Government Insurance Workbook
By Ron Feldman

Introduction
This workbook is a companion to The Tools of Government: A Guide to the New Governance, edited by Lester M. Salamon. It includes original source documents that illustrate the operation of a government program that embodies insurance as a tool of government. It is designed to help the reader better understand the process for implementing and managing a government insurance program.

Government insurance is a tool through which government agrees to compensate individuals or firms for losses from certain specified events. Eligible recipients are typically charged a fee, or premium, for participation in the insurance program. Government insurance programs can be operated directly by government agencies or indirectly with the aid of private insurers. In either case, government typically bears the financial responsibility for covering any claims that exceed the pool of resources assembled in the program. Other tools of government, such as tax expenditures and grants, can transfer risk from firms or individuals to the government. However, government insurance is distinct from these other methods because of its greater reliance on risk pooling. In a typical risk pooling arrangement, a group of individuals or firms use a central organization to split losses when a particular event, such as a flood, occurs.

The insurance tool is quite complex in its goals and its mechanics. The primary goals of most government insurance programs are to: (1) improve economic efficiency by providing risk-management services, (2) provide subsidies to targeted groups, and (3) remain "self-financing." However, there are tradeoffs among these goals. For example, increased subsidization to targeted groups reduces the potential of the insurance tool to either pay for itself through premiums or to enhance efficiency. It may also be difficult for the insurance tool to provide effective risk management because of the technically challenging mechanics of the insurance tool such as rate setting.

This workbook illustrates the major mechanics of the insurance tool including the following:

- Writing the Regulations and the Insurance Policy
- Pricing: Setting Insurance Premiums
- Distribution: The Related Tasks of Selling, Servicing, and Marketing Insurance Policies
- Underwriting: Will Insurance Be Offered and in What Form?
- Reviewing Claims (Adjustment)
- Evaluation

The workbook also reviews why the government uses the insurance tool and provides examples of evaluations of the tool.
Tools of Government Workbook 2

Document Listing and Description
This workbook includes 20 documents related to the operation of the National Flood Insurance Program (NFIP), managed by the Federal Emergency Management Agency's Federal Insurance Administration and Mitigation Directorate. The documents are grouped into seven categories, as outlined below. This section lists the documents and briefly describes each set.

A. Why Does the Federal Government Provide Flood Insurance?
2. Testimony of Jo Ann Howard, Federal Insurance Administrator before the Senate Banking, Housing and Urban Affairs Committee's Field Hearing, Crookston, Minnesota, August 25, 1999
3. Excerpt from the National Flood Insurance Reform Act of 1994

In most countries, private firms offer insurance to allow firms and individuals to better manage their risks of loss. Government provision of insurance is an exception. Consequently, governments that employ this tool attempt to articulate the rationale for choosing the tool. The first document in this section is an excerpt from the legislation that created the NFIP (A1). This excerpt details the Congressional findings that supported the passage of this bill. The second document in the section provides a less formal discussion, through Congressional testimony, explaining why the government offers flood insurance (A2). A particularly important aspect of government insurance is the use of private insurance firms to market and administer the program. Government oversight is exercised in a variety of ways including specifying the terms of the standard policy through legislation. The third document is an excerpt from legislation in which government expanded the coverage to include the cost of compliance with land use and control measures created by state or community authorities (A3).

B. Writing the Regulations and the Insurance Policy
1. Proposed Rule to Extend Coverage to Cost of Compliance
2. Final Rule to Extend Coverage to Cost of Compliance
3. The Standard Flood Insurance Policy - Dwelling Form
4. "Coverage Information?" from the NFIP's Information for Consumers

Policymakers use legislation to establish the general rules on risks to be covered, eligibility, forms of risk sharing, and so forth when designing each specific insurance program. These design features cannot remain general because insurance coverage is provided by means of legally enforceable agreements and rules. The program regulations and the insurance policy allow the insurer and the insured to understand what is expected of each other. The first item in this section (B1) is a proposed amendment to the program regulations needed to implement a 1994 statutory change in the coverage provided in the policy. Item B2 is the final version of the amendment adopted after providing an opportunity for the public to comment on the proposed changes. B3 is the standard flood insurance policy for dwellings. The policy must be written in legal and technical language and such wording may prove daunting to customers seeking information about coverage. For flood insurance, the government insurer also provides a layperson's guide to coverage (B4).

