

## Questions and Answers

### Regarding the Extension of Preferred Risk Policy Eligibility Effective January 1, 2011, After Flood Insurance Rate Map Changes Effective On or After October 1, 2008

#### **1. Which properties are eligible for the 2-year Preferred Risk Policy (PRP) extension?**

For policies effective on or after January 1, 2011, FEMA is extending PRP eligibility for 2 policy years following the effective date of a map change for owners of buildings newly included in Special Flood Hazard Areas (SFHAs). The following conditions apply for the extended eligibility:

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

Buildings meeting the above requirements must also meet the PRP loss history requirements. If there are two claims or disaster relief payments for flood of \$1,000 or more, or three losses of any amount, the structure is ineligible for the PRP.

At the end of the extended eligibility period, policies on these buildings must be written as standard-rated policies.

#### **2. How will grandfathering be reported on the PRP in the Transaction Record Reporting and Processing (TRRP) Plan? Will there be changes to the Edit Specifications?**

A new Risk Rating Method will be introduced to identify policies newly issued or renewed as a PRP under the 2-year PRP eligibility extension.

Policies effective during the first year of the 2-year PRP eligibility extension are to be reported with a Risk Rating Method of "P". Policies effective during the second year of the 2-year PRP eligibility extension are to be reported with a Risk Rating Method of "Q".

#### **3. Will PRP policies issued on addresses newly included in an SFHA trigger TRRP Plan reporting errors (i.e., the PL021065 and related edit errors)?**

FEMA will not apply the PRP eligibility-by-zone edits to properties with panels that have undergone a map change within 2 years of the policy effective date. Appeals should be handled through the standard process.

**4. How will lenders determining that a property is in an SFHA on the current Flood Insurance Rate Map (FIRM) recognize that eligible PRP policies meet the mandatory purchase requirement?**

Companies must indicate that a PRP has been issued under the 2-year eligibility extension on the declarations page or on a separate notice to lenders. The 2-year PRP eligibility extension is distinct from grandfathering. Companies are not to use the existing “Grandfathered” field.

**5. What documentation is required in the underwriting file to extend PRP eligibility?**

Validating PRP extended eligibility will require the writing companies to verify the building’s flood risk zones on the current and previous flood maps and maintain documentation of these flood risk zones. Digital FIRMs are available for many communities via the internet. In some cases, historic map information is also available. Digital FIRMs are available online at the FEMA Map Service Center at <http://msc.fema.gov/webapp/wcs/stores/servlet/FemaWelcomeView?storeId=10001&catalogId=10001&langId=-1>.

Acceptable forms of documentation for the current and prior map information are as follows:

- A Letter of Map Amendment (LOMA)
- A Letter of Map Revision (LOMR)
- A Letter of Determination Review (LODR)
- A copy of the most recent flood map marked to show the exact location and flood zone of the building
- A letter, indicating the exact location and flood zone of the building, that is signed and dated by a local community official
- An Elevation Certificate (EC), indicating the exact location and flood zone of the building, that is signed and dated by a surveyor, engineer, architect, or local community official
- A flood zone determination certification that guarantees the accuracy of the information

**6. How will eligible existing policyholders be notified of the 2-year PRP eligibility extension?**

In order to ensure that the PRP eligibility extension is administered fairly and equitably to all affected policyholders, FEMA is requiring that policyholders be notified of their potential PRP eligibility within 90 days prior to policy expiration. This communication must occur in sufficient time for the zone documentation (prior and current) to be acquired by the agent and for the policyholder to be advised of coverage options when PRP coverage is different than the current standard-rated policy. Agents must be made aware of the procedures for converting the standard X-Zone rated policy to a PRP, and the PRP to standard X-Zone rated policy.

It is recommended that companies limit the scope of communication to those policyholders who would have been eligible for the PRP if the zone had not changed from a non-SFHA to an SFHA within the last 2 years, where the policy was originally purchased no more than 1 year prior to the map change effective date.

For all other policies, properties that were in the non-SFHA prior to the map revision, and are newly included in the SFHA on or after October 1, 2008, are eligible for the 2-year PRP extension.

