Flood Insurance Policy Dwelling Form, which is used to insure one to four family residential buildings and single family dwelling units in a condominium building. There are two other policy forms:

- The General Property Form is used to insure five or more family residential buildings and non-residential buildings.
- The Residential Condominium Building Association Policy Form is used to insure residential condominium association buildings.

While the three forms are similar in many ways, there are differences as well. For example, the General Property Form does not provide coverage for contents in any building other than the insured building, and the Residential Condominium Building Association Policy Form 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.

Two Types of Flood Insurance Coverage

The NFIP's Dwelling Form offers coverage for: **1. Building Property**, up to \$250,000, and **2. Personal Property (Contents)**, up to \$100,000. The NFIP encourages people to purchase both types of coverage. Your mortgage company can require that you purchase a certain amount of flood insurance coverage.

For information about your specific limits of coverage and deductibles, refer to the Declarations Page in your flood insurance policy. It's also a good idea to review your policy with your insurance agent or company representative.

What is a Flood?

Flood insurance covers direct physical loss caused by "flood." In simple terms, a flood is an excess of water on land that is normally dry. Here's the official definition used by the National Flood Insurance Program.

A flood is "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:

- Overflow of inland or tidal waters;
- Unusual and rapid accumulation or runoff of surface waters from any source;
- 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 as defined above."

*Mudflow is defined as "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..."

Three Important Facts About Your Flood Policy

A Standard Flood Insurance Policy is a single-peril (flood) policy that pays for direct physical damage to your insured property up to the replacement cost or Actual Cash Value (ACV) (See "How Flood Damages Are Valued") of the actual damages or the policy limit of liability, whichever is less.

1. Contents coverage must be purchased separately.

2. It is not a valued policy. A valued policy pays the limit of liability in the event of a total loss. For example: Your home is totally destroyed by a fire and it costs \$150,000 to rebuild. If your homeowners insurance policy is a valued policy with a \$200,000 limit of liability on the building, you would receive \$200,000. Flood insurance pays just the replacement cost or ACV of actual damages, up to the policy limit.

3. It is not a guaranteed replacement cost policy.

A guaranteed replacement cost policy pays the cost to rebuild your home regardless of the limit of liability. For example: Your home is totally destroyed by a fire and it costs \$200,000 to rebuild. If your homeowners insurance policy is a guaranteed replacement cost policy with a \$150,000 limit of liability on the building, you would receive \$200,000. Flood insurance does not pay more than the policy limit.

Choosing Deductibles

Choosing the amount of your deductibles is an important decision. As with car or homeowners insurance, choosing a higher deductible will lower the premium you pay, but will also reduce your claim payment.

You can normally choose different deductibles for Building Property and Personal Property coverage. The deductibles will apply separately to Building Property and Personal Property claims. Your mortgage company can require that your deductible is no more than a certain amount.

Review the Declarations Page in your flood insurance policy for amounts of coverage and deductibles. Talk with your insurance agent, company representative, or lender about raising or lowering deductibles.

Reminder: Keep Your Receipts

While you are not expected to keep receipts for every household item and article of clothing, do try to keep receipts for electronic equipment, wall-to-wall carpeting, major appliances, and other higher cost items. Your adjuster will be able to process your claim more quickly when you can prove how much items cost at the time of purchase.

What is Covered by Flood Insurance – and What's Not

Generally, physical damage to your building or personal property “directly” caused by a flood is covered by your flood insurance policy. For example, damages caused by a sewer backup are covered if the backup is a direct result of flooding. However, if the backup is caused by some other problem, the damages are not covered.

The following charts provide general guidance on items covered and not covered by flood insurance. Refer to your policy for the complete list.

General Guidance on Flood Insurance Coverage

What is insured under Building Property coverage

- 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.
- Detached garages (up to 10 percent of Building Property coverage). Detached buildings (other than garages) require a separate Building Property policy.
- Debris removal.

What is insured under Personal Property coverage

- 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 (see above).
- Clothes washers and dryers.
- Food freezers and the food in them.
- Certain valuable items such as original artwork and furs (up to \$2,500).

What is not insured by either Building Property or Personal Property coverage

- 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 (see Section IV.5 in your policy).

General Guidance on Flood Insurance Coverage Limitations In Areas Below the Lowest Elevated Floor and Basements

Flood insurance coverage is limited in areas below the lowest elevated floor (including crawlspaces) depending on the flood zone and date of construction (refer to Part III, Section A.8 in your policy) and in basements regardless of zone, or date of construction. As illustrated below, these areas include **1. basements**, **2. crawlspaces** under an elevated building, **3. enclosed areas** beneath buildings elevated on full story foundation walls that are sometimes referred to as “walkout basements,” and **4. enclosed areas** under other types of elevated buildings.

