



Federal Emergency Management Agency

Washington, D.C. 20472

W-02018

MEMORANDUM FOR: WYO Principal Coordinators and NFIP Servicing Agent

A handwritten signature in blue ink that reads "Donald R. Beaton, Jr." is positioned above the typed name.

FROM: Donald R. Beaton, Jr.
Chief Underwriter
Federal Insurance and Mitigation Administration

DATE: March 20, 2002

SUBJECT: Use of Replacement Cost for Rating

On October 1, 1981, the National Flood Insurance Program (NFIP) implemented a revised rating system for new or substantially improved buildings constructed in coastal high hazard areas of Regular Program communities, identified on a Flood Insurance Rate Map (FIRM) as V-Zones. The rating system applies to:

1. Buildings in special flood hazard zones VE, V1-V30 with the building permit application dated on or after October 1, 1981; and
2. VE, V1-V30 zone buildings on which the building permit was issued before October 1, 1981 whose construction (i) did not begin within 180 days of the permit date and (ii) began on or after October 1, 1981.

The NFIP rules require that in order to properly determine the correct insurance rate for Post '81 V zone construction, the building's insurance to replacement cost ratio must be established.

In a recent meeting with the Institute for Business and Home Safety Flood Committee, several Write-Your-Own companies have raised the issue that the current instruction provided in the Flood Insurance Manual on how to rate the Post '81 V zone risks is unclear. The Committee requested that the Federal Insurance and Mitigation Administration clarify the use of building replacement cost when rating Post '81 V-Zone risks to make sure that all agents and companies are using the correct procedure.

This is to clarify that the replacement cost ratio is determined by dividing the amount of building coverage by the replacement cost of the building. If the replacement cost of the building exceeds the maximum statutory building limit, use the replacement cost, not the maximum statutory building limit, in calculating the ratio. For example: If the building replacement cost is \$1,000,000 and the amount of building coverage requested is the maximum statutory building limit of \$250,000, the ratio is .25, so use the rate listed for "Replacement Cost Ratio Under .50."

If you should have any questions, please contact your Program Coordinator.

cc: Vendors, IBHS, FIPNC, and Government Technical Monitor
Suggested Routing: Data Processing, Underwriting, Marketing