Notification to policyholders with original new business dates prior to October 1, 2007, is to be considered optional. Because it is unlikely that a property located in a B, C, or X zone would be newly designated in zones V, VE, or V1-V30, notifications to policyholders with policies covering a V zone property are also to be considered optional.

**7. How will companies identify which policies are eligible for the PRP extension?**

Companies must identify all potentially eligible policies that are new or renewed for properties within a panel that has undergone a map change effective on or after October 1, 2008. As maps continue to be revised, the potentially eligible policies can be identified by the panel number.

The following scenarios meet the eligibility requirements:

- A property owner purchased a PRP prior to the map change that occurred within the current PRP policy year, and the PRP will expire after January 1, 2011. The new map indicates the property is newly included in the SFHA. The policy may renew for 2 additional years as a PRP.
- A property owner purchased a PRP prior to a map change that took effect on October 1, 2008. The policy was converted to the grandfathered standard X-Zone rated policy at the 2009 renewal. On the first renewal on or after January 1, 2011, the standard X-Zone rated policy may be converted back to the PRP for a period of 2 years.
- A property owner refinanced a Pre-FIRM home in December 2008 and the lender required coverage because the October 1, 2008, FIRM indicates the property is in an AE Zone. Prior to October 1, 2008, the property was designated in an X Zone, and the property owner had no policy. Because grandfathering rules did not apply, the current coverage is provided on the standard AE-Zone rated policy. The policy may be converted to a PRP for 2 years on the first renewal effective on or after January 1, 2011.
- A property owner purchased a standard X-Zone rated policy while the property was still designated in an X Zone. A map change on or after October 1, 2008, has newly included the property within the SFHA. The policy may be converted to the PRP for 2 years on the first renewal on or after January 1, 2011.
- A property owner is purchasing coverage for the first time after January 1, 2011, on a home that is located in an SFHA on the most current map effective within 2 years of the application date, but the home was designated in a non-SFHA on the previous map.

**8. Does FEMA have data indicating the total number of potentially eligible policies affected by map changes between October 1, 2008, and the date of the most recently available data?**

As of January 31, 2010, there were approximately 241,000 NFIP policies on properties located in a map panel that has been changed on or after October 1, 2008. Of these, almost 17,000 policies are standard X-Zone rated, while the remaining 224,000 are standard-rated policies in an SFHA. Approximately 3,000 of these policies are ineligible due to loss history. Additionally, removing V zone properties and policies with original new business dates prior to October 1, 2007, where notifications are to be considered optional, decreases the number to roughly 90,000 policies.

Policies with the following characteristics were excluded from the counts:

- Existing PRPs
- Emergency Program policies
- RCBAPs
- Non-residential condominium units
- Provisional rated policies
- Tentative rated policies
- Leased Federal Property Policies
- Group Flood Insurance Policies
- MPPPs
- Standard V-Zone Rated Policies
- Repetitive Loss Policies
- Policies with Original New Business Dates Prior to October 1, 2007
- Standard policies with a construction date on or after the most current map date

Companies may identify policies by the same criteria using the community master file, which is updated nightly. Additionally, FEMA will provide a listing of potentially eligible policies on a monthly basis through December 31, 2010, via the FTP site.

**9. Are property owners eligible for the 2-year PRP extension if there is no mandatory purchase requirement?**

Yes, property owners are eligible for the 2-year PRP extension if there is no mandatory purchase requirement, i.e., there is no federally backed mortgage on the property.

**10. If a Pre-FIRM property newly included in an SFHA is ineligible for the PRP due to loss history, and the property owner did not purchase a standard X-Zone policy prior to the map change, will the property owner have 2 years of extended eligibility to purchase a grandfathered standard X-Zone rated policy?**

No, the 2-year PRP eligibility extension is distinct from existing grandfathering rules and limited in scope to properties that would have been eligible for the PRP if the zone had not changed on a map effective within 2 years of the policy effective date.

An owner of a Pre-FIRM property, newly included in an SFHA and ineligible for the PRP due to loss history, will not have 2 years of extended eligibility to purchase a grandfathered standard X-Zone rated policy if the owner did not purchase a standard X-Zone policy for this property prior to the map change. The policy must be standard-rated in the SFHA.