What is insured under Building Property coverage

- Foundation walls, anchorage systems, and staircases attached to the building.
- Central air conditioners.
- Cisterns and the water in them.
- Drywall for walls and ceilings (in basements only).
- Nonflammable insulation (in basements only).
- Electrical outlets, switches, and circuit breaker boxes.
- Fuel tanks and the fuel in them, solar energy equipment, well water tanks and pumps.
- Furnaces, hot water heaters, heat pumps, and sump pumps.

What is insured under Personal Property coverage

- Washers and dryers.
- Food freezers and the food in them (but not refrigerators).
- Portable and window air conditioners.

What is not insured by either Building Property or Personal Property coverage

- Paneling, bookcases, and window treatments such as curtains and blinds.
- Carpeting, area carpets, and other floor coverings such as tile.
- Drywall for walls and ceilings (below lowest elevated floor).
- Walls and ceilings not made of drywall.
- Most personal property such as clothing, electronic equipment, kitchen supplies, and furniture.

1. BASEMENTS

Coverage limitations apply to “basements,” which are any area of the building, including a sunken room or sunken portion of a room, having its floor below ground level on all sides.

3. ELEVATED BUILDING ON FULL STORY FOUNDATION WALLS

Coverage limitations apply to the enclosed areas (lower floor) even when a building is constructed with what is sometimes called a “walkout basement.”

2. CRAWLSPACE

When a building is elevated on foundation walls, coverage limitations apply to the “crawl space” below.

4. ELEVATED BUILDING WITH ENCLOSURE

Coverage limitations apply to “enclosed areas” at ground level under an “elevated building.” An elevated building allows water to flow freely under the living quarters, thus putting less strain on the building in the event of flooding. An “enclosure” is the area below the lowest elevated floor that is fully shut in by rigid walls.

How Flood Damages Are Valued

The value of flood damage in the Dwelling Form is based on either Replacement Cost Value (RCV) or Actual Cash Value (ACV).

Replacement Cost Value (RCV)

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

1. The building must be a single-family dwelling, and
2. Be your principal residence, meaning you live there at least 80 percent of the year, and
3. Your 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)

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 carpeting are always adjusted on an ACV basis. For example, wall-to-wall carpeting could lose between 10–14 percent of its value each year, depending on the quality of the carpeting. This depreciation would be factored in the adjustment.

Personal property is always valued at ACV.

Special Considerations for Multiple Claims

Property owners of “severe repetitive loss properties” may be eligible for a FEMA mitigation grant for property improvements that reduce the likelihood of future flood damages. Property owners who refuse the grant money could be required to pay increased flood insurance premiums.

A property is defined as a “severe repetitive loss property” when it meets one of these conditions:

1. Four or more separate flood claim payments have been made and each claim payment exceeds \$5,000, or
2. At least two flood claim payments have been made and the cumulative payments exceed the value of the property.

A final note

This document provides general information about flood insurance coverage. However, please be aware that your Standard Flood Insurance Policy, your application, and any endorsements, including the Declarations Page, make up your official contract of insurance. Any differences between this information and your policy will be resolved in favor of your policy. If you have questions, call your insurance agent or company representative.

WHAT IS INCREASED COST OF COMPLIANCE (ICC) COVERAGE?

Most NFIP policies include ICC coverage, which applies when flood damages are severe. ICC coverage provides up to \$30,000 of the cost to elevate, demolish, or relocate your home. If your community declares your home “substantially damaged” or “repetitively damaged” by a flood, it will require you to bring your home up to current community standards.

The total amount of your building claim and ICC claim cannot exceed the maximum limit for Building Property coverage (\$250,000 for a single-family home). Having an ICC claim does not affect a Personal Property claim (up to \$100,000), which is paid separately.

Details about eligibility are in Part III, Section D of your policy.

Congress created the National Flood Insurance Program (NFIP) in 1968 to reduce future flood damage through floodplain management, and to provide people with flood insurance through individual agents and insurance companies. The Federal Emergency Management Agency (FEMA) manages the NFIP. As required by Congress, this document was prepared by the NFIP to help flood insurance policyholders understand their policy.



FEMA



FEMA

July 29, 2005

Patty Templeton-Jones
Chair, IBHS Flood Committee
4775 East Fowler Avenue
Tampa, Florida 33617

Dear Ms. Templeton-Jones:

Thank you for your June 28, 2005, letter which highlights some lingering concerns that the Write Your Own (WYO) companies have about implementing the Title II requirements of the 2004 Flood Insurance Reform Act (FIRA).

I have carefully reviewed the questions and concerns of the WYOs, as well as their preferences on how to address these issues. My responses appear below in the order that your June 28 letter presented the issues, beginning with matters related to "New Policies" and "Existing Policies," and continuing with 13 "Other" items. I apologize for the delay in responding.

