FLOOD INSURANCE FUNDAMENTALS: NFIP TRAINING FOR PRODUCERS

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Flood Insurance Fundamentals:
NFIP Training for Producers
Contents

Introduction

Standard residential and commercial property insurance policies that cover buildings and their contents normally exclude coverage for flood losses. Flood damage was traditionally considered uninsurable due to the widespread and catastrophic nature of many floods, and individuals and businesses had no way to insure themselves against the financial consequences of a flood loss.

In response to the need for flood insurance that private insurers could not meet, Congress passed the *National Flood Insurance Act of 1968*. This Act established a form of government insurance against flood losses and created the *National Flood Insurance Program (NFIP)*. Coverage under the NFIP is administered by the *Federal Emergency Management Agency (FEMA)* and underwritten by the federal government. NFIP insurance policies can be sold to individuals, families, and businesses by regular insurance agents and brokers who also sell other types of property insurance.

This course covers topics in FEMA's outline of "minimum training and education requirements, as required by Section 207 of the Flood Insurance Reform Act of 2004, for all insurance agents who sell Standard Flood Insurance Policies issued through the National Flood Insurance Program (NFIP)."[1] This course goes beyond the minimum requirements by adding useful information that makes the details more understandable.

The NFIP is unusual in several ways. Unlike most insurance programs that were developed by private insurers, the NFIP was designed by the government based on legislation developed in Congress, so it does not always follow conventional insurance practice. The unique nature of the flooding hazard also requires approaches that address both risk financing and risk control. The NFIP is designed not only to compensate people whose property has been damaged by a flood but also to recognize, encourage, and reward efforts to mitigate flood damage.

The language of flood insurance is unique, involving specialized jargon and heavy use of acronyms. The NFIP's *Flood Insurance Manual*[2] and other resources include technical terms and acronyms that the agent must understand and some common insurance terms that take on a special meaning when used by the NFIP. The key terms are defined as they are introduced and are also defined in the course's Glossary.

Course Objectives

By completing this course, you should meet and exceed FEMA's minimum training and education requirements for agents who sell flood insurance. More specifically, you should be able to

- identify, define, and use key technical terms associated with the NFIP;
- explain the background, purposes, and development of the NFIP;
- identify events that do or do not fall within an NFIP policy's definition of "flood";
- explain what properties are eligible for NFIP coverage under the emergency program and the regular program;
- describe the important role of flood insurance rate maps (FIRMs) and distinguish among various flood zones shown on rate maps;
- describe in general the process of obtaining coverage directly from NFIP or through the Write-Your-Own (WYO) Program;
- outline the process for determining flood insurance rates and describe the factors considered in rating;
- describe general rules and procedures associated with handling NFIP applications and policies;
- identify the types of property and describe the peril that can be covered under a standard NFIP policy; and
- describe the respective responsibilities of NFIP policyholders and agents in handling flood claims.

Chapter 1
Overview of NFIP

Overview

This chapter begins with the technical definition of "flood" and explains why flood insurance is needed. It then explains what property is eligible for flood insurance and the role of flood maps. The chapter concludes by explaining how flood insurance coverage can be arranged.

Chapter Objectives

On completion of this chapter, you should be able to

- identify, define, and use key technical terms associated with the NFIP;
- explain the background, purposes, and development of the NFIP;
- explain what properties are eligible for NFIP coverage under the emergency program and the regular program;
- describe the important role of FIRMs and distinguish among various flood zones shown on rate maps; and
- describe in general the process of obtaining coverage directly from NFIP or through the WYO Program.

Floods and Flood Insurance

First we must understand what is meant by "flood" and why floods require a special approach to insurance.

What Is a Flood?

A *flood* is a great flowing or overflowing of water, especially over land areas that are normally dry. NFIP flood insurance policies use a more specific definition.

> ***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 (one of which is your property) from one of the following:*
>
> - *Overflow of inland or tidal waters*
> - *Unusual and rapid accumulation or runoff of surface waters from any source*
> - *Mudflow*
> - *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*

A water event that does not meet this definition is not, for purposes of the National Flood Insurance Program (NFIP), a "flood."

There are several types of flooding.

- *Coastal flooding* occurs when hurricanes and storms produce heavy rains or drive ocean water onto land. Storms, earthquakes, and volcanoes can create tidal waves that produce coastal flooding. The force of the water from tidal waves often sweeps away beaches and houses.
- *River flooding* is normally seasonal because of snowmelt or heavy rains. Water fills the river basin too quickly, and the river flows over its banks. Water then covers the *floodplain*, often damaging homes, and other property.
- *Flash flooding* is caused when small and powerful fast-flowing rivers are quickly formed because of excessive rainfall or dam failure, sometimes triggering catastrophic mudslides. Flash floods can be powerful enough to carry away roads, bridges, and other structures, and they can occur with little advance warning.

Loss Control Measures

Floods cause major water damage to homes, and they can cause walls and entire buildings to collapse. Many homes caught in a flood are total losses. Property owners can take various measures to protect their homes and businesses, including the following:

- Elevate the structure.
- Relocate the structure.
- Relocate or elevate electrical panel boxes, furnaces, washers/dryers, and water heaters to a location less likely to be flooded.
- Seal the structure.

FEMA provides detailed information in its publication titled *Design Manual for Retrofitting Flood Prone Residential Structures*, which can be ordered from FEMA.

Need for Flood Insurance

Most property insurance coverage forms exclude flood coverages. (Notable exceptions include auto insurance policies and inland marine floaters, which often include flood coverage.) Since most property forms do not typically cover flood losses, all property owners should seriously consider procuring separate flood insurance.

Flooding and Probability

Many locations have a 1 percent or more probability that that location will experience a flood in any given year. It's important to understand exactly what this means and what it doesn't mean.

A 1 percent probability is the same as saying they can expect 1 flood every 100 years *on average in the long run.* This is no guarantee that the property will not have 2 or more floods within a 2- or 3-year period or even within the same year.

Why Flood Insurance Is Better Than Disaster Assistance

Disaster assistance might become available, but it is available only if a disaster is federally declared. When it is available, assistance is usually a loan that must be repaid in full with interest. Flood insurance, however, indemnifies the insured for covered losses—even when a disaster is not federally declared.

The National Flood Insurance Program (NFIP)

The *National Flood Insurance Act of 1968* established the NFIP as a federally funded and operated program. Flood insurance is available from the NFIP, which is administered by the Federal Emergency Management Agency (FEMA).

The National Flood Insurance Act was amended in 1969 to provide coverage for mudslides. A 1973 amendment required mortgage lenders, in most cases, to ensure that flood-plain property was covered by flood insurance. 1994 legislation tightened the enforcement of flood insurance requirements.

The *Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters)*[3] made further modifications to various aspects of the NFIP. But in passing the Homeowner Flood Insurance Affordability Act of 2014, Congress rescinded some of the changes that Biggert-Waters had called for.

NFIP Coverage Forms

There are three different NFIP coverage forms:

- The *dwelling form* can be used to cover one- to four-family dwellings. It cannot be used for residential structures with five or more residential units.
- The *general property form* covers *other residential* buildings of five families or more and nonresidential buildings. This flood form insures most businesses.
- The *residential condominium building association policy (RCBAP)* provides coverage for the condominium association, not individual unit owners. This policy covers the common elements and all structural items of the residential condominium units within a building. It also covers personal property owned by the condominium association.

Where Property Is Eligible for Flood Insurance

FEMA has identified high-risk flood areas, known as *special flood hazard areas (SFHAs)* where flood insurance is essentially mandatory. Properties in these areas have a 1 percent or greater chance of being flooded in any given year (*100-year floodplain*).

Participating Communities

Properties do not need to be located in SFHAs to qualify for NFIP flood coverage. However, they do need to be located in a *participating community*. To become a participating community, a community must adopt a floodplain management ordinance that meets or exceeds minimum NFIP criteria and have a Flood Insurance Rate Map (FIRM) or a Flood Hazard Boundary Map (FHBM).

Participation in NFIP is a two-stage process, beginning with the community's participation in the *emergency flood program*. The second stage of participation is the *regular flood program*. Higher limits of coverage are available under the regular program.

Emergency Program

The emergency program, the initial phase of a community's participation in the NFIP, exists when the community has adopted floodplain management standards, but no Flood Insurance Rate Map (FIRM) is yet available. Pending the creation of a FIRM, which will identify all of the flood hazard zones in the community, properties in an emergency program community are eligible for flood insurance at emergency program rates and subject to emergency program maximum limits.

The same emergency program rates apply to all insured properties, whether or not they are located within a floodplain. However, the maximum amount of insurance available is limited.

Regular Program

Once a detailed engineering study is completed for the community and a Flood Insurance Rate Map (FIRM) is issued, the community is brought into the regular program of the NFIP. Under the regular program, higher amounts of flood insurance coverage are provided than under the emergency program.

Regular program communities must agree to adopt and enforce certain floodplain management regulations, including building construction and zoning laws that minimize the risks of flood damage.

Flood Insurance Rate Maps (FIRMs)

A *FIRM* is an official map of a community on which the FEMA has delineated the SFHAs, the base flood elevations (BFEs), and the flood zones applicable to the community.

Base Flood Elevation (BFE)

The *BFE* is the elevation of surface water resulting from a flood that has a 1 percent chance of equaling or exceeding that level in any given year. The BFE is shown on the FIRM zones AE, AH, A1–A30, AR, AR/A, AR/AE, AR/A1–A30, AR/AH, AR/AO, V1–V30, and VE.

In essence, the BFE outlines the border of the 100-year floodplain. Property below this line is in the 100-year floodplain, also known as the Special Flood Hazard Area (SFHA); property above this line is not. However, property outside the 100-year floodplain is not immune from flooding. It only means that the probability of a flood is a bit lower. Over the past decade, approximately 20 percent of all NFIP claims came from properties in low- to moderate-risk areas.

Flood Zones

Flood maps of communities that participate in the NFIP indicate the degree of flood hazard in various specific areas referred to as *zones*.

Special Hazard Flood Areas (SFHAs) are defined as the areas that will be inundated by the flood event having a 1-percent chance of being equaled or exceeded in any given year. The 1-percent annual chance flood is also referred to as the base flood or 100-year flood. SFHAs are labeled as zones A, AO, AH, A1–A30, AE, A99, AR, AR/AE, AR/AO, AR/A1–A30, AR/A, V, VE, and V1–V30.

Moderate flood hazard areas, labeled Zone B or Zone X (shaded) are also shown on the FIRM and are the areas between the limits of the base flood and the 0.2-percent-annual-chance (or 500-year) flood. The areas of *minimal flood hazard*, which are the areas outside the SFHA and higher than the elevation of the 0.2-percent-annual-chance flood, are labeled Zone C or Zone X.

A more specific description of these map zones is shown in Exhibit 1.1.

Exhibit 1.1

Definitions of FEMA Flood Zone Designations

Flood zones are geographic areas that FEMA has defined according to varying levels of flood risk. These zones are depicted on a community's FIRM. Each zone reflects the severity or type of flooding in the area.

Moderate- to Low-Risk Areas

In communities that participate in the NFIP, flood insurance is available to all property owners and renters in these zones:

ZONE	DESCRIPTION
B and X (shaded)	Area of moderate flood hazard, usually the area between the limits of the 100-year and 500-year floods. Are also used to designate base floodplains of lesser hazards, such as areas protected by levees from 100-year flood, or shallow flooding areas with average depths of less than one foot or drainage areas less than one square mile.
C and X (unshaded)	Area of minimal flood hazard, usually depicted on FIRMs as above the 500-year flood level

High-Risk Areas

In communities that participate in the NFIP, mandatory flood insurance purchase requirements apply to all of these zones:

ZONE	DESCRIPTION
A	Areas with a 1% annual chance of flooding and a 26% chance of flooding over the life of a 30-year mortgage. Because detailed analyses are not performed for such areas, no depths or BFEs are shown within these zones.
AE	The base floodplain where BFEs are provided. AE zones are now used on new format FIRMs instead of A1–A30 zones.
A1–30	These are known as numbered A zones (e.g., A7 or A14). This is the base floodplain where the FIRM shows a BFE (old format).
AH	Areas with a 1% annual chance of shallow flooding, usually in the form of a pond, with an average depth ranging from 1 to 3 feet. These areas have a 26% chance of flooding over the life of a 30-year mortgage. BFEs derived from detailed analyses are shown at selected intervals within these zones.
AO	River or stream flood hazard areas and areas with a 1% or greater chance of shallow flooding each year, usually in the form of sheet flow, with an average depth ranging from 1 to 3 feet. These areas have a 26% chance of flooding over the life of a 30-year mortgage. Average flood depths derived from detailed analyses are shown within these zones.
AR	Areas with a temporarily increased flood risk due to the building or restoration of a flood control system (such as a levee or a dam). Mandatory flood insurance purchase requirements will apply, but rates will not exceed the rates for unnumbered A zones if the structure is built or restored in compliance with Zone AR floodplain management regulations.
A99	Areas with a 1% annual chance of flooding that will be protected by a federal flood control system where construction has reached specified legal requirements. No depths or BFEs are shown within these zones.

High Risk: Coastal Areas

In communities that participate in the NFIP, mandatory flood insurance purchase requirements apply to all of these zones:

ZONE	DESCRIPTION
V	Coastal areas with a 1% or greater chance of flooding and an additional hazard associated with storm waves. These areas have a 26% chance of flooding over the life of a 30-year mortgage. No BFEs are shown within these zones.
VE, V1–30	Coastal areas with a 1% or greater chance of flooding and an additional hazard associated with storm waves. These areas have a 26% chance of flooding over the life of a 30-year mortgage. BFEs derived from detailed analyses are shown at selected intervals within these zones.

Undetermined Risk Areas

ZONE	DESCRIPTION
D	Areas with possible but undetermined flood hazards. No flood hazard analysis has been conducted. Flood insurance rates are commensurate with the uncertainty of the flood risk.

Community Participation/Eligibility

A community has many incentives to participate in the NFIP. For example, if an officially declared disaster occurs as a result of flooding in a nonparticipating community, no federal financial assistance will be granted for the permanent repair or reconstruction of insurable buildings in these areas. In addition, a lender can offer only a conventional loan (a loan not guaranteed or insured by the federal government) in a community that does not participate in the NFIP. The lender is still required to inspect any flood maps to determine flood hazard risk and provide notice of this risk. A lender that recognizes the flood risk to financed property may require a borrower to obtain flood insurance even without a federally mandated requirement.

Community Rating System (CRS)

The CRS, a voluntary program for NFIP-participating communities, encourages flood mitigation activities, by providing financial incentives (premium discounts) for policyholders in communities that go beyond the minimum floodplain management requirements and develop extra measures to provide protection from flooding. More than 1,300 communities currently participate in the CRS.

For a community to be eligible, it must be in full compliance with the NFIP and be in the regular phase of the program.

CRS classes range from class 1 to class 10. All communities begin with a class 10 rating, which provides no discount. A class 1 rating earns the largest premium discount of 45 percent.

Eighteen activities in four categories—public information, mapping and regulation, flood damage reduction, and flood preparedness – are recognized as measures for reducing the exposure to floods. Credit points are assigned to each activity. Once a community applies to the appropriate FEMA region for the CRS program and its implementation is verified, FEMA establishes the CRS classification based on the credit points allowed.

Building Property Eligibility

Flood insurance may be written only on a structure with two or more outside rigid walls and a fully secured roof affixed to a permanent site. Structures must resist flotation, collapse, and sideways motion. Usually at least 51 percent of the actual cash value (ACV) of the property, including machinery and equipment that are a part of the building, must be above ground level.[4] 4

Manufactured Homes

Manufactured or mobile homes, along with travel trailers, may be eligible, but they have separate eligibility standards. A manufactured or mobile home is defined as a structure built on a permanent chassis, transported to its site in one or more sections, and affixed to a permanent foundation.

