



NATIONAL FLOOD INSURANCE PROGRAM

Bureau and Statistical Agent

W-03001

MEMORANDUM TO: Write Your Own (WYO) Company Principal Coordinators and the NFIP Servicing Agent

FROM: WYO Clearinghouse

DATE: January 2, 2003

SUBJECT: UPDATE--Frequently Asked Questions on the NFIP Reauthorization for Consumers

Attached is an updated list of Frequently Asked Questions on the NFIP Reauthorization that will assist you in responding to the inquiries you may be getting from your agents and your policyholders. This list also has been posted on the NFIP website.

Please note information regarding the waiting period in Question 15, also referenced in Questions 4 and 13.

If you have any questions or need additional information, please contact your Program Coordinator.

Attachment

cc: Vendors, IBHS, WYO Standards, FIPNC, WYO Marketing Committee,
Government Technical Monitor

THESE ARE FREQUENTLY ASKED QUESTIONS (FAQ) PLUS SEVERAL ADDITIONS as of 12-31-02. THIS LIST MAY BE EXPANDED FURTHER.

FAQ - Consumers

1. Why can't my insurance company just issue me a flood policy? Why do we need an act of Congress?

Your insurance company issues flood policies as part of the National Flood Insurance Program (NFIP) under an arrangement with the Federal Government. The NFIP operates under authority from Congress that has to be renewed periodically. That authority to issue new policies expires at midnight on December 31, 2002 and is awaiting Congressional renewal. With the 107th Congress adjourned, reauthorization cannot be accomplished before the 108th Congress convenes in January 2003. Thus, the NFIP will experience a hiatus--a period without authority to issue new policies, issue increased coverage on existing policies, or issue renewal policies until Congress reauthorizes it.

2. How does the "hiatus" in authority for the NFIP affect me and how long will it last?

Most of the 4.4 million flood insurance policyholders nationwide will not be affected. Policies that are in force will remain in force, and claims under those policies can continue to be paid after January 1, 2003. However, during the hiatus we will not be able to issue new policies, issue increased coverage on existing policies, or issue renewal policies. Therefore, the limited interruption is of concern to property owners who need to renew policies in January, home-buyers who must purchase flood insurance as a condition for obtaining mortgages from federally regulated lenders, and property owners refinancing existing mortgages who must purchase or renew such coverage.

That said, we expect that the new Congress will re-authorize the NFIP early in the term and that they will make it retroactive to January 1, 2003. The hiatus is expected to be brief and we are doing everything we can to resolve the issue with as little disruption of insurance operations as possible. We are also working with our insurance and lending industry partners to prepare for this situation.

3. Has this lapse in Congressional authority for the NFIP ever happened before and for how long? Did Congress make the reauthorization retroactive before?

Yes, there have been several lapses in authority for the NFIP in the past, and, in each of those lapses, which ranged from days to several weeks, Congress has reauthorized the NFIP retroactively.

4. If I get my premium payment and application for a new policy in to my insurance company on or before December 31, 2002, when will I have flood insurance protection?

The starting date of such coverage depends on the applicable flood insurance waiting period. (Check with your insurance agent for the exact date when the 30-day waiting period starts. Also see Question 15 for details about the 30-day waiting period.)

Even with the lapse in authority, new policies for which premium payment is received by the insurance company on or before December 31, 2002, will still be issued for coverage that will become effective after December 31. Claims for existing policies and policies issued based on premiums received prior to the hiatus, will be processed without delay.

5. What happens if my premium for a new policy or an endorsement for added coverage is received by the company on or after January 1, 2003 and I suffer a flood loss before Congress reauthorizes the Program?

We've suggested that the insurance companies hold premium payments for new or increased policies received during the hiatus. Claim payments for losses suffered during that time cannot be made until Congress retroactively extends the NFIP authority. However, your insurance company can proceed with investigating your claim under a "non-waiver" agreement, up to the point of payment. Under the "non-waiver" agreement, the company would reserve the right not to pay the claim if Congress does not reauthorize the NFIP.

6. I have a mortgage loan closing in early January, and the lender has told me I have to have flood insurance at closing. What will happen if my premium and application aren't received by my insurance company by December 31, 2002?