**11. If a property located in a newly designated SFHA has a date of construction on or after the most recent map effective date, but within 2 years of the map change, is the property eligible for the PRP eligibility extension?**

No, if the property was located in an SFHA on the most current map, and the building permit or construction date is after the most current map effective date, the property is ineligible for the PRP.

- 12. If the owner of a Pre-FIRM property with no prior coverage purchases the PRP after a map change has newly designated the property within an SFHA from a non-SFHA, when the policy is converted to a standard policy at the end of the PRP eligibility extension, will the policy be eligible for grandfathering to the standard X-Zone rated policy?**

Generally, no, there are no changes to the grandfathering rules, which are distinct from the 2-year PRP eligibility extension. The only exception would be those Pre-FIRM properties constructed in a non-SFHA prior to December 31, 1974, but after the initial FIRM date. For all other Pre-FIRM construction, grandfathering “built-in-compliance” rules will not apply, since no map was effective at the time of construction. Grandfathering due to continuous coverage must be based on the map in effect at the time of the original application.

Because this example involves the purchase of the PRP under the 2-year eligibility extension after the property has already been designated in an SFHA, the policy is ineligible for grandfathering under the standard X-Zone rating. The policy would be eligible for grandfathering only if the PRP was applied for prior to the map change that newly designated the property in an SFHA.

- 13. Does this eligibility extension imply relief for those property owners with buildings already in SFHAs that are newly designated in higher risk SFHAs (e.g., from AE to VE) or in areas with higher Base Flood Elevations (BFEs)?**

Existing grandfathering rules already provide relief to property owners with buildings already in SFHAs that are newly designated in higher risk SFHAs (e.g., from AE to VE) or in areas with higher BFEs. The 2-year PRP eligibility extension is distinct from existing grandfathering rules and does not apply to properties that were already located in SFHAs prior to the map change.

- 14. If a producer writes a new business application effective on or after January 1, 2011, for a property using the current SFHA zone, unaware that the property was previously in a non-SFHA before a map change that took effect on or after October 1, 2008, can the policy be corrected?**

FEMA will allow a rating adjustment from the standard-rated policy to the PRP for eligible policyholders that can be made retroactive to the earliest eligibility date, which is January 1, 2011, or the map change effective date, whichever is later. Retroactive rating adjustments will be made as outlined in the prior-term refund rules for misrating.

- 15. If an affected property owner without flood insurance delays purchasing a PRP during the first year of eligibility, does the 2-year PRP eligibility extension begin from the date flood insurance became effective?**

No, the 2-year eligibility extension begins on either January 1, 2011, or the map change effective date, whichever is later. A property owner whose new policy is effective during the second year following a map change will receive only 1 year of PRP eligibility.

For example, if a map change occurs on February 15, 2011, the policyholder is eligible for 2 years under the PRP if the date of application is between February 15, 2011, and February 14, 2012. Beginning February 15, 2012, through February 14, 2013, the policyholder receives only 1 year under the PRP. Additionally, if the policy was applied for between January 16, 2011, and February 14, 2011, and had an

effective date after the map change effective date of February 15, 2011, the 2-year policy extension would begin on the first renewal.

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

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

**17. If there is lapse in coverage, will coverage be reinstated under the PRP?**

The policy may be reinstated as a PRP during the 2-year PRP eligibility extension period.

**18. Can a policyholder receive a refund for the 2008, 2009, or 2010 term if the policyholder was required to buy a standard X-Zone policy prior to January 1, 2011, due to a map change that took effect on or after October 1, 2008?**

No, unless it was issued in error, any existing standard-rated policy effective prior to January 1, 2011, will not be eligible for refunds.

Under the 2-year PRP eligibility extension, there will be no retroactive refund with an effective date prior to January 1, 2011. The 2-year PRP eligibility extension is available beginning on or after January 1, 2011, or the map change effective date, whichever is later.