A travel trailer without wheels is also eligible if it is built on a chassis and affixed to a permanent foundation, provided it is regulated under the community's floodplain management and building ordinances or laws.

Two different eligibility rules that apply to manufactured homes are based on how long the flood policy has been in force.

- For manufactured homes insured under policies that were effective on or after October 1, 1982, the home must be affixed to a permanent foundation. It must also be anchored if located in an SFHA.
- For manufactured homes on a foundation that have been continuously insured since September 30, 1982, the requirements are not as rigorous.

Other Structures

Numerous other structures are considered eligible buildings, including the following.

- Appurtenant structures
- Silos and grain storage buildings
- Cisterns
- Buildings entirely over water that were constructed or substantially improved before October 1, 1982
- Buildings partially over water, under certain circumstances
- Boathouses located partially over water, under certain circumstances
- Buildings in the course of construction that have yet to be walled and roofed except when construction has been stopped or delayed for more than 90 days and/or if the lowest floor used for rating purposes is below the BFE
- Severe repetitive loss properties[5]

Ineligible Buildings

The following buildings are among those typically ineligible for flood insurance coverage.

- Buildings that are constructed or altered in a way that places them in violation of state or local floodplain management laws or regulations. Contents and personal property located in these buildings are also ineligible.
- Container-type structures, such as gas and liquid tanks, chemical or reactor container tanks and brick kilns, including their contents
- Buildings entirely over water if they were newly constructed or substantially improved on or after October 1, 1982
- Buildings partially underground, if 50 percent or more of the structure's ACV, including the machinery and equipment that are part of the building, is below ground level
- Boat repair docks
- Greenhouses (unless the structure has at least two rigid walls and a roof)

Contents Eligibility

To be eligible for coverage, contents must be located in a fully enclosed building or secured to prevent flotation out of the building. Additional categories of eligible property include the following.

- Vehicles and equipment—self-propelled vehicles or machines are eligible, provided they are not licensed for use on public roads and are (a) used primarily to service the described location or (b) designed and used to assist handicapped persons. Coverage applies only while the vehicles or machines are inside a building at the described location.
- Contents located inside silos, grain storage buildings, and cisterns

Arranging NFIP Flood Insurance Coverage

Flood insurance is mandatory for most owners of mortgaged property located in an SFHA. This is because lenders that are federally regulated, supervised, or insured by federal agencies are not legally permitted to lend money on property in a flood plain zone when the community is participating in the NFIP unless the property is covered by flood insurance. The amount of flood insurance required in this situation must be at least equal to the smallest of these three amounts:

- The outstanding principal balance of the loan
- The insurable value of the structure (not including land). (Under the dwelling form and the RCBAP, the insurable value is based on the building's replacement cost; the general property form provides actual cash coverage on the building, so the building's insurable value is its ACV.)
- The maximum amount of insurance available from the NFIP. (Property is often worth more than the maximum amount of flood insurance offered by the NFIP.)

This legal requirement has been poorly enforced in the past, partly because mortgages are often sold by one bank to another, and the penalty for noncompliance has been only $350. Biggert-Waters encourages lenders to comply with flood insurance requirements by increasing the penalty to $2,000 per violation with no limit on annual penalties.[6]

Biggert-Waters permits the use of private insurance to satisfy the *mandatory purchase* requirement.[7] "Private flood insurance" does not refer to NFIP policies that private insurers issue under the WYO Program, but rather to insurance underwritten by a private insurance company using a different policy form.

Lenders may purchase flood insurance on behalf of home owners who fail to buy it themselves and then bill the home owners for coverage. This is referred to as *force-placed insurance.* Within 30 days after receiving confirmation that a property owner has purchased his or her own flood insurance, Biggert-Waters requires mortgage lenders and servicers to terminate the force-placed insurance and refund any premiums or fees paid for any period of duplicate coverage.[8]

At a real estate settlement, home buyers must now be made aware that flood insurance is available under the NFIP or from a private insurer, and they must also be notified if the property they are buying is located in an SFHA.[9]

Home owners with homes in moderate- to low-risk flood zones may not be compelled to purchase flood insurance. But residential and commercial properties not subject to such obvious risks of flood damage can and do suffer flood losses. There is a tendency of those whose property is not subject to an obvious flood hazard (such as a nearby river that floods reliably every spring or hurricane-related flooding in seaside communities) to discount the possibility of flood damage.

Another reason why relatively few property owners purchase flood insurance is that many insurance agents find it difficult to arrange NFIP policies. The application and rating procedures for NFIP flood insurance are entirely separate from those used in arranging other coverages, and the program has some requirements that are burdensome for agents. Nevertheless, the NFIP is often the only available source of flood insurance, particularly for home owners and commercial property owners with an obvious flood exposure.

Agents who do not recommend or suggest flood insurance, when it is available, face the possibility of serious errors and omissions (E&O) claims.

Write-Your-Own (WYO) Program

NFIP flood policies can be issued directly by the NFIP or by a private insurer that participates in NFIP's WYO Program. WYO participating insurers write the coverage on their own "paper"—that is, policies are issued in the participating insurer's name—but the NFIP reinsures the coverage 100 percent, so losses are borne entirely by the federal government. Policy language and coverage are the same whether the policy is issued directly by the NFIP or by a WYO insurer. More information about the WYO Program is provided later in this course.

Chapter 1 Review Questions

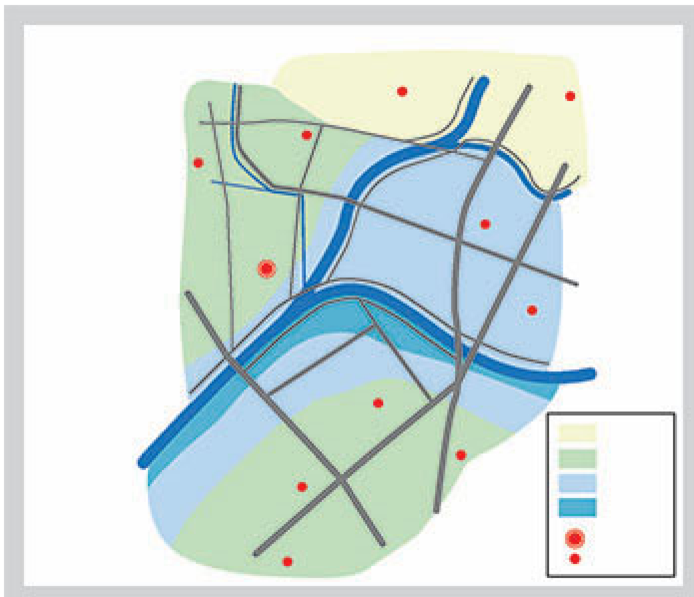
1. When the snow melts, a creek overflows and covers six low-lying acres of property that also contain some buildings. This is an example of
   - A. coastal flooding.
   - B. erosion.
   - C. river flooding
   - D. water damage that does not meet the definition of a flood.
2. After hearing that many people qualify for federal disaster assistance following flood damage to their homes, Mari decides not to buy flood insurance. Mari apparently does not realize that
   - A. federal disaster assistance is available in the same amounts as flood insurance.
   - B. federal disaster assistance is mandatory for property in an SFHA.
   - C. federal disaster relief is available only to people who buy flood insurance.
   - D. the assistance will be a loan that she has to repay
3. As a member of the Seaside Condominium Association, Christa approves the association board of directors' proposal to purchase flood insurance. At a later meeting, Christa is shocked to discover that the flood policy, known as an RCBAP, does not cover flood damage to
   - A. personal property in common areas that the association owns.
   - B. personal property in her condominium unit
   - C. structural elements such as supporting beams within the walls of her condominium unit.
   - D. the condominium building itself.
4. Before signing a purchase agreement on the home she is considering, Toni checks to determine what flood zone the property is in. When she finds out that it is in Zone B, Toni realizes that
   - A. she should not buy flood insurance on this house.
   - B. the house is in a moderate risk area
   - C. the house is within the 100-year floodplain.
   - D. the house is outside the 500-year floodplain.
5. An insurance agent speaking at a countrywide convention of agents and brokers informs them about the common reasons why only a fraction of properties exposed to the risk of flood damage is actually insured against flood. First, he points out that those who own properties that are not subject to an obvious flood hazard tend to discount the possibility of flood damage. The other reason why not many properties are insured is that
   - A. agents find it difficult to arrange NFIP policies for their customers.
   - B. flood insurance is extremely expensive for home owners.
   - C. flood insurance is not widely advertised.
   - D. flood losses are too unpredictable and therefore hard to insure.

Answers to Chapter 1 Review Questions

1. C. The type of flood involved here is river flooding.
2. D. Federal disaster assistance usually takes the form of a loan that must be repaid in full with interest.
3. B. An RCBAP covers the association's building property and personal property; individual condo owners can purchase coverage for their personal property under a dwelling form.
4. B. Zone B denotes a moderate- to low-risk area that is not immune from flooding but has a chance of flood damage, in any given year, between 0.2 percent and 1.0 percent.
5. A. Many agents find it difficult to deal with the NFIP's application and rating procedures that are burdensome in comparison with other insurance-handling procedures.

Chapter 2
Flood Maps and Rating

Overview



Understanding the different flood maps and the factors involved in rate determination are important in understanding how the National Flood Insurance Program operates.

Chapter Objectives

On completion of this chapter, you should be able to

- describe the important role of flood insurance maps and distinguish among various flood zones shown on rate maps;
- outline the process for determining flood insurance rates and describe the factors considered in rating; and
- identify, define, and use key technical terms associated with the NFIP.

Flood Hazard Boundary Map (FHBM)

An FHBM is the official map of a community, issued by FEMA, in which the boundaries of the flood, mudflow, and related erosion areas possessing special hazards have been identified. It shows approximate areas of 100-year flood hazard. An FHBM is generally used for emergency program communities, but some communities with minimal flood hazards that enter the regular program continue to use an FHBM, renamed as a FIRM.

Flood Insurance Rate Map (FIRM)

A FIRM is the official map of a community on which FEMA has delineated both the special hazard areas and the risk premium zones for the designated community. The date of an initial FIRM may determine whether a property is categorized as pre-FIRM or post-FIRM. This is relevant because flood insurance rates are different for pre-FIRM and post-FIRM properties.

- A *pre-FIRM* building is one for which construction or substantial improvement occurred on or before December 31, 1974, or before the effective date of an initial FIRM.
- A *post-FIRM* building is one for which construction or substantial improvement occurred after December 31, 1974, or on or after the effective date of an initial FIRM, whichever is later.

Pre-FIRM buildings that are substantially improved can continue to be rated as pre-FIRM if certain conditions are met.

Base Flood Elevation (BFE)

A base flood is often referred to as a 100-year flood. This is not a flood that will only occur once every 100 years. Rather it refers to a flood having a 1 percent or greater probability of occurring in any given year. At a given location, a 100-year flood could happen more than once in a relatively short period of time, or it could not happen for hundreds of years.

BFE refers to the height of a base flood, usually in feet above sea level.[10] When building a new structure in a flood hazard zone, the best way to protect property and minimize damage is to build above the BFE and strictly follow all building codes.

Zone Determination

A zone—a geographical area shown on an FHBM or FIRM—reflects the severity or type of flooding in the area. Zone determination is one of the key steps necessary to determine the appropriate rate for flood insurance. For example, Zone V is a coastal area that tidal floods with a high wind velocity can inundate. ("V" stands for "velocity.") Property in SFHAs would be classified in one of the numerous Zone A locales. Zones B, C, and X are in areas of moderate or minimal hazard, and Zone D consists of areas in which the flood hazard is undetermined.

Types of Buildings

The lowest level of any building is the level most susceptible to flood damage. For rating purposes, the NFIP distinguishes among the following "building types" categories.

- No basement/enclosure
- With basement
- With enclosure
- Elevated on crawlspace
- Non-elevated with subgrade crawlspace
- Manufactured (mobile) homes

Any building area with a floor below grade level on all sides qualifies as a *basement*.

An *elevated building* is a building that has no basement and that has its lowest elevated floor raised above ground level by foundation walls, posts, piers, pilings, or columns. An enclosure such as a shed or a utility room might be found in the space under an elevated building.

A *crawlspace* is a space under the building where one must crawl because there is not enough room to stand.

Premium Calculation

The premium calculation steps for flood insurance policies differ depending on whether the emergency program or the regular program is in effect.

Emergency Program

The emergency program is designed for communities that do not yet have a FIRM. The same emergency program rates apply to all insured properties without regard to the flood hazard. Limited dollar amounts of coverage are available in this first phase.

The rate structure for properties in emergency program communities is simple. The only variables are the nature of the insured property (building or contents) and whether the property is residential or nonresidential.

Steps in Premium Calculation

The emergency program calculation steps are as follows.

1. Determine occupancy type: residential or nonresidential.
2. Calculate premium using appropriate rates.
3. Apply appropriate deductible factor if an optional deductible is chosen.
4. Add the reserve fund assessment fee.
5. Add HFIAA surcharge and the federal policy fee.

Introduced in the Homeowner Flood Insurance Affordability Act (HFIAA), the *HFIAA surcharge* fee is a flat fee intended to offset some of the other changes made by that act. Policies on primary residences include a $25 surcharge, and all other policies include a $250 surcharge. The *federal policy fee* is a flat administrative charge that applies to all flood policies. The *reserve fund assessment fee* is an amount dedicated to the NFIP Reserve Fund as authorized by the Biggert-Waters Flood Insurance Reform Act of 2012.

Regular Program

The second and final stage of a community's participation is the regular flood program. A community becomes a participant in the regular program once its flood hazard zones have been identified and published in a FIRM. Regular program communities must agree to adopt and enforce certain *floodplain management* regulations, including building construction and zoning laws that minimize the risks of flood damage.

Rates applicable to properties in regular program communities vary based on a number of factors. The most important is the flood hazard zone in which the property is located.

The applicable zone can be found on the FIRM for the community in which the property is located. Alternatively, the applicable zone for a particular property can be obtained from the permits or building department of the community's city or county government office. Flood maps are available from these offices or the NFIP.

Sections of flood maps (referred to as *FIRMettes*) are also available free of charge via the Internet on the NFIP's website. Instructions on how to access and print a FIRMette are provided in the "FEMA Flood Map Service Center" section of the NFIP website.[11]

Rates applicable to properties constructed after the date the initial flood map of the community was issued and located in the most hazardous zones also vary depending on the elevation of the building's *lowest floor* above the area's BFE.

Steps in Premium Calculation

The regular program premium calculation steps are as follows.

1. Determine whether the property to be covered is pre-FIRM or post-FIRM.
2. Determine the appropriate zone.
3. Determine occupancy: single family, two- to four-family, other residential, nonresidential, or manufactured home.
4. Determine building type, including the number of floors.
5. Determine whether building has a basement (or enclosed area below an elevated building): none, finished, or unfinished.
6. Determine elevation difference.
7. Calculate premium using the appropriate rates.
8. Apply appropriate deductible if an optional deductible is chosen. Note that the *increased cost of compliance (ICC)* premium is not subject to deductible factors.
9. Add the ICC amount to the premium.
10. Apply community rating system (CRS) credit if applicable.
11. Add a 15 percent reserve fund assessment fee.
12. Add $50 *probation surcharge* if structure is located in a community on probation.
13. Add HFIAA surcharge and the federal policy fee.

Special Rating Situations

Special rating situations include circumstances that involve tentative rates, alternative rates, or grandfathering.

Tentative Rates

Insurers use *tentative rates* to issue policies when the insurance agent fails to provide the necessary rating information. Tentative rates are typically higher than the NFIP published rates. When tentative rates are used, a declarations page and a tentative rate letter will be forwarded to the policyholder, agent, and mortgagee (if any) requesting the necessary information so that the proper rate can be ascertained.

Tentatively rated policies cannot be endorsed to increase policy limits or renewed for another policy term until the insurer has received the necessary actuarial rating information and full premium payment.

If a loss occurs on a tentatively rated property, the loss payment is limited by the amount of coverage that the initially submitted premium would have purchased using the correct actuarial rating information.