C. Pricing: Setting Insurance Premiums
2. Cost and Premium Information from the NFIP's Information for Consumers

The additional premium for the new coverage authorized by the 1994 amendments for cost of compliance was set by law as "not to exceed $75 per policy." The NFIP administrators then determined the amount of coverage that premium would support. However, the process usually begins with a determination of how much coverage is needed. The premiums are then set based on actuarial data. Setting premium rates is perhaps the most important task facing the administrator of the government insurance program. An insurance program cannot finance itself unless the premiums charged equal the costs for claims and administration. Such premiums are referred to as
"actuarily fair premiums." There are numerous techniques for setting premiums, but all require collecting data on the likelihood of the insured event occurring. The excerpt from a report by the General Accounting Office (C1) describes the data collection and analysis carried out by the NFIP. The second item in this section provides examples of how the NFIP quotes premiums to potential customers (C2). Because the likelihood of an insured event occurring changes over time, the government insurer must continually update their premiums.

**D. Distribution: The Related Tasks of Selling, Servicing, and Marketing Insurance Policies**

1. Print Ads "Life is Not Waterproof" and "Water, Water Everywhere: Test Your Flood IQ," "Mat Story" distributed by the NFIP, Plans for "Cover America II."
2. Federal Insurance Administration Marketing Guidelines for Private Firms
3. Excerpt from the Financial Assistance/Subsidy Arrangement or "Write Your Own Agreement."

Some government insurance programs must sell their products and there are several distribution systems and methods they can use to accomplish that goal. Government insurers, for example, use many of the same methods available to private insurers to market their product, such as advertisements. The first item of this section offers examples of advertisements used by the NFIP (D1). Government insurers that sell their products often make use of the private sector's distribution system to interact with potential and current customers. Effective use of private third parties requires the government insurer to manage the actions of the third party. The NFIP uses private insurance agents and companies in its distribution. The NFIP issues guidelines to firms and agents on how they can market flood insurance (D2). The NFIP also signs a contract with the insurance firms governing the allocation of risks and returns from insurance sales and the servicing of insurance policies (D3). Finally, the NFIP provides guidance to third parties as to how they should provide on-going service to customers in the cases such as policy renewal or cancellation (D4).

**E. Underwriting: Will Insurance Be Offered and in What Form?**

2. Obtaining Information to Write and Rate Flood Insurance Policies, Forum on Desktop Rating of Flood Insurance Policies (Notice of forum with request for ideas and participants published in the Federal Register, October 27, 2000)

The government insurer must apply its contract and pricing schedule to a particular firm or household. This process is called underwriting. One of the key underwriting decisions is the determination if an applicant for insurance is eligible for a policy. A second key underwriting task is determining the appropriate premium rate for the applicant. The NFIP provides a manual to insurance agents that helps them determine both applicant eligibility and pricing (E1). New technologies have altered the manner by which government insurers carry out the underwriting task. The second document in this section describes the NFIP attempt to develop a "desk-top" underwriting system (E2).

**F. Reviewing Claims (Adjustment)**

1. Excerpt from Claims Chapter of the Flood Insurance Manual
2. "Announcement of Repository and Claims Training" from the NFIP's Information for Insurance Companies

The insurer has to determine the validity of claims made against it and the amount of money the insurer owes the insured party. This activity is called claims adjustment. The government insurance program can develop its own in-house adjustment force or rely on adjusters who also service private insurance contracts. The NFIP relies on private adjusters. To ensure that adjusters are carrying out their tasks in a manner consistent with its expectations, the government flood insurer provides general guidance to adjusters through its manual (F1) and (F2).
G. Evaluating Flood Insurance

1. Written summary of themes from the "Flood Plan Management Forum" Sponsored by the NFIP on June 8, 2000
2. Excerpt of "Evaluation of Community Rating System Credited Activities During Hurricane Floyd" prepared by the Hazard Mitigation Technical Assistance Partnership, Inc. (Contract No. EMW-95-C-4678, September 25, 2000)
3. Policy and Claim Statistics on the NFIP, published by the NFIP

