NATIONAL FLOOD INSURANCE PROGRAM

Bureau and Statistical Agent

W-01081
2040-01

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

FROM: WYO Clearinghouse

DATE: December 20, 2001

SUBJECT: Underwriting Bulletin - Clarification Rules Due to a Map Revision

Attached is an Underwriting Bulletin from the Federal Insurance and Mitigation Administration concerning cancellation rules when flood maps are revised.

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

cc: Vendors, IBHS, FIPNC, WYO Marketing Committee, Government Technical Representative

Suggested Routing: Marketing, Underwriting

Federal Emergency Management Agency

Washington, D.C. 20472

National Flood Insurance Program
Underwriting Bulletin

Subject: Clarification of the NFIP Cancellation Rules Due to a Map Revision

The Flood Insurance Disaster Protection Act of 1973, as amended, requires the purchase of flood insurance as a condition of obtaining a loan secured by improved real estate or a mobile home located in a Special Flood Hazard Area (SFHA) of a participating community. Under the National Flood Insurance Program (NFIP) cancellation rules, when a building is removed from the SFHA by a Flood Insurance Rate Map (FIRM) and the insured wishes to cancel the policy, the insured is eligible for a premium refund paid during the current policy year provided that the lender confirms in writing that (1) the insurance was required as part of the mortgage; and (2) the lender no longer requires the flood insurance policy. However, the insured is not eligible for a premium refund if a flood insurance claim has been paid for flood damage that occurred during the policy year that is being cancelled or the claim is pending.

At issue is whether the NFIP rules allow cancellation with premium refund on those cases where, prior to a revision in the FIRM, the insured's building was located in the SFHA, but because of the NFIP Administrative Grandfathering rule, the current flood policy was issued and rated using flood zone B, C, or X. This situation occurs when the property owner decides to purchase flood insurance to take advantage of the lower rate before the building is placed in the SFHA by using the FIRM in effect when the coverage was first obtained.

Lenders that have advance knowledge of an upcoming revision to the FIRM expanding the SFHA may encourage their borrowers who will be subject to the mandatory purchase guidelines to buy flood insurance before the effective date of the revised FIRM. Prior to the implementation of AR zones in Los Angeles and Sacramento areas in July 1998, the Federal Insurance and Mitigation Administration encouraged property owners to purchase flood policies before the effective date of the revised FIRM to take advantage of lower flood insurance premiums. As a result, many property owners were able to purchase a Preferred Risk Policy (PRP) or a Standard X zone policy before the AR zones became effective.

This is to clarify that when a flood insurance policy is purchased to comply with the mandatory purchase requirement and because of a recent map revision the building is no longer in an SFHA, the NFIP will allow the cancellation of the current policy year with full premium refund, provided that no claim has been paid or is pending. This rule applies even if the insured has a PRP or a Standard flood policy rated using flood zone B, C, or X. The writing company is authorized to cancel the policy, so long as the insured or agent is able to provide proof that the building was in the SFHA and due to a revision the building is no longer in an SFHA. The

lender must confirm in writing that (1) the insurance was required as part of the mortgage; and (2) the lender no longer requires the flood insurance policy.

Refunds should be made according to the map revision rules in the Flood Insurance Manual (Reason code 9, in the Cancellation/Nullification Section).

December 19, 2001

Date

Donald R. Beaton, Jr.

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