Alternative Rates

When a structure is pre-FIRM and the FIRM zone is unknown, an *alternative rating* process can be used for noncoastal high-hazard areas. In these cases, the NFIP will assume that the building is located in an SFHA.

The NFIP also uses the alternative rating procedure for renewing policies in communities that have converted from the emergency program to the regular program during a policy's term. When initially using alternative rates, the agent should determine the actual FIRM zone as soon as possible during the initial policy term and submit a general change endorsement to correct the FIRM zone and premium. Unless the correct flood zone is provided, the policy cannot be renewed.

Grandfathering

Grandfathering is a situation in which an old rule continues to apply. With flood insurance, grandfathered property that had lower rates under some previous situation continues to qualify for lower rates even after the situation changes.

A community's flood risk potential can change for many different reasons. For example:

- One community might install structural improvements (dams, levees, etc.) to decrease the potential effects of flooding.
- Another community might engage in new commercial or residential development that could aggravate the flooding situation.
- Communities sometimes revise their geographical boundaries, resulting in the designation of additional or reduced flood hazard areas.

When situations like these occur, the FIRM is revised and republished. When this happens, flood insurance premiums can dramatically increase for policyholders whose property is reclassified. The NFIP's grandfather rules give the insured the option of using the new and updated rating criteria or having the premium rate determined using the BFE and/or flood zone on the FIRM in effect when the building was originally constructed or when flood insurance was first procured.

Effect of Biggert-Waters

In order to ensure that flood insurance rates more accurately reflect the risk, Biggert-Waters presumably phased out subsidized rates for non-primary (secondary) residences such as a vacation home occupied only during the summer months. Subsidized rates for other property classes were also to be eliminated over time, beginning in late 2013.

These subsidies were to be phased out by imposing a 25 percent premium increase every year until rates increase the true risk. These changes would affect the following property owners.[12]

- Owners of non-primary (secondary) residences in an SFHA
- Owners of business properties in an SFHA
- Owners of property that has experienced severe or repeated losses

The owners of *primary* residences located in SFHAs would retain their subsidized rates unless or until one of the following conditions occurs.

- The property is sold.
- The policy lapses.
- The property suffers severe repeated flood losses.
- A new policy is purchased.

Grandfathered rates were to be phased out for most properties whenever a community adopts a new FIRM. The phase-out would happen gradually over a 5-year period, with a 20 percent rate increase each year.[13]

Effect of the Homeowner Flood Insurance Affordability Act (HFIAA) of 2014

It probably could have been predicted that many policyholders strenuously objected to increased flood insurance premiums, and they let their congressional representatives know. In March 2014, Congress reduced some of the rate increases that had already been implemented and prevented some future increases. Among other things, the 2014 law requires premium increases for most subsidized properties of at least 5 percent annually until the premium reaches its full-risk rate. However, it prevents most policyholders from experiencing annual rate increases of more than 18 percent.

The 2014 law also reinstated grandfathering, with the effect that properties recategorized as being at a higher risk of flooding under FEMA's revised maps would not be subject to large increases. In addition, the 2014 law terminated a Biggert-Waters provision that removed a subsidy once a home was sold.

According to FEMA, more than 80 percent of NFIP policyholders were not affected by either Biggert-Waters or the later rollback. The properties most affected were located in high-risk flood zones, were pre-FIRM properties, or were second homes.

The 2014 law also instituted an HFIAA surcharge for all policyholders of $25 on primary residence and $250 on all other policies.

Chapter 2 Review Questions

1. Tom is considering purchasing flood insurance but first wants to obtain a FIRM. What does FIRM stand for?
   A. Flood insurance rate map
   B. Flood insurance regular map
   C. Flood insurance revision map
   D. Flood insurance risk map
2. The first FIRMs in Ben's community were completed in 2002. The apartment building he owns was originally built in 1969, but it was completely renovated in 2010. Into what category does Ben's building fall?
   A. Non-FIRM
   B. Nonconforming
   C. Post-FIRM
   D. Pre-FIRM
3. Rupert is building a house that is located in an SFHA. When Rupert asks his agent what base flood means, the agent tells him that
   A. it means the probability of a flood occurring in any given year is 1 percent or greater.
   B. it means the property will flood once every 100 years.
   C. it means the probability of a flood within 100 years is 1 percent.
   D. it means the elevation of the property is above sea level.
4. Blake's new home has three bedrooms upstairs; a living room, a dining room, and a kitchen on the first floor, which is at ground level; and a finished family room and a storage area on the lower level. For flood insurance rating purposes, the lowest level of Blake's house is considered a(n)
   A. basement.
   B. crawl space.
   C. enclosure.
   D. flood zone.
5. Rating Erin's flood insurance policy is relatively simple, because Erin's community currently qualifies for flood insurance under the emergency program. Which one of the following factors will not have a bearing on the premium she must pay?
   A. The date on her community's initial FIRM
   B. The deductible she selects
   C. The federal policy fee
   D. Whether the property is a residence

Answers to Chapter 2 Review Questions

1. A. The official map of a community on which FEMA has delineated special hazard areas and risk premium zones is known as a flood insurance rate map, or FIRM.

2. C. Ben's building is post-FIRM because it was substantially improved after the effective date of an initial FIRM.

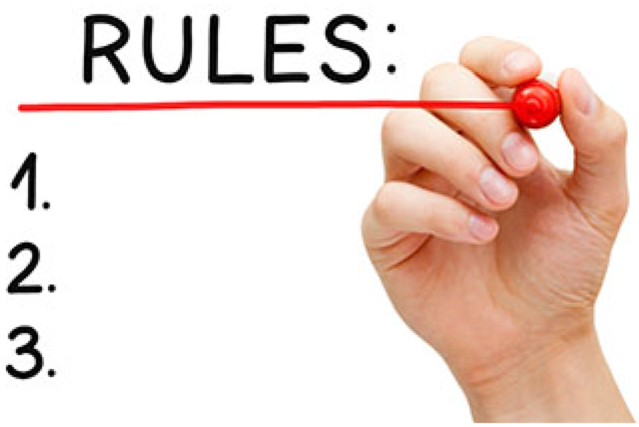
3. A. Base flood, while often referred to as a 100-year flood, actually refers to a flood having a 1 percent or greater probability of occurring in any given year.

4. A. Because this part of Blake's house is below ground level on all sides, it qualifies as a basement.

5. A. A community in the emergency program does not yet have a FIRM, so no FIRM date is available.

Chapter 3
General Rules

Overview



Many of the complicated rules in the frequently revised *Flood Insurance Manual* may raise questions. This chapter examines some of the general rules and procedures but does not cover every rule or nuances of the rules.

Chapter Objectives

On completion of this chapter, you should be able to

- describe various rules and procedures associated with handling NFIP applications and policies and
- identify, define, and use key technical terms associated with the NFIP.

Standard NFIP Forms

Each of the following three NFIP forms is referred to as a standard flood insurance policy (SFIP).

- Dwelling form
- General property form
- RCBAP

Despite their somewhat misleading titles, *scheduled building policies* and *preferred risk policies (PRPs)*, discussed later this chapter, are not additional, different coverage forms. A policyholder who has a scheduled building policy or a PRP has coverage under one of the three standard insurance policies (forms) mentioned above.

Eligibility

Exhibit 3.1 describes each SFIP form and the types of risks each form may be used to insure.

One significant distinction between these forms involves the valuation provisions that apply to building coverage. The dwelling form and the RCBAP provide replacement cost coverage, while the general property form provides actual cash coverage on the building. All forms provide ACV coverage on contents.

Exhibit 3.1
Flood Form Description and Eligibility

Flood Policy Form	Description	Eligibility
Dwelling Form	**Applicable to home owner, residential renter, or owner of residential building with two, three, or four units**	In the NFIP regular program or emergency program, the dwelling form provides building and/or contents coverage for: • Detached, single-family, non-condominium residences with incidental occupancy limited to under 50 percent of the total floor area • Two- to four-family, non-condominium building with incidental occupancy limited to under 25 percent of the total floor area • Dwelling unit in residential condominium building • Residential town house or row house
General Property Form	Issued to owner of residential building with five or more units	In the NFIP regular program or emergency program, the general property form provides building and/or contents coverage for these and similar "other residential" risks: • Hotel/motel with normal guest occupancy of 6 months or longer • Tourist home or rooming house with five or more lodgers • Apartment building • Residential cooperative building • Dormitory • Assisted living facility

Exhibit 3.1 (cont.) Flood Form Description and Eligibility		
Flood Policy Form	**Description**	**Eligibility**
General Property Form	Issued to owner or lessee of nonresidential (commercial) building or unit	In the NFIP regular program or emergency program, the general property form provides building coverage and/or contents coverage for these and similar nonresidential risks: • Hotel or motel with standard guest occupancy of less than 6 months • Licensed bed-and-breakfast • Retail shop, restaurant, or other business • Mercantile building • Grain bin, silo, or other farm building • Agricultural or industrial processing facility • Factory • Warehouse • Pool house, clubhouse, or other recreational building • House of worship • School • Nursing home • Nonresidential condominium • Condominium building with less than 75 percent of its total floor area in residential use • Detached garage • Toolshed Stock, inventory, or other commercial contents
Residential Condominium Building Association Policy (RCBAP)	Issued to residential condominium association on behalf of association and unit owners	In the regular program only, the RCBAP provides building coverage such as the common elements of the condominiums and, if requested, coverage for commonly owned contents for a residential condominium building with 75 percent or more of its total floor area used for residential purposes. In addition, it covers the structural items of the condominium units inside the building. The RCBAP is *not* designed to cover the individual contents of each unit owner.

Structures at separate locations need separate NFIP policies, with one exception, referred to as a *scheduled building policy*.

Scheduled Building Policy

As many as 10 buildings can be covered under a single scheduled building policy if all buildings have the same ownership and the properties on which the insured buildings are located are contiguous. Blanket limits are not available; separate limits of insurance apply to each covered property.

Preferred Risk Policy (PRP)

A PRP is available for properties located in Zones B, C, X, AR, or A99 in a regular program NFIP community that meet certain loss history requirements. A *PRP* is an SFIP (dwelling, general, or RCBAP) with lower rates.

SFIP insurance buyers who insure their building and its contents outside the PRP program normally select a dollar limit of coverage on the building and a dollar limit of coverage on their contents. The PRP, however, provides fixed combined building/contents limits, such as $200,000/$80,000 ($200,000 on the building and $80,000 on the contents).

The PRP makes combined building/contents limits of up to $250,000/$100,000 available for owners of residential properties and up to $500,000/$500,000 for nonresidential properties. Contents-only coverage is available for tenants and owners of all eligible occupancies, except when the contents are all located in a basement. Multi-unit residential condominium buildings eligible for coverage under an RCBAP are not eligible for the PRP.

Only one building can be insured by each PRP policy, and only one policy can be written on each building. To be eligible, a building must be located within a B, C, X, A99, or AR flood zone on the current effective FIRM and must meet certain loss-history requirements.

General Application Procedures

The NFIP flood insurance application form, or a similar form for WYO insurers, must be used to apply for all flood insurance policies except a PRP, which uses a shorter application form. A separate application must be submitted for each structure for which building and/or contents insurance is being requested.

Applications for coverage on properties that were constructed in the most hazardous zones after the date of issuance of the initial flood map for the community must include an *elevation certificate* showing the elevation of the building's lowest floor.

NFIP community participation rules require the preparation of elevation certificates for all buildings constructed in the community's SFHAs after the initial FIRM date. Elevation certificates for these properties should be readily available from the building or permits department of the community's city or county government office. If a certificate was not prepared as required at the time the building was constructed, the property owner must arrange to have a certificate prepared by a qualified surveyor or engineer.

The NFIP community number and the flood zone applicable to the property must be shown on the application. An up-to-date Community Status Book, showing the names, number, and FIRM dates of all participating communities is available on FEMA's website. Also, the permits or building department of the community's city or county government office should be able to provide this information.

The applicable flood zone can also be determined from a review of the flood map for the community. Flood maps can be obtained from the community's city or county government office or by contacting the NFIP. Many WYO insurers offer free zone determination services. Agents whose flood insurance policies are issued directly by the NFIP can contact the NFIP servicing office for assistance with zone determination.

The correct annual premium for the amount of coverage being requested must be submitted along with the application. (Biggert-Waters[14] allows for the premium to be paid in installments.)

If the premium submitted with the application is inadequate due to a rating or calculation error, but the application is otherwise in order, the policy will be issued with the maximum coverage limits that the premium submitted will purchase. The insured will then be notified of the amount of additional premium required to purchase the requested limits, and if the NFIP receives the additional premium within 30 days, the policy limits will be amended to provide the originally requested limits of coverage, effective as of the policy inception date.[15]

The flood insurance application collects information such as the type of property, occupancy, description of the building, and the use, as well as information about risk factors affecting the building, occupancy information, and elevation data relative to the ground level.

After all parts of the application are complete, the agent should attach all required certifications and other documents to the applicant's check, draft, or money order, payable to the insurer for the required amount. A credit card payment is also acceptable if the insured signs a disclaimer form stipulating that cancellation of the policy in matters involving a billing dispute is allowable only for a billing error or fraud. The original copy of the application and related documents with the total prepaid amount is mailed to the insurer. Copies of the application should be distributed to the agency file, the applicant, and the mortgagee. A copy of the application and a copy of the premium payment will satisfy the mortgagee's proof-of-purchase requirements.

After the insurer receives the application and premium, it will process the application and issue the policy. The policy contract and declarations page will then be mailed to the agent and the mortgagee(s).

If the application is incomplete or contains incorrect data, the application will not be processed but will be placed into a pending file until the agent provides the missing or correct data. For NFIP direct business, if the missing information is not provided, the policy will be issued with tentative rates. If insufficient information is available to tentatively rate the policy, the flood insurance application will be rejected and the premium payment returned to the applicant.

Waiting Period/Effective Date of Policy

Flood coverage can be purchased at any time, but it usually does not provide immediate coverage on the date of its purchase.

Flood insurance does not cover a *loss in progress*. To avoid the adverse selection that would result if coverage was purchased in anticipation of an imminent flood, a waiting period applies.

There is a standard 30-day *waiting period* from the time a policy is purchased until coverage applies. The effective date of a new policy will be 12:01 a.m. local time on the 30th calendar day after the application date and the presentment of premium.

Coverage will not begin until the waiting period has passed, so the NFIP does not recognize or accept binders. This means that the agent normally has no authority to make flood insurance effective immediately. However, there are a few exceptions to that rule.

Exceptions

Key exceptions to the 30-day waiting period include the following.

- There is no waiting period for an existing flood insurance policy in which an additional amount of coverage is required with making, increasing, extending, or renewing a loan, such as a second mortgage, home equity loan, or refinancing. Coverage is effective immediately, as long as the premium payment is made at or prior to the loan closing.
- There is no waiting period when flood insurance is mandated as a result of a lender determining that a loan that does not have flood insurance should have this coverage (e.g., property in a high-risk area). The insurance is effective immediately, as long as the premium payment is made at the completion of a loan application.
- There is a 1-day waiting period when an additional amount of insurance is required due to a map revision. This rule applies when the map revision results in a non-SFHA becoming an SFHA and only if the application for increased coverage is received within 13 months following the map revision. The increased amount of coverage will be available 24 hours after the amount of coverage is applied for and the additional premium is made.

Statutory Coverage Limits

The maximum flood insurance limits available from the NFIP are based on the type of program (emergency or regular), whether the property is residential or nonresidential, the size of the residential property (e.g., one-family dwelling as compared to a five-family dwelling), and the jurisdiction, as shown in Exhibits 3.2, 3.3, and 3.4.