It is expected that your premium will be held by your insurance company in order that your policy can go into effect at the earliest date. If reauthorization to issue flood insurance policies under the NFIP is granted retroactively, your policy will be issued effective as of the date of the closing of your loan.

If Congressional reauthorization is granted retroactively, any claim for insurable losses you suffer from that effective date onward will be honored by the NFIP, even if the authority is granted after the date of such losses.

7. Can my premium be in the mail, with a postmark before January 1, 2003, in order to beat the deadline?

The controlling factor is receipt of the premium by the insurance company, not the postmark.

8. If I suffer a loss during the hiatus, even though I beat the December 31, 2002 deadline, will I be covered for my loss?

If, based on the waiting period rules of the NFIP, your coverage was in effect at the time of the date of loss, you would be covered.

9. My policy is up for renewal in January, how can I make sure that my premium payment gets in by the deadline?

If your renewal premium payment is received by your insurance company on or before December 31, 2002, your policy can be renewed.

10. What happens if my premium payment for a policy renewal is received by the company on or before December 31, 2002 and I suffer a flood loss before Congress reauthorizes the NFIP? Will I be covered?

Yes. Even during the hiatus, claims for losses occurring during the hiatus, on existing policies and on policies issued based on premiums that were received prior to the hiatus, are to be processed and paid without delay.

11. What happens if my premium payment for a policy renewal is received by the company on or after January 1, 2003 and I suffer a flood loss before Congress reauthorizes the NFIP? Will I be covered?

We've suggested that the insurance companies hold in abeyance renewal premium payment received during the hiatus. Claim payments for losses suffered during that time cannot be made until Congress retroactively extends the NFIP authority. However, your insurance company can proceed with investigating your claim under a "non-waiver" agreement, up to the point of payment. Under the "non-waiver" agreement, the company would reserve the right not to pay the claim if Congress does not reauthorize the NFIP.

12. How will I be notified when the NFIP is reauthorized?

We will announce it through the media and to all the NFIP's stakeholders—insurance companies, insurance agents, lenders, and realtors, so they can pass the information on to their customers. We will also use the FEMA web site to announce the reauthorization.

13. What happens if Congress does not make reauthorization retroactive to January 1, 2003?

Policies without a 30-day waiting period would become effective on the date the reauthorization is effective.

Policies with a 30-day waiting period would become effective when both the 30-day waiting period has ended and Congress has reauthorized the NFIP.

See Question 15 for details about the 30-day waiting period.

14. What happens if the hiatus is lengthy?

If authorization is not granted within a reasonable period of time after Congress reconvenes, premium payments will have to be refunded and we will not be able to issue the policies paid by premiums held in abeyance.

15. Is there a waiting period for flood insurance to become effective?

There is normally a 30-day waiting period before flood insurance goes into effect. There are two exceptions:

- If the initial purchase of flood insurance is in connection with the making, increasing, extending, or renewing of a loan, there is no waiting period. The coverage becomes effective at the time of the loan, provided the application and presentment of premium are made at or prior to loan closing.
- If the initial purchase of flood insurance is made during the 13-month period following the revision or update of a Flood Insurance Rate Map for the community, there is a 1-day waiting period.

In addition to the two basic exceptions, the FIMA has issued a policy decision specifying the following four exceptions:

1. The 30-day waiting period will not apply when there is an existing insurance policy and an additional amount of flood insurance is required in connection with the making, increasing, extending, or renewing of a loan, such as a second mortgage, home equity loan, or refinancing. The increased amount of flood coverage will be effective as of the time of the loan closing, provided the increased amount of coverage is applied for and the presentment of additional premium is made at or prior to the loan closing.
2. The 30-day waiting period will not apply when an additional amount of insurance is required as a result of a map revision. The increased amount of coverage will be effective at 12:01 a.m. on the first calendar day after the date the increased amount of coverage is applied for and the presentment of additional premium is made.
3. The 30-day waiting period will not apply when flood insurance is required as a result of a lender's determining a loan that does not have flood insurance coverage should be protected by flood insurance. The coverage will be effective upon the completion of an application and the presentment of payment of premium.
4. The 30-day waiting period will not apply when an additional amount of insurance offered in the renewal bill is being obtained in connection with the renewal of a policy.