



FEMA

W-10089

September 14, 2010

MEMORANDUM FOR: Write Your Own (WYO) Company Principal Coordinators and the National Flood Insurance Program (NFIP) Servicing Agent

FROM: 
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Division Director
Risk Insurance

SUBJECT: Guidance for Lenders: Preferred Risk Policy (PRP) 2-Year Extension

The following materials were developed in conjunction with our Federal Agency Regulator, Agency Lender, and Government-Sponsored Entity partners. These materials provide lenders with the basic understanding they will need to fulfill their responsibilities under the Mandatory Purchase requirements of the Flood Disaster Protection Act of 1973 as amended by the National Flood Insurance Reform Act of 1994.

These attachments provide details regarding this important change and the implications for policyholders and lenders:

- Attachment A – PRP Eligibility Extension Background, Description, and Lender Requirements
- Attachment B – Questions and Answers for Lenders Regarding the PRP Eligibility Extension
- Attachment C – Mandatory Purchase of Flood Insurance Guidelines – Revision Effective 1/1/2011

Please contact either Carolyn.Goss@dhs.gov or Steven.Wainland@dhs.gov with your questions regarding the attached lender materials.

Attachments

cc: Vendors, IBHS, FIPNC, Government Technical Representatives

Required Routing: All Departments

Attachment A

PRP Eligibility Extension Background, Description, and Lender Requirements

Background

Over the past several years, the National Flood Insurance Program (NFIP) has been engaged in several initiatives to remap areas of the United States. These initiatives include MapMod, RiskMAP, and the Provisionally Accredited Levee (PAL) program. Concerns have been raised about the impact of the initiatives, especially the requirement to purchase flood insurance imposed by the Flood Disaster Protection Act (FDPA) on borrower's whose loans are secured by buildings located in newly designated Special Flood Hazard Areas (SFHAs). The primary concern involves the cost of the flood insurance. In light of this concern, and based on detailed financial and other analyses, the NFIP is implementing a measure that will help ease the immediate financial burden on affected property owners. With this change, property owners should have adequate time to understand and plan for the long-range financial implications of the newly communicated flood risk and the mandatory purchase requirement.

PRP 2-Year Eligibility Extension

Under the provisions of the PRP 2-Year Eligibility Extension, effective January 1, 2011, a building is eligible for a PRP for 2 years after the building's flood zone is newly mapped into an SFHA through a map revision, so long as the building also meets the PRP loss history requirements. The following conditions apply for the extended eligibility:

- Buildings that were newly mapped into an SFHA due to a map revision on or after October 1, 2008, and before January 1, 2011, are eligible for a PRP for 2 policy years. Property owners affected by these previous map revisions will be eligible for the PRP for the 2 policy years effective between January 1, 2011, and December 31, 2012.
- Buildings that are newly mapped into an SFHA due to a map revision on or after January 1, 2011, will be eligible for a PRP for 2 policy years from the effective date of the map revision.

At the end of the extended eligibility period, policies on these buildings must be written as standard-rated policies. Buildings insured under the PRP during the 2-year PRP eligibility extension may be rated using X-Zone rates when their policies are renewed as standard-rated policies at the end of the 2-year eligibility period.

Lender Requirements

The writing company, not the lender, will validate PRP extended eligibility.

The NFIP Direct and all WYO companies will be required to display two flood zones ("Current Flood Zone" and "Flood Risk/Rated Zone") on PRP declarations.

The "Current Flood Zone" will indicate the flood zone designation of the property on the current (revised) Flood Insurance Rate Map (FIRM). The "Flood Risk/Rated Zone" will indicate the flood zone from the previous map used to rate the policy.

There is no requirement for the lender to investigate or resolve the difference between the "Current Flood Zone" and the "Flood Risk/Rated Zone".

Attachment B
Questions and Answers for Lenders
Regarding the Preferred Risk Policy Eligibility Extension

The PRP Eligibility Extension and the Mandatory Purchase of Flood Insurance

1. How will lenders determine that a property in an SFHA on the current Flood Insurance Rate Map (FIRM) is eligible for the PRP eligibility extension?

The writing company, not the lender, will validate PRP extended eligibility. The NFIP Direct and all WYO companies will be required to display two flood zones (“Current Flood Zone” and “Flood Risk/Rated Zone”) on PRP declarations.

The “Current Flood Zone” will indicate the flood zone designation of the property on the current (revised) Flood Insurance Rate Map (FIRM). The “Flood Risk/Rated Zone” will indicate the flood zone used to rate the policy.