**19. Is a new application required when converting a standard-rated policy to a PRP, or when converting a PRP to a standard-rated policy?**

When converting a standard-rated policy to a PRP on renewal, the company must obtain the loss history and data information requested on the PRP application. When converting a PRP to a standard-rated policy, the Application Part II information must be collected as applicable to the building. It is not necessary to use the NFIP form to collect this data. Companies may use standard business practices to collect the necessary information from the agent.

**20. Is an agent required to quote both the PRP and standard-rated policy premiums, in case the standard-rated policy might be cheaper than the PRP due to elevation rating?**

Agents are responsible for providing their customers accurate information to make informed decisions regarding their flood insurance needs. Most properties newly included in the SFHA are not constructed with the lowest floor above the BFE, but there are exceptions. It is possible for a standard-rated policy to be cheaper than a PRP, and an agent presented with an EC should compare the elevation-rated premium to the PRP premium.

**21. Are agents and/or the writing company expected to gather ECs, photographs, and other documents that may be needed for the conversion to the standard-rated policy at the beginning or the end of the 2-year PRP eligibility extension?**

In many cases, when the PRP is converted to a standard-rated policy, the policy will be eligible for standard X-Zone rating under the grandfathering rules. Even when rating using A or V Zone rates, Pre-FIRM rates may be applicable, and ECs and photographs will usually not be required for the conversion. Any documentation needed to convert a PRP to a standard-rated policy should be obtained at the time of conversion.

The documentation necessary to complete the conversion from a PRP to a standard-rated policy must be obtained in sufficient time to send a renewal offer no less than 45 days prior to the expiration of the PRP in its final year of eligibility.

**22. In those cases where the standard-rated policy has only one kind of coverage and is rewritten as a PRP that includes contents coverage, will the 30-day waiting period apply (see GR11, VIII.D.7)?**

The 30-day waiting period will not apply in those cases where the standard-rated policy has only building coverage and is rewritten as a PRP that includes contents coverage. The General Rules and Preferred Risk Policy sections of the NFIP Flood Insurance Manual will be updated accordingly.

**23. Will the coverage limitations for enclosures below the lowest elevated floor of a Post-FIRM building located in Zones A1-A30, AE, AH, AR, AR/A, AR/AE, AR/A1-A30, V1-V30, or VE be applied to a PRP written under the 2-year PRP eligibility extension?**

No, the coverage limitations for enclosures below the lowest elevated floor of a Post-FIRM building located in Zones A1-A30, AE, AH, AR, AR/A, AR/AE, AR/A1-A30, V1-V30, or VE will not be applied to a PRP written under the 2-year PRP eligibility extension. The coverage will be based on Zone X.

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

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

**25. Is this extension of PRP eligibility a premium subsidy?**

FEMA is implementing this extension of PRP eligibility in a way that will produce no net change of premium revenue for the NFIP due to the actuarial adjustment to all PRP rates. PRP premiums will be actuarially adjusted as a class to account for this expansion.

**26. Even if the PRP class is not subsidized as a whole, aren't eligible property owners being subsidized by PRP policyholders with properties truly located outside of the SFHA?**

One of the stated purposes of Congress in passing the National Flood Insurance Act of 1968 was to provide flexibility in the program so that such flood insurance would be based on workable methods of

pooling risks, minimizing costs, and distributing burdens equitably among the general public and those who would be protected by federal flood insurance.

The PRP premium increases will be modest. Flood risks change over time due to both community development and natural causes. Those who are outside of the SFHA today may undergo map revisions in the future. A minimal increase to PRP premiums provides flexibility to the NFIP to ease the burden of transition into an SFHA for everyone affected now, and in years to come.

**27. What can agents tell policyholders who are not eligible for the 2-year PRP eligibility extension?**

Agents should explore other existing rating options with their clients such as optional Post-FIRM elevation rating of Pre-FIRM properties, grandfathering rules, and mitigation techniques that may impact premiums, such as installing vents in crawlspaces in A zones.