New Policies:

"Do WYO's distribute the forms at policy issuance and one subsequent renewal, or are the forms to be distributed at every subsequent renewal?"

We understand that normal insurance industry practice only provides the policy contract on new business. Renewals receive renewal declarations only, with a policy contract included only if the policy language had changed. Therefore, we concur with WYO preference that the policy contract should be distributed at initial policy issuance only, while other forms should be distributed at each renewal.

Existing Policies:

"Do WYOs distribute the forms for policy renewals processed on October 2005 or later, and at every subsequent renewal?" (Forms defined by IBHS as cover letter, Summary of Coverage [supplemental form], Dec page, and policy contract.)

Understanding normal insurance industry practices as stated above, we again concur with WYO preference that the policy contract should be distributed at initial policy issuance only, while other forms should be distributed at each renewal.

Other Items:

1. *"If the acknowledgement form is returned to the agent or to the WYO, to whom at FEMA/NFIP should it be forwarded?"*

If the acknowledgement form is returned to the agent or the WYO, it should be forwarded to the National Flood Insurance Program (NFIP) Bureau and Statistical Agent. The acknowledgement form will include the Bureau's address and will be accompanied by an envelope addressed to the Bureau.

2. *"We feel that the logo on the documents should be FEMA's. WYO carriers feel that all "forms" which are required due to the implementation of the FIRA 2004 should be printed with the FEMA logo."*

All FEMA forms required by FIRA 2004 will include the FEMA-DHS logo. The companies will be required to put their logo on the cover letter for the Summary of Coverage.

3. *"Is the Summary of Coverage form to be double sided or three separate sheets? The WYO preference would be for FEMA to provide the language and allow the companies to print in a manner that fits their business needs."*

Understanding WYO preferences, FEMA will provide the Summary of Coverage document to the WYOs in electronic format, enabling the companies to print the document in a manner that suits their business needs.

4. *"Are the Summary of Coverage and Cover Letter to be in color or black and white? WYO's prefer black and white for limiting production costs."*

Understanding WYO needs to print materials in a cost-effective manner; FEMA will provide the WYOs with the Summary of Coverage and cover letter documents in electronic format, enabling the companies to print in black and white or color.

5. *"We understand renewal business will utilize a process date rather than the policy's renewal effective date. However, does the process date requirement also apply to new business regardless of the effective date of the new business application? In other words, will the trigger for new business also be the date the application is processed rather than apply to any policy effective on or after 10/1/2005? It is the WYO preference that both the new and renewal [business] be based on the processed date."*

FEMA concurs with the WYOs on this point. Both new and renewal business will be based on the "processed" dates.

6. "When will the WYOs get the final forms?"

FEMA is on target to distribute electronic versions of these materials to the WYOs by August 1, 2005. Please see my May 19, 2005, memorandum to the WYO Principal Coordinators and the NFIP Servicing Agent, which is attached.

7. "Will we get camera-ready copy of the Summary of Coverage and the WYO Cover Letter, or will FEMA only be providing the language to be included in these forms for the WYOs to develop their own documents for distribution?"

FEMA will provide the WYOs with camera-ready, electronic versions of the Summary of Coverage and the WYO Cover Letter. Please see my May 19, 2005, memorandum to the WYO Principal Coordinators and the NFIP Servicing Agent, which is attached.

8. "Will FEMA print the Claims Handbook for WYOs to order and distribute to policy holders?"

FEMA will print the Claims Handbook, and copies of the document will be stocked at the FEMA Warehouse, where WYOs and agents may place orders.

9. "Can the WYO determine how the Claims Handbook is to be made available to policyholders after a loss is reported?"

For convenience and business efficiency, each WYO and agent may determine how to distribute the Claims Handbook to policyholders after they report a loss.

10. "How will the WYOs be reimbursed for the extra expense of complying with FIRA regulations?"

We are reviewing the WYO Coalition letter addressing this matter and are considering the issue. We expect to have an answer to you on this issue soon.

11. "Is the October 1, 2005, FIRA Document distribution date for claims occurring after that date, or reported (opened) after that date? It is the WYO preference that the October date should apply to claims reported after that date?"

The WYOs will comply with FIRA distribution requirements by distributing FIRA documents for claims reported (opened) on or after October 1, 2005.

12. "When customers receive the mailing package from the FEMA Bureau, will a FEMA telephone number be listed on the forms?"

Yes, in order to help consumers with flood insurance issues and questions, a FEMA telephone number will be on all documents distributed by the NFIP Bureau.

Patty Templeton-Jones

July 29, 2005

Page 4

13. "Will FEMA send a copy of the loss history information to the WYOs to help with policyholder questions? Since the prior claims may have occurred with other WYOs, it is the WYO preference that the WYO does not receive prior claims histories, and that FEMA answer all policyholder questions on this matter."