There is **never** any circumstance where a difference between the flood zone shown on the lender’s Standard Flood Hazard Determination Form (SFHDF) and the “Flood Risk/Rated Zone” should cause concern. **These policies are acceptable and no resolution to the discrepancy is required.**

The “Current Flood Zone” should match the lender’s SFHDF. However, per the Interagency Questions and Answers Regarding Flood Insurance (Q&A # 71) the lender should only be concerned about a discrepancy between the SFHDF and the “Current Flood Zone” on the flood insurance policy if the discrepancy is between a high-risk zone (A or V) and a low- or moderate-risk zone (B, C, D, or X). In other words, a lender need not be concerned about subcategory differences between flood zones on these two documents.

2. If a lender receives a PRP declaration can the lender assume the policy meets all the Federal Mandatory Purchase of Flood Insurance requirements?

No. A lender must still make sure the amount of flood insurance is at least equal to the lesser of the outstanding principal balance of the loan(s), or the maximum amount available under the NFIP, which is the lesser of:

- The maximum limit available for the type of structure; or
- The “insurable value” of the structure.

If the declaration indicates “PRP” and the “Flood Risk/Rated Zone” reflects a non-Special Flood Hazard Area, the lender should accept the policy as being correctly issued and rated. **There is no requirement for the lender to investigate or resolve the difference between the “Current Flood Zone” and the “Flood Risk/Rated Zone”.**

3. Are Lenders still required to make flood zone determinations?

Yes. Whenever an institution makes, increases, extends, or renews any loan secured by improved real property or a mobile home, it must use the Standard Flood Hazard Determination Form (SFHDF) developed by FEMA.

4. Are Lenders still required to notify borrowers that their property is located in a Special Hazard Flood Area?

Yes. When the security property is or will be located in a SFHA, the institution must provide a written notice to the borrower and the servicer. The notice must be provided whether the security property is located in a participating or a nonparticipating community; and even if the building is eligible for the PRP 2-year extension.

5. The Standard Flood Insurance Policy declarations page indicates that the policy has been grandfathered. Does this mean the property is eligible for the 2-year PRP eligibility extension?

No. The PRP 2-year eligibility extension is distinct from grandfathering. Companies have been instructed not to use the existing “Grandfathered” field on the declarations for identifying eligible 2-year PRP buildings.

Although a grandfathered policy will also display the “Current Flood Zone” and the “Flood Risk/Rated Zone,” it will not be issued on a PRP declaration. New “grandfathered” policies are identified as such by displaying a “Y” after the word “Grandfathered,” on the declarations.

When the “Grandfathered” field is marked with a “Y,” there is **never** any circumstance where a variance between the lender’s SFHDF and the “Flood Risk/Rated Zone” should cause concern. The “Flood Risk/Rated Zone” may validly be at variance with the SFHDF when the policy is marked as “Grandfathered”. **Grandfathered policies are acceptable and no resolution to the discrepancy is required.**

For renewal policies that do not display the grandfathered property indicator, you may need to get a letter from the borrower’s insurer that confirms the property has been grandfathered and identifies the reason (i.e., continuous coverage; or built in compliance.)

6. Following a recent map change, the borrower allowed their flood insurance policy to lapse. As a result the lender was required to force-place flood insurance. Can the lender force-place a 2-year PRP extension?

If the necessary underwriting information is available, the lender has the option of using the PRP to force-place coverage on behalf of its borrower within 2 years of the most recent map change or within 2 years from January 1, 2011, for maps revised between October 1, 2008 and December 31, 2010.

7. Is there anything a lender can do to help the borrower?

Yes. Lenders are required to retain a copy of the completed Standard Flood Hazard Determination Form, in either hard copy or electronic form, for the period of time the bank owns the loan. This means lenders may sometimes have in their possession information regarding both the prior and new flood zone that can be used by borrowers to obtain the 2-year PRP. If asked, please share this information with your borrower or their insurance company.

8. If a policy is converted to a 2-year PRP, will it affect escrowed flood insurance premiums?

Yes. A property owner with a home without a basement will pay \$343 for \$200,000 in building and \$80,000 in contents coverage for a PRP versus more than \$1,400 for a standard-rated policy in an X zone, and even more if rated in a high-risk zone (i.e., A zone)...a savings of over \$1,000+ a year.

Escrow payments should be modified, in accordance with the Real Estate Settlement Procedures Act of 1974, to reflect the premium savings.

9. If a WYO (Write Your Own) company writes a new business policy effective on or after January 1, 2011, for a property using the current SFHA zone, unaware that the property was previously in a non-SFHA before a map change that took effect on or after October 1, 2008, can the policy be corrected?