Insurance programs can be evaluated according to how well they accomplish their goals. The first document in this section reflects the informal feedback and evaluation that the NFIP received from flood insurance experts in the field (G1). The second document is a more formal evaluation of a specific aspect of the flood insurance program. Specifically, how successful were mitigation efforts of local communities in reducing losses from Hurricane Floyd (G2)? Finally, government insurance programs, including the NFIP, collect data on their performance on a regular basis which allows for their evaluation (G3).
ALL-HAZARD AUTHORITIES OF THE FEDERAL EMERGENCY MANAGEMENT AGENCY

THE NATIONAL FLOOD INSURANCE ACT OF 1968, AS AMENDED, AND

THE FLOOD DISASTER PROTECTION ACT OF 1973, AS AMENDED

42 U.S.C. 4001 et seq.

OFFICE OF THE GENERAL COUNSEL

AUGUST, 1997
§ 4001. Congressional findings and declaration of purpose

(a) Necessity and reasons for flood insurance program

The Congress finds that (1) from time to time flood disasters have created personal hardships and economic distress which have required unforeseen disaster relief measures and have placed an increasing burden on the Nation's resources; (2) despite the installation of preventive and protective works and the adoption of other public programs designed to reduce losses caused by flood damage, these methods have not been sufficient to protect adequately against growing exposure to future flood losses; (3) as a matter of national policy, a reasonable method of sharing the risk of flood losses is through a program of flood insurance which can complement and encourage preventive and protective measures; and (4) if such a program is initiated and carried out gradually, it can be expanded as knowledge is gained and experience is appraised, thus eventually making flood insurance coverage available on reasonable terms and conditions to persons who have need for such protection.

(b) Participation of Federal Government in flood insurance program carried out by private insurance industry

The Congress also finds that (1) many factors have made it uneconomic for the private insurance industry alone to make flood insurance available to those in need of such protection on reasonable terms and conditions; but (2) a program of flood insurance with large-scale participation of the Federal Government and carried out to the maximum extent practicable by the private insurance industry is feasible and can be initiated.

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1 Exect as noted otherwise, marginal section numbers are references to title XIII of Pub. L. 90-448, Aug. 1, 1968, 82 Stat. 572, as amended, known as the National Flood Insurance Act of 1968,
(c) Unified national program for flood plain management

The Congress further finds that (1) a program of flood insurance can promote the public interest by providing appropriate protection against the perils of flood losses and encouraging sound land use by minimizing exposure of property to flood losses; and (2) the objectives of a flood insurance program should be integrally related to a unified national program for flood plain management and, to this end, it is the sense of Congress that within two years following the effective date of this chapter the President should transmit to the Congress for its consideration any further proposals necessary for such a unified program, including proposals for the allocation of costs among beneficiaries of flood protection.

(d) Authorization of flood insurance program; flexibility in program

It is therefore the purpose of this chapter to (1) authorize a flood insurance program by means of which flood insurance, over a period of time, can be made available on a nationwide basis through the cooperative efforts of the Federal Government and the private insurance industry, and (2) provide flexibility in the program so that such flood insurance may be based on workable methods of pooling risks, minimizing costs, and distributing burdens equitably among those who will be protected by flood insurance and the general public.

(e) Land use adjustments by State and local governments; development of proposed future construction; assistance of lending and credit institutions; relation of Federal assistance to all flood-related programs; continuing studies

It is the further purpose of this chapter to (1) encourage State and local governments to make appropriate land use adjustments to constrict the development of land which is exposed to flood damage and minimize damage caused by flood losses, (2) guide the development of proposed future construction, where practicable, away from locations which are threatened by flood hazards, (3) encourage lending and credit institutions, as a matter of national policy, to assist in furthering the objectives of the flood insurance program, (4) assure that any Federal assistance provided under the program will be related closely to all flood-related programs and activities of the Federal Government, and (5) authorize continuing studies of flood hazards in order to provide for a constant reappraisal of the flood insurance program and its effect on land use requirements.
(f) Mudslides