Exhibit 3.2
Building Coverage—Lower 48 States

Building Coverage—All Lower 48 States	Regular Program	Emergency Program
Single or 2–4 family dwelling	$250,000	$35,000
Other residential*	$250,000	$100,000
Nonresidential or commercial	$500,000	$100,000

**Biggert-Waters[16] provides that multifamily residential properties of five or more residences may purchase flood insurance up to the limits for commercial properties.*

Exhibit 3.3
Building Coverage—Alaska, Hawaii, Guam, and US Virgin Islands

Building Coverage—Alaska, Hawaii, Guam, and US Virgin Islands	Regular Program	Emergency Program
Single or 2–4 family dwelling	$250,000	$50,000
Other residential*	$250,000	$150,000
Nonresidential or commercial	$500,000	$150,000

**Biggert-Waters[17] provides that multifamily residential properties of five or more residences may purchase flood insurance up to the limits for commercial properties.*

Exhibit 3.4 Contents Coverage—All Jurisdictions		
Contents Coverage—All States	**Regular Program**	**Emergency Program**
Residential	$100,000	$10,000
Nonresidential or commercial	$500,000	$100,000

For a flood insurance policy on condominium property owned by a residential condominium building association, distinct maximum limits apply. The maximum amount of building coverage that can be procured on a condominium is the replacement cost value of the building or the total number of units in the condominium building multiplied by $250,000, whichever is less. The maximum allowable contents coverage is the ACV of the commonly owned contents up to a maximum of $100,000 per building.

Residential condominium unit owners who want flood coverage on the contents of their units must to purchase their own dwelling policies.

Deductibles

When a loss occurs under the flood policy, the amount payable by the insurer is subject to a standard deductible shown on the policy's declarations page. Deductibles apply separately to buildings coverage and contents coverage. Therefore, an insured with flood damage to both building and contents will have two deductibles. No deductible applies to coverage for (a) expenses incurred to protect personal property against flooding, (b) condominium loss assessments, or (c) ICC.

Biggert-Waters[18] provides for minimum annual deductibles for subsidized and nonsubsidized properties:

- Subsidized (pre-FIRM) properties: $1,500 for structures insured for $100,000 or less and $2,000 for structures insured for higher amounts.
- Nonsubsidized (post-FIRM) properties: $1,000 for structures insured for $100,000 or less and $1,250 for structures insured for higher amounts.

Higher deductibles of up to $10,000 are available for one- to four-family dwellings, and deductibles up to $50,000 are available for other residential and nonresidential property. Deductibles can be increased at any time during the policy term by submitting a completed general change endorsement form. Deductibles cannot be reduced mid-term unless required by the mortgagee and written authorization is provided by the mortgagee. A 30-day waiting period will be applied to reducing the deductible, unless the request is in connection with making, increasing, extending, or renewing a loan.

The form's deductible provision specifies that the deductible for buildings under construction that do not have at least two rigid exterior walls and a fully secured roof at the time of loss will be twice the deductible that would otherwise apply.

Cancellation

The insured may cancel the policy at any time. However, return premiums in connection with midterm cancellations are payable only when the reason for the cancellation is one of those established in the NFIP *Flood Insurance Manual* as qualifying for a return premium. The insured may be entitled to no refund, a pro rata refund, or a full refund. Some situations involve a time limit or other restrictions.

The restrictions on payment of return premiums in connection with midterm cancellations are necessary because of the seasonal nature of flooding. Without these restrictions, it would be possible to purchase coverage at the beginning of the flood season and cancel the policy a few months later once the threat of flooding has passed.

The *Flood Insurance Manual* lists cancellation reason codes that are to be used when completing an NFIP cancellation/nullification request form and indicates the type of refund for which each type of cancellation qualifies. These codes are shown in Exhibit 3.5.

Exhibit 3.5
Cancellation Reason Codes

Reason Code	Premium Refund Provisions
1. Building sold, removed, or physically altered and no longer meets the definition of an eligible building	Pro rata
2. Contents sold, removed, or destroyed	Pro rata
3. Policy canceled and rewritten to establish common expiration date with other insurance coverage for the same building	Pro rata
4. Duplicate NFIP policies	Pro rata
5. Nonpayment of premium	Full
6. Risk not eligible for coverage	Full
7. Property closing did not occur	Full
8. Policy not required by lender	Pro rata
9. Insurance no longer required by lender because property no longer in SFHA because of a physical map revision	Full
10. Condominium unit or association policy converting to RCBAP	Pro rata
11. Cancellation reason code 11 has been deactivated	
12. Mortgage paid off	Pro rata
13. Voidance prior to effective date	Full
14. *Code 14 has been deactivated*	
15. Insurance no longer required based on FEMA review of lender's SFHA determination	Full
16. Duplicate policies from sources other than the NFIP	Pro rata
17. Cancellation reason code 17 has been deactivated	
18. Mortgage paid off on MPPP policy *[Mortgage Protection Portfolio Program—refers to force-placed insurance]*	Pro rata
19. Insurance no longer required by mortgagee because structure removed from SFHA by means of LOMA *[LOMA refers to map revision]*	Full
20. Policy written to wrong facility (severe repetitive loss property)	Full
21. Continuous lake flooding or closed basin lakes	No refund allowed
22. Cancel/rewrite due to misrating	Full

Exhibit 3.5 Cancellation Reason Codes	
23. Fraud	No refund allowed
24. Cancel/rewrite due to map revision, LOMA, or LOMR	Full
25. HFIAA Section 28 refund (*used to cancel and rewrite policies subject to Homeowner Flood Insurance Affordability Act)*	Full
26. Duplicate policy from source other than NFIP	Full
Source: NFIP Flood Insurance Manual.	

Miscellaneous Rules

Miscellaneous rules include policy term and assignment.

Policy Term

The only policy term available is 1 year for both NFIP direct business flood policies and policies issued through WYO insurers.

Assignment

Once the transfer of title occurs, a property owner's flood insurance building policy may be assigned in writing to a purchaser of the insured property without the written consent of the NFIP. Most other types of insurance permit assignment only with the consent of the insurer and, as a practical matter, the seller's policy is usually canceled and replaced with a new policy purchased by the buyer. Exercising the NFIP approach to assignment eliminates waiting-period issues that might otherwise be involved when property is sold.

Policies on buildings in the course of construction and policies insuring contents only may not be assigned. A new application is warranted in these circumstances.

Chapter 3 Review Questions

1. Catherine and her fellow condominium unit owners hold a condominium association meeting. Their building is located on the coast in a community that has just joined the NFIP. A FEMA representative tells them that their association can procure flood insurance written on the RCBAP and that this policy will cover all of the following except
   A. the common elements of the condominiums.
   B. the contents of the building owned in common.
   C. the individual personal property of each owner
   D. the structural items of the condominium units within a building.
2. When she applies for flood insurance, Noelle is pleased to hear that her home qualifies for a PRP, because a PRP
   A. has lower premiums.
   B. permanently guarantees premium rates will be discounted.
   C. permits the purchase of higher limits than they could get with a dwelling form.
   D. provides broader coverage than a dwelling form, a general form, or an RCBAP.
3. Bobby and Annette are in the process of applying for flood insurance. On June 1, they submit the application. They suffered some flood damage on May 25, just 1 week before submitting the application. What coverage for the May 25 damage will be available under their flood policy?
   A. They will have coverage minus a proportion of the payable limit.
   B. They will have coverage once they meet their deductible.
   C. They will have full coverage for this damage.
   D. They will not have coverage for this damage
4. Kelli owns the building that houses her retail store. The building currently has an ACV of $500,000. Kelli's community participates in the regular NFIP program. How much flood insurance can Kelli purchase on this building?
   A. She must purchase limits of at least $250,000.
   B. She may purchase limits of up to $500,000
   C. She may purchase limits of up to $800,000.
   D. She may purchase limits of up to $1 million.
5. The restriction on payment of return premiums should the insured cancel the flood policy is necessary because of
   A. the catastrophic nature of flooding.
   B. the high probability of flooding.
   C. the seasonal nature of flooding
   D. the unpredictable nature of flooding.

Answers to Chapter 3 Review Questions

1. C. The RCBAP is not designed to cover the individual contents of each unit owner.
2. A. A PRP offers coverage at lower premiums for eligible buildings in moderate risk flood zones in regular program communities.
3. D. Coverage applies to losses occurring after a 30-day waiting period—from the time of purchase—has elapsed but not to a flood already occurring before the policy term begins.
4. B. The maximum amount of flood insurance available under the regular program on a commercial building is $500,000.
5. C. Without restrictions, people could buy flood coverage before the flood season and cancel it for a partial refund after the flood season has ended.

Chapter 4
Covered Property and Additional Coverages

Overview

This chapter offers an overview of the covered property and additional coverage provided under the NFIP dwelling form, the most commonly used NFIP form.

Most of the main characteristics of an NFIP dwelling form also apply to the general property form and the RCBAP. The chapter notes some situations in which these other policies differ from the dwelling form. For example, the dwelling form and the RCBAP provide replacement cost coverage, while the general property form provides actual cash coverage on the building. All forms provide ACV coverage on contents.

The chapter addresses the coverage on building property (Coverage A), personal property (Coverage B), other coverages (Coverage C), and ICC (Coverage D). Unlike standard Insurance Services Office, Inc., homeowners or dwelling policies, the NFIP provides no additional living expense coverage. This discussion also describes the types of property not covered under the NFIP dwelling form.

Chapter Objectives

On completion of this chapter, you should be able to

- identify the types of property that can and cannot be covered under a standard NFIP policy and
- identify, define, and use key technical terms associated with the coverage of a standard NFIP policy.

Building Property (Coverage A)

A flood insurance policy can cover the building, the contents, or both. Which coverages apply is indicated in the declarations.

In the dwelling form that includes building coverage, coverage on building property (Coverage A) applies to the *dwelling* described on the policy declarations page. (The general property form's Coverage A applies to the *building* described, and the RCBAP's Coverage A applies to the *residential condominium building* described.) Covered building property includes additions and extensions attached to the building by a common wall, a stairway, a walkway, or a roof. An attached garage or other appurtenant structure falls into this category.

Manufactured homes and travel trailers that are attached to a permanent foundation can also be insured as building property. However, manufactured homes and travel trailers that are located in an SFHA must be anchored in a way that complies with specific policy provisions for coverage to apply.

Buildings under construction or undergoing alteration or repair can also qualify as covered property. Restrictions, however, apply to coverage on structures that are not yet walled or roofed. Such structures are covered only while work is in progress and for up to 90 days after work is halted. Unwalled or unroofed structures in specified zones have no coverage until the building is walled and roofed if the lowest floor is below the base flood elevation (BFE).

The following fixtures, machinery, and equipment are covered as building property.

- Awnings and canopies
- Blinds
- Built-in dishwashers and microwave ovens
- Carpet permanently installed over unfinished flooring
- Central air conditioners
- Elevator equipment
- Fire sprinkler systems
- Walk-in freezers
- Furnaces and radiators
- Garbage disposals
- Water heaters, including solar water heaters
- Light fixtures
- Outdoor antennas attached to buildings
- Permanently installed cabinets, cupboards, bookcases, paneling, wallpaper, and wall mirrors
- Plumbing apparatus
- Pumps and their operating machinery
- Refrigerators, ranges, and ovens

Coverage applies only at the location described on the declarations page or at another location (for up to 45 days) if the property is moved to protect it from the imminent danger of flood. For coverage to apply, the removed property must then be placed in a fully enclosed building "or otherwise reasonably protected from the elements." Furthermore, the removed property must be placed above ground level or outside an SFHA.

Personal Property (Coverage B)

Personal property is everything that is subject to ownership, other than real estate. Personal property for a home owner includes not only what is usually contained in a home, such as a television, a washing machine, and clothing, but also items stored in the garage such as a lawn mower. Personal property for a business includes furniture, inventory, office supplies, and other business personal property. Property permanently attached to the foundation or the ground, or property such as wall-to-wall carpeting or a central air conditioner, would be considered real property. A key test to determine whether property is personal property might be whether a person would reasonably take the item along when he or she moves. If so, it would be considered personal property.

When a flood policy covers a building's contents, the personal property coverage (Coverage B) applies only to personal property that is inside the fully enclosed building at the location described in the policy. Coverage is provided for property owned by the named insured or household family members. The dwelling form also covers, at the insured's option, property owned by guests or servants.

Improvements and Betterments

If the insured is a tenant, improvements to the building made or acquired at the insured's expense are covered under the personal property coverage. However, this coverage is subject to a maximum of 10 percent of the personal property coverage limit.

If the insured is a condominium unit owner (not an association), up to 10 percent of the personal property coverage limit can be applied to cover losses to interior walls, floors, and ceilings that are not covered under a flood policy issued to the condominium association.

Items Specifically Covered as Contents

To clarify whether building coverage or contents coverage applies to certain items, the policy explicitly states that the following items are covered under the personal property coverage.

- Air-conditioning units—portable or window units
- Carpets not permanently installed, over unfinished flooring
- Carpets over finished flooring
- Clothes washers and dryers
- Food freezers (other than walk-in freezers) and frozen food
- Ovens and cookout grills
- Portable dishwashers and microwave ovens
- Outdoor equipment and furniture stored inside the insured building (RCBAP and general property form only)

Items Subject to Limitations

Coverage on a few types of personal property is subject to a maximum of $2,500 per occurrence.

- Artwork, photographs, collectibles, and memorabilia
- Furs and articles containing fur
- Jewelry, watches, precious or semiprecious stones, and articles made of precious metals
- Personal property used in a business (not applicable to the RCBAP and general property form)
- Rare books

Antiques are covered only for their functional value.

Coverage on personal property applies at the location described on the declarations page or at a temporary location (for up to 45 days) if the property is moved to protect it from the imminent danger of flood. For coverage to apply, the removed property must be placed in a fully enclosed building “or otherwise reasonably protected from the elements.” Furthermore, the removed property must be placed above ground level or outside of an SFHA.

Limitations on Property in Basements or Enclosures

Only certain specific types of property located in a basement or enclosure are covered, and coverage is severely limited, and Exhibit 4.1 shows the applicable language, which is located in the “Property Covered” section of the form (Section III).

Exhibit 4.1
Basement Property Coverage Limitations

Under Building Property Coverage:

We insure against direct physical loss by or from flood to ...

8. Items of property in a **building** enclosure below the lowest elevated floor of an **elevated post-FIRM** building located in Zones A1-A30, AE, AH, AR, AR/A, AR/AE, AR/AH, AR/A1-A30, V1-V30, or VE, or in a **basement**, regardless of the zone. Coverage is limited to the following:
    a. Any of the following items, if installed in their functioning locations and, if necessary for operation, connected to a power source:
        1. Central air conditioners;
        2. Cisterns and the water in them;
        3. Drywall for walls and ceilings in a **basement** and the cost of labor to nail it, unfinished and unfloated and not taped, to the framing;
        4. Electrical junction and circuit breaker boxes;
        5. Electrical outlets and switches;
        6. Elevators, dumbwaiters, and related equipment, except for related equipment installed below the **base flood** elevation after September 30, 1987;
        7. Fuel tanks and the fuel in them;
        8. Furnaces and hot water heaters;
        9. Heat pumps;
        10. Nonflammable insulation in a **basement**;
        11. Pumps and tanks used in solar energy systems;
        12. Stairways and staircases attached to the **building**, not separated from it by elevated walkways;
        13. Sump pumps;
        14. Water softeners and the chemicals in them, water filters, and faucets installed as an integral part of the plumbing system;
        15. Well water tanks and pumps;
        16. Required utility connections for any item in this list; and
        17. Footings, foundations, posts, pilings, piers, or other foundation walls and anchorage systems required to support a **building**.

    b. Clean-up.

Exhibit 4.1 Basement Property Coverage Limitations
Under Personal Property Coverage: 3. Coverage for items of property in a **building** enclosure below the lowest elevated floor of an **elevated post-FIRM building** located in Zones A1-A30, AE, AH, AR, AR/A, AR/AE, AR/AH, AR/A1-A30, V1-V30, or VE, or in a **basement**, regardless of the zone, is limited to the following items, if installed in their functioning locations and, if necessary for operation, connected to a power source: 1. Air conditioning units, portable or window type; 2. Clothes washers and dryers; and Food freezers, other than walk-in, and food in any freezer.
Source: NFIP Standard Flood Insurance Policy—Dwelling Form.