Since prior claims may have occurred with other WYOs, FEMA will not send prior claims histories to the WYOs.

Additionally, as mentioned above, a FEMA telephone number will be on all documents that are distributed by the NFIP Bureau, enabling FEMA to readily respond to any customer inquiries related to the NFIP and flood insurance.

Thank you for your continued support of our coordinated effort to implement the statutory provisions of the 2004 Flood Insurance Reform Act. If you have additional questions or concerns, please do not hesitate to contact me.

Sincerely,



David I. Maurstad
Acting Director
Mitigation Division
Emergency Preparedness
and Response Directorate

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FEMA

W-05020

May 19, 2005

MEMORANDUM FOR: Write Your Own Principal Coordinators and the
NFIP Servicing Agent

FROM: David I. Maurstad *David I. Maurstad*
Acting Director
Mitigation Division
Emergency Preparedness
and Response Directorate

SUBJECT: Flood Insurance Reform Act of 2004

I greatly appreciate the input received from the insurance industry and others regarding ways to implement the Title II requirements of the Flood Insurance Reform Act (FIRA) of 2004 by October 1, 2005. Numerous companies and agents provided constructive recommendations, detailed cost estimates for various implementation options, flow charts, and other data. FEMA conducted a comprehensive review and considered all the information. I am pleased to inform you of the following decisions.

Applicable Policies

The FIRA requirements apply to the owners of the following National Flood Insurance Program (NFIP) policy forms: Dwelling, General Property, and Residential Condominium Building Association Policy.

Responsibilities

WYO Companies

On and after October 1, 2005, when WYO companies or the NFIP Servicing Agent mail to the policyholders a new or renewal declarations page, the following information must also be enclosed: (a) a copy of the flood insurance policy; (b) the summary of coverage as required by Section 202 (a)(1), (2), (3), (5); and (c) a cover letter to reference these enclosures and inform the policyholders that subsequent information will be sent to them from the Federal Emergency Management Agency (FEMA). The text of the cover letter and summary of coverage will be prescribed by FEMA. The procedures for subsequent renewals, i.e., those on or after October 1, 2006, are described on Page 2 of this letter.

At the time of a claim, WYO companies will furnish the claims handbook to its policyholders, as required by the FIRA, Section 204.

FEMA

FEMA, through the NFIP Bureau and Statistical Agent, will send to the policyholders: (a) the property's loss history information, as required by FIRA, Section 202 (a)(4); (b) the claims handbook, as required by FIRA, Section 204; (c) the acknowledgement, as required by FIRA, Section 203; and (d) a cover letter referencing these enclosures.

Work is currently underway to finalize these FIRA-related documents. Electronic versions for printing purposes will be provided to the WYO companies by August 1, 2005.

In addition, under separate cover the WYO companies will receive the related Transaction Record Reporting and Processing (TRRP) Plan instructions. The WYO companies will transmit policyholders' mailing addresses to the NFIP Bureau and Statistical Agent for use in sending the materials described above.

Privacy Concern

FEMA analyzed the privacy issues raised with regard to requiring WYO companies to release policyholders' mailing addresses to FEMA and the disclosure of the property's loss history information to policyholders. These disclosures are essential only to transactions relating to the Standard Flood Insurance Policy and compliance with the FIRA. These activities are consistent with Gramm-Leach-Bliley and all other privacy provisions. In addition, FEMA has taken the appropriate precautions to prevent disclosure of such information for unauthorized or illegitimate purposes. Therefore, in order to fully effect and administer the Standard Flood Insurance Policy and the mandates of the FIRA, FEMA requires all WYO companies to provide the requested mailing addresses in accordance with the forthcoming TRRP Plan instructions.

Renewals

Some WYO companies asked how to interpret the FIRA requirements with respect to subsequent renewals, i.e., those on and after October 1, 2006. Because policies under the NFIP are issued for a 1-year term and renewed annually, FEMA interprets the Congressional intent to apply each year the policy is in force. Therefore, WYO companies must include the summary of coverage and cover letter with the declarations page for every subsequent renewal.

Acknowledgement

FEMA was asked if there would be any consequence if the policyholder does not return a signed acknowledgement. The FIRA does not prescribe a consequence. However, FEMA is implementing record-keeping procedures to enable the NFIP Bureau and Statistical Agent to show proof of mailing, and receipt or lack of receipt of a policyholder's signed acknowledgement.

Flood Insurance Reform Act of 2004
Page 3

Thank you for your continued support in implementing these statutory provisions. If you have any questions, please contact your Program Coordinator.

cc: Vendors, IBHS, FIPNC, and Government Technical Monitor

Suggested Routing: Claims, Data Processing, Marketing, Underwriting

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