Yes, FEMA will allow a rating adjustment from the SFIP to the PRP for eligible policyholders that can be made retroactive to the earliest eligibility date, which is January 1, 2011, or the map change effective date, whichever is later. Lenders should accept these changes as long as they receive a properly completed PRP declaration page, as described in Q&A 1.

10. If property ownership changes hands, is the new owner granted the remainder of the PRP 2-year eligibility extension?

Yes, a new owner is granted the remainder of the PRP 2-year eligibility extension if property ownership changes hands within 2 years of the map change effective date.

Other Information

11. What is a Preferred Risk Policy (PRP)?

A PRP is a policy that offers fixed combinations of building/contents coverage or contents-only coverage at modest, fixed premiums. The PRP is currently available for property located in B, C, and X zones (non-SFHAs on the Flood Insurance Rate Map (FIRM)) in Regular Program communities that meet eligibility requirements based on the property's flood loss history. Effective January 1, 2011, PRP eligibility will be extended for 2 years following January 1, 2011, or the map revision effective date, whichever is later, for all buildings newly designated within an SFHA on a map effective on or after October 1, 2008.

A PRP is available to owners of all eligible occupancy types: one-to-four family properties (including individual condominium units in residential condominium buildings), other residential properties (e.g., apartment buildings), and non-residential properties.

Residential condominium associations eligible under the Residential Condominium Building Association Policy (RCBAP) are not eligible for the PRP.

12. How does Preferred Risk Policy 2-Year Eligibility Extension change PRP eligibility?

In the past, buildings written on Preferred Risk Policies were required to be actually located in zones B, C, or X on the FIRM in effect on the date of application and on the effective date of each subsequent renewal. A building which became ineligible for a Preferred Risk Policy due to a map change to a SFHA could not be renewed as a PRP.

With the PRP 2-year Eligibility Extension FEMA will be revising the PRP program by extending PRP eligibility for 2 years for policies that are effective on or after January 1, 2011, for buildings that are newly designated within Special Flood Hazard Areas (A or V zones) due to a map revision effective on or after October 1, 2008.

The PRP 2-year eligibility extension does not apply to properties that were already located in SFHAs prior to the map change.

13. Is this the same as “Grandfathering”?

No, while there are similarities, the PRP 2-year eligibility extension is distinct from “grandfathering.”

When Flood Insurance Rate Maps are revised, the NFIP provides a flood insurance option known as “grandfathering.” Grandfathering is available for property owners who have remained loyal customers of the NFIP by maintaining continuous coverage and/or who have built in compliance with the FIRM, in effect at the time of construction, provided the building has not been substantially improved or damaged in the interim. Grandfathering rules allow policies to be rated based on the FIRM that was in effect when the structure was built or when the coverage was originally purchased.

14. Can a PRP be grandfathered?

No, a PRP cannot be grandfathered.

In the past, buildings written on Preferred Risk Policies were required to be located in zones B, C, or X on the FIRM in effect on the date of application and on the date of each subsequent renewal. A building, which became ineligible for a PRP due to a map change to a SFHA, could not be renewed as a PRP, but could be “grandfathered” to a standard-rated policy using zones B, C, or X. In other words, the flood zone (B, C, or X) is grandfathered; not the rate.

In the future, following the completion of the PRP 2-year eligibility extension period, when the PRP is converted to a standard-rated policy, many policies will be eligible for standard X-zone rating under the current grandfathering rules.

15. Is there an “end date” to the PRP eligibility extension?

There is no end date specified for eligibility based on map change effective dates. Beginning January 1, 2011, each policy on a building newly included in the SFHA by a map change effective October 1, 2008, or later is entitled to 2 additional years under the PRP.

16. How do I obtain more information?

The NFIP Call Center will handle telephone inquiries about the PRP 2-year eligibility extension. You may reach the call center by calling: 1-800-427-4661

You can also send your question to FEMA via e-mail at FloodSmart@dhs.gov.

Attachment C

Mandatory Purchase of Flood Insurance Guidelines – Revision Effective 1/1/2011

1. Preferred Risk Policy – Eligibility Requirements

a. Flood Zone

To be eligible for coverage under the Preferred Risk Policy (PRP), the building must be in a B, C, or X Zone on the effective date of the policy, with the following exceptions:

- Buildings that were newly mapped into a Special Flood Hazard Area (SFHA) due to a map revision on or after October 1, 2008, and before January 1, 2011, are eligible for a PRP for 2 policy years if their policy effective date is between January 1, 2011, and December 31, 2012.
- Buildings that are newly mapped into an SFHA due to a map revision on or after January 1, 2011, are eligible for a PRP for 2 policy years from the map revision date.