**28. Why aren't policyholders with properties that are newly included in SFHAs by map changes prior to October 1, 2008, eligible for the eligibility extension?**

This eligibility extension was developed as a response to the large number of very recent map changes due to a federally mandated map modernization, and also due to the increasing difference in premiums that has evolved over time between the standard-rated policy and the PRP, which has made it more difficult for property owners to transition to the higher premium standard-rated policy. The smaller number of customers impacted by map changes that took effect prior to October 1, 2008, has adjusted to paying full-risk actuarial premiums for some time.

**29. Which cancellation reason code will be used to cancel/rewrite policies under this PRP extension? How do we handle agency commissions?**

Effective January 1, 2011, a policy written as a standard-rated policy and determined to be eligible for extended PRP rating may be endorsed or rewritten as a PRP for two policy terms at its next renewal following a map change that occurred on or after October 1, 2008, and before January 1, 2011. The policy may be canceled/rewritten using Cancellation Reason Code 22 if both of the following conditions are met:

- The request to endorse or cancel/rewrite the policy is received during the current policy term.
- The policy has no open claim or closed paid claim on the policy term being canceled.

When converting a standard-rated policy to a PRP because of the 2-year PRP eligibility extension, the 30-day waiting period will not apply if the standard-rated policy has only building coverage and is rewritten as a PRP that includes contents coverage. Agent commissions will be handled in the same manner as they are for other misratings.

**30. Is there any way to get loss history in advance rather than having to cancel the policy after the fact upon discovery? This is an ongoing industry issue as losses may have occurred when the policy was written through a different company/vendor.**

The system of record's entire repetitive loss file is available to WYO Companies and NFIP Servicing Agent on the FTP site.



WYO Companies and the NFIP Servicing Agent may access the NFIP Repetitive Loss (RL) Master File, which is updated monthly and available online at <http://bsa.nfipstat.com/> under the “Repetitive Loss Master File” button. This is the full RL Master File, which contains all addresses to be used for PRP editing on your systems.

The monthly update of the full RL Master File is also available in the “Common” area of the NFIP FTP site at <ftp://bureau.nfipstat.com/ftpcommon/rlmf/>. The file name is W2MYRLEX.ZIP. The file layout is available at <ftp://bureau.nfipstat.com/ftpcommon/filelayouts/>. The file name is W2MYRLEX\_REP\_LOSS.doc.

Access to these resources requires a User Name and Password. See Bulletin W-10057 for further details.

**31. Since FEMA is suggesting automated handling, are they willing to look at possible clarifications or changes in implementation that will make business logic possible to accomplish this?**

We are providing an Eligibility Determination Flowchart at the end of these Questions and Answers.

**32. Will FloodSmart be reviewed to make sure that no conflicting information is communicated to agents? Will they be publishing clarification documents on their site?**

The FEMA Risk Insurance Industry and Public Relations Branch is engaged in the 2-year PRP eligibility extension outreach and will provide accurate content for FloodSmart and related agent communication.

**33. How do we capture information on new business applications to determine eligibility for the PRP versus the standard-rated policy? Will we need to collect additional information from agents to issue policies?**

The PRP application form will not require additional information. The map information reflected on the PRP application will be from the current map panel.

Companies must document the policy file for all PRPs issued under the 2-year eligibility extension by providing evidence of the zone before and after the map change. See Question 5 for documentation requirements.

**34. Is the Map Store now the official record of map information?**

The community FIRM is the official record. FIRMettes produced on the FEMA Map Store web site are valid documentation for the 2-year PRP eligibility extension.

**35. Post-FIRM elevation rating in an SFHA is sometimes more favorable than standard X-Zone rating, though not more favorable than the PRP. What does FEMA recommend for these policyholders?**

Policyholders who take advantage of the 2-year PRP eligibility extension do not lose any other rating option that was available to them at the time the 2-year PRP eligibility extension began. If the 2-year PRP eligibility extension provides lower premiums than elevation rating in the SFHA, advise the policyholder of the 2-year PRP eligibility extension. At the end of the 2-year PRP eligibility extension, elevation rating in the SFHA may still be more favorable than converting to standard X-Zone rating. In such cases, elevation rating in the SFHA will remain an available alternative to standard X-Zone rating.

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2-Year PRP Extension  
Eligibility Determination Flow Chart