Excluded Property

Several types of property are not covered under the NFIP dwelling form. Exhibit 4.2 provides a summary of the "Property Not Covered" section of the dwelling form. Likewise, none of these excluded items is covered under the RCBAP and general property forms.

Exhibit 4.2 Summary of Excluded Property
• Personal property not inside the fully enclosed building • Buildings and contents located over water or seaward of mean high tide, if the building was constructed after September 30, 1982 • Open structures, including boathouses • Personal property located in, on, or over water • Recreational vehicles, other than travel trailers that qualify as building property • Self-propelled vehicles (except those not licensed for road use, or designed and used to assist handicapped individuals, when located inside a building) • Land, lawns, trees, plants, growing crops, and animals • Accounts, bills, and evidences of debt • Money and securities, bullion, stored value cards, and postage stamps • Manuscripts and valuable papers • Underground structures and equipment, including wells and septic systems • Walks, decks, driveways, patios, and other surfaces located outside the perimeter, exterior walls of the building or the building in which the insured unit is located • Tanks containing gases or liquids and similar containers, including related equipment • Buildings and contents in which more than 49 percent of the ACV of the building is below ground, unless the lowest level is at or above the BFE and earth was used as insulation material in conjunction with energy efficient building processes • Fences, retaining walls, seawalls, bulkheads, wharves, piers, bridges, and docks • Aircraft, watercraft, and their furnishings and equipment • Hot tubs and spas (other than bathroom fixtures) and swimming pools, including related equipment • Buildings and contents made ineligible for flood insurance by the Coastal Barrier Resources Act (generally, buildings built after a specified date on specified coastal barrier islands) • Personal property a condominium unit owner owns in common with other unit owners who belong to a condominium association

Other Coverages (Coverage C)

In addition to building and personal property coverage, the NFIP policy provides several other coverages, including the following.

- Debris removal expenses
- Expenses of removing property to safety
- Sandbagging expenses
- Condominium loss assessments (dwelling form only)
- Pollution damage (general property form only)

Debris Removal Expenses

Debris removal expenses are covered, subject to the limits that apply to the building and its contents. There is no debris removal sublimit. If the insured performs the debris removal, the insured's labor is also covered; it will be valued at the federal minimum wage.

The debris removal coverage in SFIP forms is *not* limited to the cost of removal of debris of the insured's covered property. It also pays for the removal of a neighbor's debris on the insured's property. In addition, coverage for the cost of removal of debris of the insured's own covered property applies regardless of where the debris has landed.

Expenses of Removing Property to Safety

If it is necessary to move covered personal property to protect it from flood damage, not only is coverage extended to apply at the location to which the property is removed (for up to 45 days), but coverage is also provided for the reasonable expenses, up to $1,000, incurred in moving the property. Covered expenses specifically include the value of the insured's own labor, determined at the prevailing federal minimum wage. The $1,000 limit on removal expenses is part of, rather than in addition to, the limits of insurance on building and personal property, and it is not subject to the policy deductible.

Sandbagging Expenses

If the insured's property is clearly threatened by flood, the form provides up to $1,000 of coverage for sandbags (including sand, plastic sheeting, and lumber used in connection with them), fill for temporary levees, pumps, and wood purchased by the insured to save the covered building from the imminent danger of flooding. In order for coverage to apply, a legally authorized official must issue an evacuation order or a similar type of civil order for the insured's neighborhood, calling for measures to preserve life and property. The value of the insured's or a family member's own labor at the federal minimum wage is included. The $1,000 limit on sandbags, supplies, and labor is part of, rather than in addition to, the limits of insurance on building and personal property. This coverage is not subject to the policy deductible.

Condominium Loss Assessments

If the policy covers a condominium unit, any condominium loss assessments are insured, subject to the limits that apply to the building. (A unit owner who purchases no coverage on building property would not have any flood loss assessment coverage.)

This coverage applies to loss assessments resulting from the direct physical loss by or from flood to the building's common elements occurring during the policy term charged to the insured's unit by the condominium association, in accordance with the condominium association's articles of association, declarations, and the insured's deed. This coverage does not increase the dwelling limit. This additional coverage does not apply to the RCBAP or general property forms.

Pollution Damage

The general property form also pays up to $10,000 for damage caused by pollutants to covered property if the discharge or seepage of the pollutants is caused by or is the result of flooding. This coverage does not include the cost of testing for, or the monitoring of, pollutants unless required by law. This $10,000 limit is part of, rather than in addition to, the limits of insurance on the building and personal property. This additional coverage does not appear in the RCBAP or dwelling forms.

Increased Cost of Compliance (ICC) (Coverage D)

This coverage is roughly comparable to the ordinance or law coverage in other types of property insurance policies. The policy provides up to $30,000 of coverage for "increased cost of compliance." This coverage pays for increased costs resulting from the enforcement of floodplain management ordinances or laws that require elevation, flood-proofing, relocation, or demolition of a structure after direct loss by flood.

Coverage applies only when either of the following circumstances applies.

- The cost to repair a flood-damaged structure equals or exceeds 50 percent of its market value and the state or community is enforcing a substantial damage provision in its floodplain management law
- The structure qualifies as a *repetitive loss structure* because it has suffered two flood losses (including the current loss) paid by the NFIP program during a 10-year period, the cost of each repair equaled or exceeded 25 percent of the market value of the structure, and the state or community is enforcing a cumulative substantial damage provision or repetitive loss provision in its floodplain management law.

No ICC coverage applies to garages or carports, property located in communities participating in the emergency program, structures insured under a group flood insurance policy, or condominium association assessments.

The $30,000 limit cannot be increased. It applies in addition to the building limit shown on the declarations page, unless the sum of the two limits exceeds the maximum limit permitted under the Act (the National Flood Insurance Act of 1968). This coverage is not subject to a deductible.

No Time Element Coverage

One of the many controversial issues surrounding the NFIP is its lack of coverage for additional living expenses, loss of income, or other time element losses. Biggert-Waters[19] requires the US Government Accountability Office to conduct a study on the impact of expanding the flood program to include these important coverages. Private flood insurance policies often offer these options.

Disclosures

Biggert-Waters[20] includes a requirement that every NFIP policy "shall state all conditions, exclusions, and other limitations pertaining to coverage … in plain English, in boldface type, and in a font that is twice the size of the text in the body of the policy." Any person who fails to comply with this provision is subject to a fine of up to $50,000.

This might have sounded good in theory. In practice, however, a large portion of the policy's provisions qualify as conditions, exclusions, and limitations. The policy was reformatted in October 2015 to comply with this requirement, resulting in a policy that is cluttered and difficult to read, with headings and subheadings that are in a smaller font than much of the text.

Chapter 4 Review Questions

1. Kendrick's one-story house is insured under an NFIP dwelling policy that provides building coverage but not personal property coverage. An enclosed breezeway connects the house with Kendrick's two-car garage. Because the garage is at a slightly lower elevation than the house, flood waters damage the garage but do not reach the house. Kendrick's standard NFIP flood insurance policy

    A. covers Kendrick's garage under Coverage A (building property) because it is an attached appurtenant structure.

    B. covers Kendrick's garage under Coverage B (appurtenant structures).

    C. does not cover Kendrick's garage because he did not purchase personal property coverage.

    D. does not cover Kendrick's garage unless it is separately described in the policy.

2. Ann's personal property in her home is covered by an NFIP dwelling form. Of the following property, which would not be subject to a maximum limit of $2,500 per occurrence?

    A. Her expensive area carpets on the refinished hardwood floors

    B. Her mink coat

    C. Her diamond rings

    D. Her original Picasso painting

3. The personal property in Beverly's seaside home is covered by an NFIP dwelling form. Beverly moves her covered personal property into her brother's hilltop home 100 miles away from the shore before a hurricane hits her seaside home. Her NFIP dwelling form policy will

    A. cover any expenses Beverly incurs in moving her property but not cover the property itself.

    B. cover Beverly's property at her brother's home for up to $1,000.

    C. exclude coverage on the removed property because it should be covered by her homeowners policy.

    D. provide full coverage for her covered personal property since she is storing it indoors and outside an SFHA

4. In addition to covering the described building and personal property, a standard NFIP policy dwelling form includes several additional coverages. Which one of the following is not one of these additional coverages?

    A. Additional living expenses

    B. Debris removal expenses

    C. Expenses of moving property to safety

    D. Sandbagging expenses

5. The ICC coverage in an NFIP policy would apply to

   A. a flood-damaged structure that can be repaired but the cost of repairs equals or exceeds 50 percent of its market value.

   B. garages or carports.

   C. property located in communities participating in the emergency flood program.

   D. structures insured under a group flood insurance policy.

Answers to Chapter 4 Review Questions

1. A. In an NFIP policy, Coverage A (building property) includes additions attached to the dwelling described in the declarations.
2. A. Artwork, furs, and jewelry are among the several types of property to which a $2,500 per occurrence limit applies.
3. D. Coverage on personal property applies for up to 45 days at a temporary location if the property is moved to protect it from flooding; the removed property must be placed above ground level or outside an SFHA.
4. A. Coverage C includes coverage for sandbagging, debris removal, and the expenses of removing property to safety. The NFIP provides no additional living expense, business income, extra expense, or other time element coverage.
5. A. No ICC coverage applies to garages or carports, to property insured under the emergency program, or to structures insured under a group flood insurance policy.

Chapter 5
Covered Peril and Other Provisions

Overview

Chapter 5 continues the coverage analysis, but with a different focus. An NFIP SFIP is essentially a single-peril policy, covering losses proximately caused only by flood. This chapter begins by reviewing the definition of flood. It continues with an overview of key exclusions found in the policy and concludes with a brief discussion of important conditions and provisions such as the valuation and coinsurance provisions.

This chapter focuses on the dwelling form but mentions some areas in which there is a significant difference between the NFIP dwelling form and other NFIP forms.

Chapter Objectives

On completion of this chapter, you should be able to

- identify events that do or do not fall within an NFIP policy's definition of "flood" and
- describe the exclusions found in a standard NFIP policy.

Definition of Flood

Coverage is provided only for "direct physical loss by or from flood," as evidenced by physical changes to the property. The definition of "flood" is shown in Exhibit 5.1.

Exhibit 5.1 NFIP Policy Definition of Flood
Flood, as used in this flood insurance **policy**, means: 1. 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 (one of which is your property) from: a. Overflow of inland or tidal waters; b. Unusual and rapid accumulation or runoff of surface waters from any source; c. Mudflow. 2. 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 in **A.1.a.** above.
Source: NFIP Standard Flood Insurance Policy—Dwelling Form.

For coverage to apply, the flood must be a general condition that covers two or more acres of normally dry land area or two or more properties, one of which is the insured's property. If floodwaters are confined to the insured's property, there may be no coverage.

By exception to an exclusion, coverage also applies to loss resulting from sewer backup, sump discharges or overflows, and seepage of water, if a flood in the area is the proximate cause.

Mudflow

The SFIP's definition of "flood" explicitly encompasses a *mudflow*, which 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. Other earth movements, such as landslide, slope failure, or a saturated soil mass moving by liquidity down a slope, are not mudflows."

Mudflows can develop when water saturates the ground, such as from rapid snowmelt or heavy or long periods of rainfall, causing a thick liquid downhill flow of earth. Mudflows are different from other earth movements, such as landslides, slope failures, and even moving saturated soil masses in which masses of earth, rock, or debris move down a slope where there is not a flowing characteristic.

Exclusions

No coverage is provided for loss of use of, or access to, the covered property, loss of revenue or profits, loss from interruption of business or production, or any other economic loss. Also not covered is any increase in the cost of repair or rebuilding that is the result of ordinances regulating construction or repair of buildings, other than as provided in the $30,000 ICC coverage. Furthermore, no coverage is provided for loss caused directly by earth movement (i.e., earthquake, landslide, land subsidence, sinkholes, destabilization of land that results from the accumulation of water in subsurface land area, or gradual erosion) even if the earth movement is caused by flood.

There is a distinction between *mudflows* and *mudslides*. A flood policy may cover mudslide damage as long as the mud is carried by a river or stream of water. So, if a dam breaks and picks up a hillside and carries it into the insured home, coverage might apply. But a flood policy will not cover damage if a hillside becomes saturated as a result of rainfall and slowly begins to move. That's considered earth movement.

There are a few other noteworthy exclusions:

- Loss caused by the insured's modification to the insured property that materially increases the risk of flooding
- Loss from water, moisture, mildew, mold, or mudslide resulting primarily from a condition substantially confined to the dwelling or from a condition that is within the insured's control
- Loss that is already in progress as of 12:01 a.m. of the policy inception date, or, with respect to an increase in limits, the date when the additional coverage becomes effective

Key Conditions and Provisions

Important conditions and provisions include the reduction and reformation of coverage provision, concealment or fraud and policy voidance provision, conditions suspending or restricting insurance, and loss settlement valuation and coinsurance clauses.

Reduction and Reformation of Coverage

The "General Conditions" section of the policy includes an important provision titled "*Reduction and Reformation of Coverage*." This provision establishes conditions under which the policy will be considered to provide lower limits of insurance than those shown in the declarations. When the amount of premium the insurer receives is not enough to purchase the limits requested, the policy will provide only the limits that can be purchased with the amount of premium received. For example, if the insured applied for $250,000 in property limits but the premium submitted was only enough to pay for $220,000 in annual coverage, only $220,000 in limits would be provided.

On discovering the insufficiency, the insurer must advise the insured in writing of the amount of additional premium due. If the insurer receives that amount within 30 days of the date of the insurer's written notice of the premium due, the policy will be reformed back to the inception date to provide the originally requested limits—even if the insufficient premium is only discovered at the time of loss.

Concealment or Fraud and Policy Voidance

Another important provision in the "General Conditions" section of the policy, titled "Concealment or Fraud and Policy Voidance," establishes the conditions under which the policy will be considered void.

- If the property shown on the application is not eligible for coverage, the policy is void from its inception.
- If the community in which the property is located was not participating in the NFIP on the inception date and did not become a participating community during the policy term and prior to any loss, the policy is also void from its inception.
- In the event any insured or its agent has intentionally concealed or misrepresented any material fact or circumstance, engaged in fraudulent conduct, or made false statements in connection with the policy, the policy is void as of the date of the wrongful act.

Conditions Suspending or Restricting Insurance

This section of the policy also includes an "increase in hazard" type provision. The "Conditions Suspending or Restricting Insurance" provision stipulates that the insurer is not liable for loss occurring while there is a hazard that is increased by any means that is within the insured's control or knowledge. For example, if the insured altered the landscape and drainage configuration of his or her property in a way that increased the chances of a flood loss, no flood coverage applies due to this provision.

Loss Settlement Valuation and Coinsurance for Dwelling Form and RCBAP Form

The dwelling form and the RCBAP offer the following three methods of settling losses, each of which is used for a different type of property.

- Replacement cost
- Special loss settlement
- ACV

Replacement Cost

Under the dwelling form, *replacement cost* valuation applies to a single-family dwelling if it is the principal residence of the insured for at least 80 percent of the (a) 365 days immediately prior to the loss or (b) the period of ownership, if this period is less than 365 days.

In addition, the limit of insurance applicable must be 80 percent or more of the building's full replacement cost or the maximum limit allowable under the plan. The maximum amount of NFIP coverage available is often much lower than the building's full replacement value.

When these conditions are met, the insurer agrees to pay or replace the damaged dwelling after applying the deductible and without deduction for depreciation but not to pay more than the *least* of the following amounts.

- Building limit on the declarations page
- Cost of replacing the damaged part of the dwelling, with materials of like kind and quality
- Necessary amount actually spent to repair or replace the damaged part of the dwelling for like use

Essentially the same provisions apply to any eligible property insured under the RCBAP form.