Buildings meeting the above requirement must also meet the PRP loss history requirements. At the end of the 2-year PRP eligibility extension period following a map revision, policies on these buildings must be written as standard rated policies.

The PRP 2-year eligibility extension does not apply to properties that were already located in SFHAs prior to the map change.

b. Occupancy

A PRP is available to owners of all eligible occupancy types: one-to-four family properties (including individual condominium units in residential condominium buildings), other residential properties (e.g., apartment buildings), and non-residential properties.

Residential condominium associations eligible under the Residential Condominium Building Association Policy (RCBAP) are not eligible for the PRP.

c. When PRP Eligibility Ends

At the end of the 2-year PRP eligibility extension period following a map revision, policies on these buildings will be written as standard rated policies.

2. PRP Documentation

a. Responsibility for Validating PRP Extended Eligibility

The responsibility for validating PRP extended eligibility will rest with the writing company, not the lender.

However, lenders may assist borrowers with providing their insurers with the required information. Since lenders are required to retain a copy of the completed Standard Flood Hazard Determination Form (SFHDF), in either hard copy or electronic form, for the period of time the bank owns the loan, lenders may sometimes have in their possession information regarding both the prior and new flood zone which can be used by borrowers to obtain the 2-year PRP. If asked by your borrower, please share this information with them or their insurance company.

b. “Current Flood Zone” and “Flood Risk/Rated Zone

The NFIP Direct and all WYO companies will be required to display two flood zones (“Current Flood Zone” and “Flood Risk/Rated Zone”) on PRP declarations.

The “Current Flood Zone” will indicate the flood zone designation of the property on the current (revised) Flood Insurance Rate Map (FIRM). The “Flood Risk/Rated Zone” will indicate the flood zone used to rate the policy.

There is **never** any circumstance where a difference between the flood zone shown on the lender's Standard Flood Hazard Determination Form (SFHDF) and the "Flood Risk/Rated Zone" should cause concern. **These policies are acceptable and no resolution to the discrepancy is required.**

3. Grandfathering Rules

a. PRP

A PRP cannot be grandfathered.

At the expiration of PRP eligibility, the policy must be re-written as a standard-rated policy. It is possible that the property will be "grandfathered" to the old flood zone (i.e., the zone prior to the map revision), but it will be standard rated (not PRP rated). In other words, the zone has been grandfathered, but not the rate.

The declarations page of a grandfathered policy will **never** indicate that it is a PRP.

b. New Policies

New "grandfathered" policies are identified as such by displaying a "Y" after the word "Grandfathered," on the declarations.

A grandfathered policy will also display the "Current Flood Zone" and the "Flood Risk/Rated Zone," on the Declarations.

c. Renewal Policies

For renewal policies that do not display the grandfathered property indicator, you may request a letter from the borrower's **insurer** that confirms the property has been grandfathered and identifies the reason (i.e., continuous coverage; or built in compliance.)

4. Zone Discrepancies

a. PRP Policies

There is **never** any circumstance where a difference between the flood zone shown on the lender's Standard Flood Hazard Determination Form (SFHDF) and the "Flood Risk/Rated Zone" should cause concern. **These policies are acceptable and no resolution to the discrepancy is required.**

The "Current Flood Zone" should match the lender's SFHDF. However, per the Interagency Questions and Answers Regarding Flood Insurance (Q&A # 71) the lender should only be concerned about a discrepancy between the SFHDF and the "Current Flood Zone" on the flood insurance policy if the discrepancy is between a high-risk zone (A or V) and a low- or moderate-risk zone (B, C, D, or X). In other words, a lender need not be concerned about subcategory differences between flood zones on these two documents. Nevertheless, **these PRP policies are acceptable and resolution of the discrepancy can be made after the fact.**

Only when the lender has evidence the building was located in a SFHA prior to the map change should PRP eligibility be challenged.

b. Grandfathered Policies

When the "Grandfathered" field is marked with a "Y," there is **never** any circumstance where a variance between the lender's SFHDF and the "Flood Risk/Rated Zone" should cause concern. The "Flood Risk/Rated Zone" may validly be at variance with the SFHDF when the policy is marked as "Grandfathered". **Grandfathered policies are acceptable and no resolution to the discrepancy is required.**

5. Mandatory Purchase of Flood Insurance Requirements

PRP, 2-year PRP and grandfathered standard rated policies all meet the mandatory purchase requirements as long as the amount of flood insurance is at least equal to the lesser of the outstanding principal balance of the loan(s), or the maximum amount available under the NFIP, which is the lesser of:

- The maximum limit available for the type of structure; or
- The “insurable value” of the structure.