For example, John Smith owns a single-family home with a replacement cost value of $500,000. John purchases a standard NFIP dwelling policy with a limit of $250,000. John's home is badly damaged in a flood, and John spends $100,000 to repair the damage. John will recover $100,000. His home is not insured to 80 percent of its replacement value, but John carries the maximum amount of insurance available under the NFIP.

Special Loss Settlement

In the dwelling form, the special loss settlement provision applies to a single-family dwelling that is a manufactured or mobile home or is a travel trailer. The home must be at least 16 feet wide when fully assembled and contain at least 600 square feet. It should also be the insured's principal residence.

For a total loss, the insurer pays the *least* of the following amounts.

- Replacement cost of the dwelling
- 1.5 times the ACV of the dwelling
- Building limit shown on the declarations page

For a partial loss, if the insurer determines that it is economically feasible to repair the dwelling to its pre-damage condition, the loss will be settled by applying the replacement cost provisions mentioned above.

Under the RCBAP, a comparable loss provision applies to a residential condominium building that is (1) a manufactured home or travel trailer or (2) at least 16 feet wide when fully assembled and contains at least 600 square feet.

Actual Cash Value (ACV)

ACV is the cost to replace the covered property at the time of the loss, less any applicable physical depreciation.

This loss settlement applies to a single-family dwelling not subject to replacement cost or the special loss settlement valuations as well as the following types of property.

- Personal property
- Appliances and carpets
- Outdoor equipment, such as awnings and aerials of any type
- Detached garages
- Two-, three-, or four-family dwellings
- Units that are not used exclusively for single-family dwelling purposes
- Abandoned property on the described location
- Dwellings that are not the insured's principal residence

When the limit of insurance on the dwelling is both less than 80 percent of its full replacement cost prior to the loss and less than the maximum limit available under the plan, the insurer will pay the *greater* of the following amounts, but no more than the limit on the dwelling.

- ACV of the damaged part of dwelling
- A proportion of the cost to repair or replace the damaged portion, without deduction for depreciation and after applying the deductible

Example

For example, Bill Jones owns an older single-family home with a replacement cost value of $500,000 and purchases a standard NFIP dwelling policy with a limit of $200,000. Bill's home is badly damaged in a flood, and he spends $100,000 to repair the damage. The ACV of the damaged portion of the structure was $70,000 at the time of the loss. John will recover $80,000. His home was not insured to at least 80 percent of its $500,000 replacement value, and Bill did not carry the $250,000 maximum amount of insurance available on a dwelling building under the NFIP. The $200,000 limit on his insurance policy was 80 percent of the amount he should have carried, and he will receive 80 percent of the amount he spent on repairs—in this case, $80,000.

Under the RCBAP, the ACV provision applies to comparable property such as personal property, but it also pertains to a manufactured home or a travel trailer (eligible under the RCBAP) that does not meet the conditions for the special loss settlement.

The RCBAP ACV provision pays the least of the following amounts.

- Applicable limits of insurance under the flood insurance policy
- ACV of loss
- Amount required to repair or replace the property with material of like kind and quality within a reasonable period of time after the loss occurs

Loss Settlement Valuation for the General Property Form

This form has a single loss settlement provision. The policy will pay the *least* of the following amounts after applying the deductible.

- Applicable limit of insurance under the flood insurance policy
- ACV
- Amount it would cost to repair or replace the property with material of like kind and quality within a reasonable period of time after the loss occurs

Coinsurance Penalty in the RCBAP

The RCBAP includes a coinsurance penalty that applies only to the building coverage. The coinsurance penalty applies at the time of a loss if the insured has not purchased insurance with a limit at least equal to the amount required by one of the following criteria:

- 80 percent or more of the full replacement cost of the building at the time of loss or
- the maximum amount of insurance under the NFIP.

The amount of insurance "required" in the RCBAP is similar to the coinsurance "requirement" in other types of property policies with one important exception: No coinsurance penalty is imposed if the insured has purchased the maximum amount of coverage available under the NFIP.

When a coinsurance penalty applies, the insured's recovery will be determined by using the following formula.

$$\frac{\text{Insurance Carried}}{\text{Insurance Required}} \times \text{Amount of Loss} = \text{Limit of Recovery}$$

Where the penalty applies, building loss under the RCBAP will be adjusted based on the replacement cost coverage with a coinsurance penalty. The cost of bringing the building into compliance with local codes (law and ordinance) is not included in the calculation of replacement cost.

Chapter 5 Review Questions

1. Some insurance policies cover loss to covered property from virtually any cause while others are more limited in scope. A standard NFIP flood insurance policy is
   A. A multi-peril policy that covers floods, mudflow, and earth movement
   B. A single-peril policy that covers only the flood peril
   C. An all risks policy that includes flood and other perils
   D. An endorsement that converts a standard homeowners policy to a multi-peril policy
2. A small area in Watershed, USA, has flooded due to heavy rains. Watershed is a participant in the regular program with the NFIP. A resident wants to know if he is going to have coverage under his flood policy for the water damage to his home and contents. He will, so long as one of two criteria is met. They are:
   A. A legally authorized FEMA official issues an evacuation order, or the flood causes damage to the insured's home.
   B. A legally authorized FEMA official issues an evacuation order, or the flood covers two or more acres of normally dry land area.
   C. The flood covers three or more acres of normally dry land area, or a legally authorized FEMA official issues an evacuation order.
   D. The flood covers two or more acres of normally dry land area or two or more properties, one of which must be the insured's property
3. Which one of the following does an NFIP flood insurance policy cover?
   A. Loss that is already in progress as of 12:01 a.m. of the policy inception date
   B. Loss caused by the insured's modification to the insured property that materially increases the risk of flooding
   C. Loss from water, moisture, mildew, mold, or mudslide resulting primarily from a condition substantially confined to the dwelling or from a condition that is within the insured's control
   D. Loss caused by an inland body of water that exceeds its banks due to heavy snowmelt
4. NFIP representative Bob tells client Richard, who has applied for a flood policy, that he is eligible because his community is a participant in the regular flood program. Richard has given Bob all the required information, including the flood hazard zone where his property is located. Bob tells Richard that on the first page of the form is a statement specifying that the insurance is based on the insurer's reliance on the accuracy of the information that Richard has provided. What will happen if it is later determined that Richard knowingly gave Bob the wrong flood hazard zone?
   A. Nothing; the policy is still in effect.
   B. Richard will be given a refund on the difference in premium based on the different flood hazard zone.
   C. The policy will automatically be amended with the correct information.
   D. The policy will be void

5. The Indiana Condominium Association could purchase up to $500,000 in flood insurance from the NFIP. However, the association believes its building, which has an insurable value of $1 million, is not likely to sustain major damage if a flood occurs, so the association purchases an RCBAP with a $300,000 limit. If partial damage to the association building should occur,

    A. it will be paid in full up to $400,000.

    B. the insurer will pay 60 percent of the loss

    C. the insurer will pay 75 percent of the loss.

    D. the insurer will pay 80 percent of the loss.

Answers to Chapter 5 Review Questions

1. B. An NFIP policy is a single-peril policy that covers losses proximately caused by only one peril: flood.
2. D. For coverage to apply, the flood must be a general condition that covers two or more acres of normally dry land area or two or more properties (one of which is the insured's property).
3. D. Overflow of an inland water body qualifies as a flood that would, in most cases, be covered. However, some flood losses are excluded because of their timing or lack of fortuity.
4. D. The policy is void as of the date of the wrongful act in the event any insured or its agent has intentionally concealed or misrepresented any material fact or circumstance. Since the flood hazard zone classification affects policy rating—and Bob apparently hoped his lie would reduce his premium—the information would probably be considered material.
5. B. The amount of insurance "required" to avoid a coinsurance penalty in this case is the smaller of either (a) 80 percent of its $1 million insurable value (which is $800,000) or (b) the maximum amount of insurance available, which is $500,000. The association carried $300,000 in coverage and should have carried $500,000, so a coinsurance penalty applies and it will recover 3/5 or 60 percent of any covered loss.

Chapter 6
Flood Insurance Legislation

Overview

Chapter 6 examines the factors that led to the introduction of the NFIP and describes the most recent developments, Biggert-Waters and the Homeowner Flood Insurance Affordability Act of 2014, which rescinded some provisions of Biggert-Waters. The chapter also examines some of the more significant milestones along the way, notably the Coastal Barrier Resources Act (1982) and the National Flood Insurance Reform Act (NFIRA) of 1994.

Chapter Objectives

On completion of this chapter, you should be able to

- summarize the purpose and effect of key legislative developments in the evolution of the NFIP.

NFIP Background

The traditional view is that flooding fails to qualify as a commercially insurable risk for at least three reasons:

- *Adverse selection*: Only individuals who own property in flood-prone areas are likely to purchase flood coverage.
- *Unaffordable premiums for insurance buyers*: Premiums based on the actual level of risk would be too costly for the typical household.
- *Inadequate premiums for insurers*: Private insurers probably could not generate premiums high enough to insure against a catastrophic flood that would simultaneously affect many insureds.

In the absence of private flood insurance, the federal government responded by instituting loss control measures. Dams, levees, and other structures designed to restrain flood waters may actually have encouraged people to build in flood zones.

Faced with increasing amounts of flood damage and the high costs of disaster relief, Congress passed the National Flood Insurance Act of 1968, which created the NFIP.

The NFIP had three components:

- Floodplain management
- Flood hazard mapping
- Flood insurance

The NFIP made federal flood insurance available in communities that adopt floodplain management regulations that meet NFIP standards. The creation of maps to identify flood-prone areas is an important part of this program.

The NFIP was revised in 1969 to provide coverage for mudslides.[21]

The *Flood Disaster Protection Act of 1973* restricted the use of federal funds in high-risk floodplains and prohibited federally regulated, supervised, or insured lenders from lending money on property in a floodplain in a participating community that did not have flood insurance. These measures were expected to ensure that most properties in these zones had flood insurance, but the law making insurance mandatory was poorly enforced. Legislation enacted in 1994 tightened the enforcement of these flood insurance requirements and denied federal disaster aid to people who had been flooded twice and failed to purchase insurance after their first flood.

Coastal Barrier Resources Act

The US Congress passed the *Coastal Barrier Resources Act in 1982* to address concerns caused by coastal barrier development. *Coastal barriers* shield the mainland from the full force of wind, wave, and tidal energies.

This law restricts federal expenditures and financial assistance, including flood insurance, in the Coastal Barrier Resource System, a defined list of undeveloped coastal barriers mapped along the Atlantic and Gulf of Mexico coasts.

Three important goals of this Act are to

- reduce the loss of human life by discouraging development in high-risk areas;
- decrease wasteful spending of federal resources; and
- conserve natural resources associated with coastal barriers.

Flood insurance may not be available for property located in coastal barriers or otherwise protected areas. Property owners are generally made aware of the Coastal Barrier Resources System (CBRS) designation affecting their property when they obtain a mortgage that requires flood insurance. However, there is no federal mandate for the disclosure of a CBRS designation by state and/or local officials or realtors at the time of purchase or construction.

National Flood Insurance Reform Act (NFIRA) of 1994

The NFIRA established the community rating system (CRS) explained in Chapter 1, which encourages communities to surpass the minimum requirements for development within flood plains.

Flood Insurance Reform Act of 2004

Repetitive flooding of flood-prone properties, which continued to have an adverse impact on the NFIP, led to the June, 2004 passage of the Bunning-Bereuter-Blumenauer Flood Insurance Reform Act of 2004. This Act was designed to create a 5-year pilot program to “reduce losses to properties for which repetitive flood insurance claim payments have been made.”

Purposes of the Act

The overall purposes of this Act included the following.

- To assist people experiencing serious and repetitive flood damage to solve their problems with financial assistance from NFIP in partnership with communities and states
- To stop or mitigate the abuse of the program causing all policyholders to pay higher flood insurance premiums
- To advance consumer understanding and the rights of flood insurance policyholders
- To establish minimum flood insurance training and education requirements for insurance agents and brokers

In particular, the act authorized FEMA to provide financial assistance to participating communities and states to carry out mitigation activities or to purchase "*severe repetitive loss properties*." Policyholders who refuse a mitigation or purchase offer that meets program requirements will be required to pay increased premium rates of 150 percent following their refusal and another 150 percent following future claims of more than $1,500. These rates, however, cannot exceed the applicable actuarially determined rate.

Flood Insurance Claims Handbook

The Act directed FEMA to develop the *Flood Insurance Claims Handbook*[22] that provides policyholders with information on pursuing a claim. The handbook, discussed further in Chapter 7, explains what to do before a flood and what to do after a flood.

Acknowledgement Form

The Act also directed the FEMA director to develop an acknowledgement form. By signing, dating, and returning this document to the insurer, the policyholder acknowledges that

- he or she has received a declarations page and a summary of coverage from the insurer,
- the insurer has provided information on the property's loss history and a copy of the NFIP *Flood Insurance Claims Handbook*, and
- the insured understands that he or she has an option to purchase both building and contents coverage as part of his or her policy or to purchase building and/or contents coverage separately.

Supplemental Form

The Act also required the director to develop and provide insurers and agents with supplemental forms to be given to all new and renewal policyholders. These forms included the following.

- The exact coverages a policyholder is purchasing
- Any exclusions that apply to the coverages being purchased
- An explanation, accompanied by illustrations, of how lost and damaged items will be valued (e.g., ACV or replacement cost)
- The number and dollar value of flood claims filed during the life of the property and the effect of filing any further claims.

FEMA currently provides a number of different informative consumer-oriented brochures that can be ordered or downloaded from its website at **www.fema.gov** or viewed online at **www.floodsmart.gov**.

Biggert-Waters Flood Insurance Reform and Modernization Act of 2012

The NFIP was intended to be a self-sustaining program that borrowed from the US Treasury during times of above-average claims and subsequently repaid the borrowed money, with interest. However, the NFIP is deeply in debt and currently owes the US Treasury billions of dollars that have been borrowed to pay for past losses. Over a recent 4-year period, the NFIP was extended 17 times and even expired four times. After each expiration, it has been retroactively reinstated. These successive interruptions, combined with a variety of proposed reforms, led to the passage of the Biggert-Waters Flood Insurance Reform and Modernization Act of 2012.

Biggert-Waters directed FEMA to submit a plan to repay its debt within 10 years and submit periodic reports on its progress, and it required FEMA to build up a reserve fund in a separate account that would enable the NFIP to meet its future obligations. The reserve fund was to cover at least 1 percent of the NFIP's total claim exposure.

The Act was also designed to implement actuarially based flood insurance rates for at-risk structures. Until now, pre-FIRM structures were entitled to subsidized premiums, and affected policyholders paid substantially less for their flood insurance. A significant portion of NFIP claims have been paid under these subsidized policies. Biggert-Waters phased in premium increases that move from subsidized rates to actuarially sound rates. This was to be done in several ways:

- Premiums on new policies on properties not currently covered by flood insurance would be charged full actuarial rates.
- Owners of second homes, business properties, severe repetitive loss properties, or substantially improved/damaged properties that currently benefitted from subsidies would see their rates increase by 25 percent per year until premiums met the full actuarial cost.
- When an area not previously designated as an SFHA was reclassified as an SFHA, due to a flood map upgrade, the increased premium that resulted was to be phased in over a 5-year period at a rate of 20 percent per year.

This meant that most pre-FIRM subsidized rates and grandfathered rates would be phased out over the course of the next 5 years. However, the owners of *primary* residences located in SFHAs would retain their subsidized rates unless or until one of the following conditions occurred.

- The property was sold.
- The policy lapsed.
- The property suffered severe repeated flood losses.
- A new policy was purchased.

These changes substantially increased the cost of flood insurance for many policyholders, leading to a chorus of policyholder complaints.

Biggert-Waters also introduced many other wide-ranging changes. These included making higher limits of flood insurance available on multi-family properties, introducing minimum deductibles, increasing the penalties for lenders that failed to require flood coverage where required, and establishing a Technical Mapping Advisory Council to ensure that FEMA adopted meaningful standards for updating and maintaining flood maps.

Biggert-Waters also required a number of studies dealing with a wide-ranging variety of topics such as:

- The possibility of including business interruption and/or additional living expenses coverage
- The private reinsurance market's capacity to assume a portion of the NFIP's risks
- Methods of increasing both participation and affordability

Homeowner Flood Insurance Affordability Act of 2014 (HFIAA)

Biggert-Waters attempted to make the NFIP actuarially sound by charging rates that accurately reflected each insured property's true flood risk. This meant, of course, that many policyholders would be paying more for their flood insurance. The most controversial changes dramatically reduced the discount, or subsidy, that benefited older properties in high-risk areas. Rates for businesses, secondary residences such as vacation homes, and structures with severe repeated losses were to receive rate increases of 25 percent per year until their rates reached an actuarially sound level. Other subsidized policyholders could retain their subsidies until the policy lapsed or the property was sold, but anybody purchasing a previously subsidized home would have to pay nonsubsidized rates, which were generally much higher. This made it nearly impossible for many people to sell their homes.

HFIAA provided refunds to some policyholders, lowered the recent rate increases affecting some policies, prevented some future rate increases, and introduced a surcharge on all policyholders. However, it did not change all of Biggert-Waters.

Refunds were made to policyholders in high-risk areas who had been required to pay the full-risk rate after purchasing a new flood policy on or after July 6, 2012. Some policyholders who renewed their policies after HFIAA was enacted and whose premium increased by more than 18 percent were also entitled to a refund. However, no refunds were made to owners of second homes, business properties, severe repetitive loss properties, or substantially improved/damaged properties that previously benefited from subsidies and saw their rates increase by 25 percent per year.

HFIAA provided that subsidized policies will now receive gradual rate increases rather than the immediate rate increases called for in some cases by Biggert-Waters. Premiums for most subsidized properties are to increase by at least 5 percent each year until the premium for the class reaches its full-risk rate.

With limited exceptions, flood insurance premiums cannot increase by more than 18 percent per year. However, new policies for the following properties will continue to see 25 percent annual increase until they reach their full-risk rate:

- Older business properties insured with subsidized rates
- Older secondary residences insured with subsidized rates
- Severe repetitive loss properties insured with subsidized rates
- Buildings that have been substantially damaged or improved

Until FEMA develops further guidelines, purchasers of Pre-FIRM property are permitted to assume the previous owner's flood insurance policy and pay the same rates.

HFIAA also introduced surcharges intended to offset the continuing subsidies and make the flood program more financially sound. Policies on primary residences will include a $25 surcharge, and all other policies will include a $250 surcharge.

When flood maps are updated, property owners sometimes find that their property is now in a higher risk flood zone. Previously, these properties continued to pay lower rates, but Biggert-Waters required 20 percent annual rate increases until the property reached full-risk rates. HFIAA provides that homes and businesses that are remapped into a higher risk area do not receive an immediate rate increase. However, rate increases will increase between 5 and 15 percent annually, and no property is to receive more than an 18 percent increase.

To further improve affordability, the new law also raises maximum residential deductible limits from $5,000 to $10,000.

HFIAA also requires FEMA to conduct an affordability study. With an eye toward affordability, the Act also encourages FEMA to minimize the number of policies in which flood premiums exceed 1 percent of the coverage amount. This would be the case, for example, if a home owner would be charged more than $2000 per year for $200,000 of flood insurance coverage.

More Recent Developments

To date, federal proposals to use more actuarially sound rates for the NFIP have had only limited success. However, in March 2019 the Trump administration announced plans to reform the NFIP with a shift to fully risk-based pricing of flood insurance. FEMA's current system calculates rates based on whether a home falls in a designated flood zone. According to FEMA, the reformed program would begin to assess properties individually, using several variables such as hurricane rainfall, coastal surges, and proximity to bodies of water, rather than applying a single formula for an entire flood zone. FEMA plans to implement the new system on October 1, 2021.

Chapter 6 Review Questions

1. The Coastal Barrier Resources Act was passed in 1982. This act was not designed to
    - A. conserve natural resources associated with coastal barriers.
    - B. discourage development in high-risk areas, thereby furthering economic growth.
    - C. increase the availability of flood insurance for property in the Coastal Barrier Resource System
    - D. restrict federal financial assistance for areas subject to the Act.
2. Spencer just received his NFIP dwelling form flood insurance policy on the home he occupies. The policy's declarations page describes his house and lists the amount of building coverage that applies. Spencer's policy is accompanied by an acknowledgement form. By signing and returning this form, Spencer will acknowledge all of the following to be true EXCEPT:
    - A. Spencer has received a declarations page and a summary of his flood policy's coverage.
    - B. Spencer has received a Flood Insurance Claims Handbook.
    - C. Spencer realizes his policy does not cover personal property but that he can, if he wants to, purchase that coverage separately.
    - D. Spencer's home does not qualify as severe repetitive loss property
3. The Flood Insurance Reform Act of 2004 required insurers to provide flood insurance policyholders with information concerning
    - A. FEMA's power of imminent domain.
    - B. the distinction between mudflows and mudslides.
    - C. the distinction between the emergency program and the regular program.
    - D. the number and amount of previous claims on the property and the effect of filing further claims
4. FEMA created the Flood Insurance Claims Handbook to
    - A. provide claims adjusters with information on handling flood claims.
    - B. provide Congress with information concerning the status of claims closed and pending under the NFIP.
    - C. provide policyholders with information on pursuing a flood claim
    - D. satisfy the requirements of the Biggert-Waters Flood Insurance Reform and Modernization Act of 2012.

5. The Homeowner Flood Insurance Affordability Act of 2014 (HFIAA) provided that a home owner currently receiving a flood insurance subsidy who sells his or her home

    A. could no longer transfer the current flood insurance policy to the home buyer, but the buyer would continue to pay a subsidized premium.

    B. could transfer the current flood insurance policy to the home buyer who must then pay the full actuarial premium.

    C. could transfer the current flood insurance policy to the home buyer who would continue to pay the same subsidized premium

    D. must inform the buyer of its flood zone.

Answers to Chapter 6 Review Questions

1. C. As a result of the Act, flood insurance may not be available for property located in coastal barriers or otherwise protected areas.
2. D. The Act defines severe repetitive loss property, but that issue is not part of the acknowledgement form.
3. D. Policyholders are to be given a form including information on the number and dollar value of claims filed during the life of the property and the effect of filing any further claims.
4. C. The Flood Insurance Reform Act of 2004 directed FEMA to develop a flood insurance claims handbook that provides policyholders with information on pursuing a claim.
5. C. Until FEMA developed further guidelines, purchasers of Pre-FIRM property were permitted to assume the previous owner’s flood insurance policy and pay the same rates.

Chapter 7
Responsibilities

Overview

Flood insurance policyholders and the agents who sell the insurance all have certain responsibilities. Chapter 7 outlines these responsibilities, with emphasis on the processes involved in handling flood claims. The chapter also identifies various resources that an agent will find helpful in obtaining further information.

Chapter Objectives

On completion of this chapter, you should be able to

- describe the respective responsibilities of NFIP policyholders and agents in handling flood claims and
- recognize important resources that assist an agent in understanding and handling flood insurance.

Insured's Responsibilities

FEMA's *Flood Insurance Claims Handbook*[23] is designed to help insureds with the claims process. It includes three key sections:

- What to do before a flood
- What to do after a flood
- Appealing the claim

What To Do before a Flood

Any flood insurance policyholder should do four things long before he or she faces a flood claim:

- Check the declarations page of his or her policy for accuracy.
- Prepare and maintain a current detailed inventory of personal property within the home or business, documented by photos or videos.

- Keep originals of important papers—including insurance policies—in a safe, waterproof place.
- Contact his or her insurance agent or insurer representative and discuss the requirements for reporting a flood claim. Remember, it might be difficult to contact these people after a flood.
- Share an emergency contact name and phone number with his or her insurance agent and family. It might be difficult for them to contact the insured after a flood.

What To Do after a Flood

Steps to take after a flood loss occurs include the following.

- Contact the insurance agent or insurer representative promptly to report the claim.
- File a notice of loss with the insurer.
- Separate the damaged from the undamaged property.
- Make a detailed list of damaged personal property.
- List areas of structural damage for the adjuster.

Handling the Claim

If the insured makes a claim, he or she must work with the insurance adjuster before, during, and after the adjuster assesses the loss. The adjuster will use his or her understanding of the damage, together with any documentation provided by the insured, to complete a detailed estimate that serves as a guide when obtaining bids from contractors.

The insured must support the claim with a proof of loss, together with supporting documentation, completed and signed within 60 days of the loss. The adjuster usually provides a suggested proof of loss, but it is the insured's responsibility to make sure it is complete, accurate, and timely. If the flood is severe, FEMA might authorize proof of loss extensions beyond 60 days, but it is still the insured's responsibility to meet the 60-day or extended deadline.

A claim is payable after the insured and the insurer agree on the damage amount payment and the insurer receives a complete, accurate, signed proof of loss. The claim payment includes the names of anyone, such as a mortgagee or lienholder, who has a legal interest in the property.

An insured who later notices additional damage to covered property may file a request for additional flood payment, following FEMA procedures.

If the insured home or business sustains damage that the local community determines is equal to or greater than 50 percent of the property's value, the insured may file an increased cost of compliance (ICC) claim. A standard flood policy includes ICC coverage for up to $30,000.

Appeals Process

The NFIP *Flood Insurance Claims Handbook* outlines the process to be followed by any insured who is dissatisfied with a flood claim settlement. Before pursuing the appeals process, FEMA encourages policyholders to talk with the adjuster to determine whether relevant information has been overlooked or any mistakes were made. A policyholder who is still not satisfied has three options:

- File an appeal within 60 days of the denial.
- Utilize the policy's appraisal provision if there is disagreement concerning the amount of the covered loss.

- As a last resort, a claimant may sue the insurer. The policy includes a "suit against us" provision, which specifies that the claimant must first have complied with all the policy's requirements, and the suit must be started within 1 year of the insurer's written claims denial.

Agency Responsibility

When writing flood insurance, an insurance agent or producer has three options:

- place all business with one or more WYO companies;
- place all flood insurance directly with the NFIP (*NFIP Direct* business); or
- place business both with the NFIP directly and with one or more WYO companies.

The agent's claims handling responsibilities vary depending on the channel through which a policy was written. In handling a WYO claim, the agent or producer should follow the WYO company's established procedures. WYO insurers that insure both the flood and the wind loss will assign their own single adjuster to a wind-and-flood claim.

NFIP Direct claims are normally assigned to an NFIP-approved independent adjuster.

Helpful FEMA Websites

The FEMA websites, listed in Exhibit 7.1, contain a vast amount of technical and practical information.

Exhibit 7.1
Key NFIP Websites

Website	Description
www.fema.gov/nfip	Provides technical information and forms for a wide audience, including flood insurance adjusters, insurance professionals, lenders, state and local officials, and surveyors
www.floodsmart.gov	Provides information directed to consumers and businesses that can benefit from flood insurance. Main sections of the website include: 1. Flooding and Flood Risks 2. About the National Flood Insurance Program 3. Residential Coverage 4. Commercial Coverage 5. Preparation and Recovery 6. Resources

Flood Insurance Manual

One of the most important resources for insurers and agents writing flood insurance is the NFIP *Flood Insurance Manual*. This manual provides comprehensive information on rules and regulations of the program, including samples of all three flood insurance forms, along with relevant bulletins. It can be ordered or downloaded from the FEMA website.[24]

Chapter 7 Review Questions

1. Mary purchased a flood insurance policy many years ago and recently suffered a flood loss. Which of the following is not a duty she has to perform in conjunction with this claim?
    A. Exhibit all the remains from her damaged property
    B. Show the policy provision granting coverage to the claims adjuster
    C. Submit to an examination under oath if the adjuster requires this
    D. File a proof of loss within 60 days of the loss, unless FEMA waives this stipulation
2. Marigold disagrees with how Arthur Adjuster has determined the amount of her flood loss. He advises her that she can follow the appeals process to dispute his determination. The appeals process may include any of the following EXCEPT:
    A. Contacting the claims adjuster
    B. Using the policy's appraisal provision
    C. Contacting the state insurance department
    D. Filing an appeal within 60 days of the denial
3. Technical information, forms, and other information about the NFIP for a broad audience that includes agents, claims representatives, lenders, state and local officials, and surveyors can be found at
    A. www.fdic.gov/nfip.
    B. www.fema.gov/nfip
    C. www.fma.com/nfip.
    D. www.giggle.com.
4. Which one of the following websites is a FEMA-sponsored source of information specifically directed at consumers and businesses that can benefit from flood insurance?
    A. www.smartflood.com
    B. www.floodsmart.gov
    C. www.floodmanual.com
    D. www.NIFP.gov
5. The NFIP Flood Insurance Manual is all of the following EXCEPT
    A. a useful resource for insurance agents writing flood insurance.
    B. available online.
    C. kept up to date.
    D. less than 20 pages long

Answers to Chapter 7 Review Questions

1. B. Mary has several explicit post-loss duties, but educating the adjuster is not one of them.
2. C. Contacting the state insurance department is not one of the recommended steps in disputing a claim against the NFIP, which is a federal program.
3. B. FEMA provides a vast array of technical emergency management information at its website www.fema.gov. Information specifically related to the NFIP is available at www.fema.gov/nfip.
4. B. FEMA designed www.floodsmart.gov to provide information directed at consumers and businesses.
5. D. The lengthy *Flood Insurance Manual,* which is frequently updated, provides comprehensive information on NFIP rules and regulations, as well as sample forms. It can be downloaded from the FEMA website.

Glossary

Most of the definitions in this glossary are taken or adapted from FEMA's *Flood Insurance Glossary* or the glossary in the NFIP *Flood Insurance Manual*.

ACO: See adjuster control office.

actual cash value (ACV): The cost to replace an insured item of property at the time of loss, less the value of physical depreciation.

Adjuster Control Office (ACO): A National Flood Insurance Program (NFIP) claims office similar to a Flood Insurance Claims Office (FICO) with the exception that the ACO does not house insured files, maintain a claims examiner staff at the site, or issue claim payments.

alternative rates: Rates used when a building is pre–flood insurance rate map (FIRM), the FIRM zone is unknown, and the community where the building is located has no V zones. Alternative rates may also be used for renewal of policies in communities that have converted from the emergency program to the regular program during a policy's term.

base flood: The flood having a 1 percent chance of being equaled or exceeded in any given year.

base flood elevation (BFE): The elevation shown on the flood insurance rate map (FIRM) for Zones AE, AH, A1–A30, AR, AR/A, AR/AE, AR/A1–A30, AR/AH, AR/AO, V1–V30, and VE that indicates the water surface elevation resulting from a flood that has a 1 percent chance of equaling or exceeding that level in any given year.

basement: Any area of the building, including any sunken room or sunken portion of a room, having its floor below ground level (subgrade) on all sides.

BFE: See base flood elevation.

Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters): Signed into law on July 6, 2012, this act reauthorizes the National Flood Insurance Program (NFIP) for 5 years through September 30, 2017, and reforms the NFIP by making a variety of changes, many of which are designed to ensure that flood insurance rates for most properties more accurately reflect flood insurance risks.

CCO: See Claims Coordinating Office.

Claims Coordinating Office (CCO): A clearinghouse for the various insurers that are responding to a multiperil catastrophe. Through voluntary participation, all losses are reported to the CCO and are processed to locate address matches among the reported claims. The interest of each insurer is protected as the claims coordinator maintains sole control over the policy and loss information. If a match is found, special care is taken to direct the assigned adjuster(s) to a mutually agreeable adjustment or to have one adjuster surrender his/her loss with the assurance that every effort will be made to replace it.

coastal barrier: A naturally occurring island, sandbar, or other strip of land, including coastal mainland that protects the coast from severe wave wash.

Coastal Barrier Resources Act (CBRA): Designated certain portions of the Gulf Coast and the East Coast as undeveloped coastal barriers. These areas are shown on appropriate flood insurance map panels and have certain coverage restrictions.

coastal flooding: Flood that occurs when hurricanes and storms produce heavy rains or drive ocean water onto land. Storms, earthquakes, and volcanoes can create tidal waves that produce coastal flooding. The force of the water from tidal waves often sweeps away beaches and houses.

coinsurance: A penalty imposed on the loss payment unless the amount of insurance carried on the damaged building is at least 80 percent of its replacement cost or the maximum amount of insurance available for that building under the National Flood Insurance Program (NFIP), whichever is less. Coinsurance applies only to building coverage under the residential condominium building association policy (RCBAP).

community: A political entity that has the authority to adopt and enforce floodplain ordinances for the area under its jurisdiction. In most cases, a community is an incorporated city, town, township, borough, village, or an unincorporated area of a county or parish. However, some states have statutory authorities that vary from this description.

community rating system (CRS): A program developed by the Federal Emergency Management Agency (FEMA) Mitigation Division to provide incentives for those communities in the National Flood Insurance Program (NFIP) that have gone beyond the minimum floodplain management requirements to develop extra measures to provide protection from flooding.

crawlspace: An under-floor space that has its interior floor area (finished or not) no more than 5 feet below the top of the next-higher floor. Crawlspaces generally have solid foundation walls.

CRS: See community rating system.

deductible buyback: The option whereby, for an additional premium, policyholders who wish to reduce their deductibles from the standard deductibles of $2,000 per building loss and per contents loss for pre-FIRM (flood insurance rate map) risks may purchase separate $1,000 deductibles for building and contents coverages.

dwelling form: The National Flood Insurance Program (NFIP) insurance policy form used to cover one- to four-family dwellings.

elevated building: A building that has no basement and has its lowest elevated floor raised above the ground level by foundation walls, shear walls, posts, piers, pilings, or columns. Solid foundation perimeter walls are not an acceptable means of elevating buildings in V and VE zones.

elevation certificate: A certificate that verifies the elevation data of a structure on a given property relative to the ground level. The elevation certificate is used by local communities and builders to ensure compliance with local floodplain management ordinances and is used by insurance agents and companies in the rating of flood insurance policies.

emergency program: The initial phase of a community's participation in the National Flood Insurance Program (NFIP). During this phase, only limited amounts of insurance are available under the Act.

enclosure: That portion of an elevated building below the lowest elevated floor that is either partially or fully shut in by rigid walls.

Federal Emergency Management Agency (FEMA): The federal agency within the Department of Homeland Security that is tasked with responding to, planning for, recovering from, and mitigating against man-made and natural disasters.

federal policy fee: A flat charge that the policyholder must pay on each new or renewal policy to defray certain administrative expenses incurred in carrying out the National Flood Insurance Program (NFIP).

FEMA: See Federal Emergency Management Agency.

FICO: See Flood Insurance Claims Office.

FIRM: See flood insurance rate map.

FIRMette: User-selected portions of an official Federal Emergency Management Agency (FEMA) flood insurance rate map (FIRM) that the user creates online.

500-year floodplain: The area that is subject to an inundation from a flood having a 0.2-percent chance of being equaled or exceeded in any given year.

flash flooding: Flooding caused when small and powerful fast-flowing rivers are quickly formed because of excessive rainfall or dam failure, sometimes triggering catastrophic mudslides. Flash floods can be powerful enough to carry away roads, bridges, and other structures, and they can occur with little warning.

flood: 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 the policyholder's property) from one of the following.

- Overflow of inland or tidal waters
- Unusual and rapid accumulation or runoff of surface waters from any source
- Mudflow
- 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

Flood Disaster Protection Act (FDPA) of 1973: Made the purchase of flood insurance mandatory for the protection of property located in special flood hazard areas (SFHAs).

flood hazard boundary map (FHBM): Official map of a community issued by the Federal Emergency Management Agency (FEMA), where the boundaries of the flood, mudflow, and related erosion areas having special hazards have been designated.

Flood Insurance Claims Office (FICO): A National Flood Insurance Program (NFIP) claims processing office set up in a catastrophe area when a sufficient number of flood claims result from a single event.

flood insurance rate map (FIRM): Official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated both the special hazard areas and the flood zones applicable to the community.

flood zone (zone): A geographical area shown on a flood hazard boundary map (FHBM) or a flood insurance rate map (FIRM) that reflects the severity or type of flooding in the area.

floodplain: Any land area susceptible to being inundated by floodwaters from any source. See 100-year floodplain and 500-year floodplain.

floodplain management: The operation of an overall program of corrective and preventive measures for reducing flood damage, including but not limited to emergency preparedness plans, flood control works, and floodplain management regulations.

force-placed flood insurance: Flood insurance taken out by a lender or creditor when the property owner does not carry the required insurance.

general property form: The National Flood Insurance Program (NFIP) insurance policy form used to cover residential buildings of five families or more and nonresidential buildings.

grandfathering: An exemption based on circumstances previously existing. Under the National Flood Insurance Program (NFIP), buildings located in emergency program communities and pre–flood insurance rate map (FIRM) buildings in the regular program are eligible for *subsidized flood insurance rates*. Post-FIRM buildings in the regular program built in compliance with the floodplain management regulations in effect at the start of construction will continue to have favorable rate treatment even though higher base flood elevations (BFEs) or more restrictive, greater risk zone designations result from FIRM revisions.

ICC: See increased cost of compliance.

increased cost of compliance (ICC): Coverage for expenses a property owner must incur, above and beyond the cost to repair the physical damage the structure actually sustained from a flooding event, to comply with mitigation requirements of state or local floodplain management ordinances or laws. Acceptable mitigation measures are elevation, flood-proofing, relocation, demolition, or any combination thereof.

loss in progress: A loss that is already in progress as of 12:01 a.m. on the first day of the policy term or, as to any requested increase in coverage limits, a loss that is already in progress when the additional coverage is requested.

lowest floor: The lowest floor of the lowest enclosed area (including a basement). An unfinished or flood-resistant enclosure, usable solely for parking of vehicles, building access, or storage in an area other than a basement area, is not considered a building's lowest floor if such enclosure is not built so as to render the structure in violation of requirements.

mandatory purchase: Under the provisions of the Flood Disaster Protection Act (FDPA) of 1973, individuals, businesses, and others buying, building, or improving property located in identified areas of special flood hazards within participating communities are required to purchase flood insurance as a prerequisite for receiving any type of direct or indirect federal financial assistance (e.g., any loan, grant, guaranty, insurance, payment, subsidy, or disaster assistance) when the building or personal property is the subject of or security for such assistance.

manufactured (mobile) home: A structure built on a permanent chassis, transported to its site in one or more sections, and affixed to a permanent foundation. "Manufactured (mobile) home" does not include recreational vehicles.

mobile home: See manufactured home.

mudflow: 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. Other earth movements, such as landslide, slope failure, or a saturated soil mass moving by liquidity down a slope, are not mudflows.

National Flood Insurance Act (1968): Legislation that created the National Flood Insurance Program (NFIP).

National Flood Insurance Program (NFIP): A federal program enabling property owners in participating communities to purchase insurance protection against losses from flooding. This insurance is designed to provide an insurance alternative to disaster assistance to meet the escalating costs of repairing damage to buildings and their contents caused by floods.

National Flood Insurance Reform Act (NFIRA) of 1994: The purpose of NFIRA was to improve the financial condition of the National Flood Insurance Program (NFIP) and reduce federal expenditures for disaster assistance to flood-damaged properties. The act affected every part of NFIP, insurance, mapping, and floodplain management. NFIRA also gave lenders tools with which to enforce requirements for flood insurance coverage mandated under the Flood Disaster Protection Act (FDPA) of 1973.

NFIP: See National Flood Insurance Program.

NFIP Direct: Flood insurance that the agent or producer places directly with the National Flood Insurance Program (NFIP), as opposed to insurance placed through a Write-Your-Own (WYO) company.

NFIP participating companies: Private insurers that write flood insurance under the Write-Your-Own Program, also known as WYOs.

nonresidential: Includes, but is not limited to, small business concerns, churches, schools, farm buildings (including grain bins and silos), pool houses, clubhouses, recreational buildings, mercantile structures, agricultural and industrial structures, warehouses, hotels and motels with normal room rentals for less than 6 months' duration, and nursing homes.

100-year floodplain: The area that is subject to an inundation from a flood having a 1-percent chance of being equaled or exceeded in any given year.

other residential: Hotels and motels where the normal occupancy of a guest is 6 months or more; a tourist home or rooming house that has more than four roomers. A residential building (excluding hotels and motels with normal room rentals for less than 6 months' duration) containing more than four dwelling units. Incidental occupancies such as office, professional private school, or studio occupancy, are permitted if the total area of such incidental occupancies is limited to less than 25 percent of the total floor area within the building.

participating community: A community for which Federal Emergency Management Agency (FEMA) has authorized the sale of flood insurance under the National Flood Insurance Program (NFIP).

post-FIRM building: A building for which construction or substantial improvement occurred after December 31, 1974, or on or after the effective date of an initial flood insurance rate map (FIRM), whichever is later.

pre-FIRM building: A building for which construction or substantial improvement occurred on or before December 31, 1974, or before the effective date of an initial flood insurance rate map (FIRM).

preferred risk policy (PRP): A policy that offers fixed combinations of building/contents coverage or contents-only coverage at modest, fixed premiums. The PRP has been available for property located in B, C, and X zones in regular program communities that meet eligibility requirements based on the property's flood loss history, but it will be phased out over a 5-year period beginning in October 2013.

private flood insurance: Insurance issued by an insurance company authorized to do business in the state where the insurance building is located that provides flood insurance at least as broad as a National Flood Insurance Program (NFIP) policy. Section 100239 of Biggert-Waters defines more specifically what qualifies as private flood insurance.

probation surcharge (premium): A flat charge that the policyholder must pay on each new or renewal policy issued covering property in a community that the National Flood Insurance Program (NFIP) has placed on probation due to violations or deficiencies in the administration and enforcement of NFIP floodplain management regulations.

RCBAP: See residential condominium building association policy.

reduction and reformation of coverage: A standard flood insurance policy (SFIP) provision that establishes conditions under which the policy will be considered to provide lower limits of insurance than those shown in the declarations because the amount of insurance submitted with the application was not enough to support the requested limits.

regular program: The final phase of a community's participation in the National Flood Insurance Program (NFIP). In this phase, a flood insurance rate map is in effect and full limits of coverage are available under the Act.

repetitive loss structure: Defined in the standard flood insurance policy (SFIP) as a National Flood Insurance Program (NFIP)-insured structure if it has suffered at least two flood losses (including the current loss) paid by the NFIP program during a 10-year period, the cost of each repair equaled or exceeded 25 percent of the structure's market value, and the state or community is enforcing a cumulative substantial damage provision or repetitive loss provision in its floodplain management law. See also severe repetitive loss property.

replacement cost value (RCV): The cost to replace property with the same kind of material and construction without deduction for depreciation.

reserve fund assessment: An amount dedicated to the National Flood Insurance Program (NFIP) Reserve Fund as authorized by the Biggert-Waters Flood Insurance Reform Act of 2012.

residential condominium building association policy (RCBAP): Policy issued to insure a residential condominium building and all units within the building if the building is located in a regular program community and at least 75 percent of the total floor area is residential.

river flooding: Flooding that is normally seasonal because of snowmelt or heavy rains. Water fills the river basin too quickly, and the river flows over its banks. Water then covers the floodplain, often damaging homes, and other property.

scheduled building policy: A policy that requires a specific amount of insurance to be designated for each building and its contents. A scheduled building policy may cover two to ten buildings owned by the same owner and located at the same location (on contiguous properties). Standard flood insurance policy (SFIP) forms are used.

severe repetitive loss property: For single-family properties, consisting of one to four residences, property covered under a flood insurance policy that has incurred flood insurance damage

- for which 4 or more separate claims payments have been made under the flood insurance policy, with the amount of each such claim more than $5,000 and with the cumulative amount of such claims payments totaling more than $20,000; or
- for which at least 2 separate claims payments have been made under such coverage, with the cumulative amount of such claims exceeding the property's value.

For multiple family properties, the term has "such meaning as the [Federal Emergency Management Agency] Director shall by regulation provide."

See also repetitive loss structure.

SFHA: See special flood hazard area.

SFIP: See standard flood insurance policy.

special flood hazard area (SFHA): A Federal Emergency Management Agency (FEMA)-identified high-risk flood area where flood insurance is mandatory for properties. An area having special flood, mudflow, or flood-related erosion hazards, and shown on a flood hazard boundary map (FHBM) or a flood insurance rate map (FIRM) as Zone A, AO, A1–A30, AE, A99, AH, AR, AR/A, AR/AE, AR/AH, AR/AO, AR/A1–A30, V1–V30, VE, or V.

standard flood insurance policy (SFIP): Policy issued to insure a building and/or its contents.

tentative rates: National Flood Insurance Program (NFIP) rates used to issue policies for applications that fail to provide the NFIP with valid actuarial rating information.

waiting period: The time between the date of application and the policy effective date.

WYO: See Write-Your-Own program.

WYOs: See NFIP participating companies.

Write-Your-Own (WYO) Program: A cooperative undertaking of the insurance industry and the Federal Emergency Management Agency (FEMA) begun in October 1983. The WYO Program operates within the context of the National Flood Insurance Program (NFIP) and involves private insurers that issue and service NFIP policies.

zone: A geographical area shown on a flood hazard boundary map (FHBM) or a flood insurance rate map (FIRM) that reflects the severity or type of flooding in the area.

End Notes

[1] **www.federalregister.gov/articles/2005/09/01/05-17444/flood-insurance-training-and-education-requirements-for-insurance-agents**.

[2] The *Flood Insurance Manual* and other resources are discussed in Chapter 7.

[3] H.R. 4348—512, TITLE II—FLOOD INSURANCE, Subtitle A—Flood Insurance Reform and Modernization. This subtitle may be cited as the "Biggert-Waters Flood Insurance Reform Act of 2012."

[4] This criterion does not apply if the lowest level is at or above the BFE and is below ground because dirt has been used as insulation material in conjunction with energy-efficient building techniques.

[5] As discussed in Chapter 6, this term "severe repetitive loss property" has a specific meaning defined in the Flood Insurance Reform Act of 2004. The definition also appears in the Glossary.

[6] Section 100208.

[7] Section 100239 of Biggert-Waters defines more specifically what qualifies as private flood insurance.

[8] Section 100244.

[9] Section 100222 amends the Real Estate Settlement Procedures Act by adding this requirement.

[10] The BFE is based on the National American Vertical Datum of 1988. This system is composed of vertical coordinates that the National Geodetic Survey established for defining and stating the elevations of points on, above, or below the surface of the earth. This system is the standard reference datum for elevations.

[11] **https://msc.fema.gov/**

[12] Section 100205.

[13] Section 100207.

[14] Section 100205.

[15] The "reduction and reformation of coverage" condition in the policy is discussed further in Chapter 5 of this course.

[16] Section 100204.

[17] Section 100204.

[18] Section 100210.

[19] Section 100233.

[20] Section 100234.

[21] At that time, FEMA did not distinguish between mudslides and mudflows.

[22] **https://www.fema.gov/media-library-data/1508950641147-55cd79e196bc6ea15aba1c69bb9f1cef/FINAL_ClaimsHandbook.pdf**

[23] The *Flood Insurance Claims Handbook* can be ordered from FEMA or downloaded at **https://www.fema.gov/media-library-data/1508950641147-55cd79e196bc6ea15aba1c69bb9f1cef/FINAL_ClaimsHandbook.pdf**.

[24] The current *Flood Insurance Manual* can be ordered or downloaded at **www.fema.gov/flood-insurance-manual**.