The Congress also finds that (1) the damage and loss which results from mudslides is related in cause and similar in effect to that which results directly from storms, deluges, overflowing waters, and other forms of flooding, and (2) the problems involved in providing protection against this damage and loss, and the possibilities for making such protection available through a Federal or federally sponsored program, are similar to those which exist in connection with efforts to provide protection against damage and loss caused by such other forms of flooding. It is therefore the further purpose of this chapter to make available, by means of the methods, procedures, and instrumentalities which are otherwise established or available under this chapter for purposes of the flood insurance program, protection against damage and loss resulting from mudslides that are caused by accumulations of water on or under the ground.

§ 4002. Additional Congressional findings and declaration of purpose

(a) The Congress finds that--

(1) annual losses throughout the Nation from floods and mudslides are increasing at an alarming rate, largely as a result of the accelerating development of, and concentration of population in, areas of flood and mudslide hazards;

(2) the availability of Federal loans, grants, guaranties, insurance, and other forms of financial assistance are often determining factors in the utilization of land and the location and construction of public and of private industrial, commercial, and residential facilities;

(3) property acquired or constructed with grants or other Federal assistance may be exposed to risk of loss through floods, thus frustrating the purpose for which such assistance was extended;

(4) Federal instrumentalities insure or otherwise provide financial protection to banking and credit institutions whose assets include a substantial number of mortgage loans and other indebtedness secured by property exposed to loss and damage from floods and mudslides;

(5) the Nation cannot afford the tragic losses of life caused annually by flood occurrences, nor the increasing losses of property suffered by flood victims, most of whom are still inadequately compensated despite the provision of costly disaster relief benefits; and

(6) it is in the public interest for persons already living in flood-prone areas to have both an opportunity to purchase flood insurance and access to more adequate limits of coverage, so that they will be indemnified for their losses in the event of future flood disasters.

(b) The purpose of this Act, therefore, is to--

(1) substantially increase the limits of coverage authorized under the national flood insurance program;

(2) provide for the expeditious identification of, and the dissemination of information concerning, flood-prone areas;

(3) require States or local communities, as a condition of future Federal financial assistance, to participate in the flood insurance program and to adopt adequate flood plain ordinances with effective enforcement provisions consistent with Federal standards to reduce or avoid future flood losses; and

(4) require the purchase of flood insurance by property owners who are being assisted by Federal programs or by federally supervised, regulated, or insured agencies or institutions in the acquisition or improvement of land or facilities located or to be located in identified areas having special flood hazards.
§ 4003. Additional definitions

(a) As used in this Act, unless the context otherwise requires, the term--

(1) “community” means a State or a political subdivision thereof which has zoning and building code jurisdiction over a particular area having special flood hazards;

(2) “Federal agency” means any department, agency, corporation, or other entity or instrumentality of the executive branch of the Federal Government, and includes the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation;

(3) “financial assistance” means any form of loan, grant, guaranty, insurance, payment, rebate, subsidy, disaster assistance loan or grant, or any other form of direct or indirect Federal assistance, other than general or special revenue sharing or formula grants made to States;

(4) “financial assistance for acquisition or construction purposes” means any form of financial assistance which is intended in whole or in part for the acquisition, construction, reconstruction, repair, or improvement of any publicly or privately owned building or mobile home, and for any machinery, equipment, fixtures, and furnishings contained or to be contained therein, and shall include the purchase or subsidization of mortgages or mortgage loans but shall exclude assistance pursuant to the Disaster Relief and Emergency Assistance Act [42 U.S.C. 5121 et seq.] (other than assistance under such Act in connection with a flood);

(5) “Federal entity for lending regulation” means the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Office of Thrift Supervision, the National Credit Union Administration, and the Farm Credit Administration, and with respect to a particular regulated lending institution means the entity primarily responsible for the supervision of the institution;

(6) “Director” means the Director of the Federal Emergency Management Agency.

3 Of the Flood Disaster Protection Act of 1973, as amended.
(7) “Federal agency lender” means a Federal agency that makes direct loans secured by improved real estate or a mobile home, to the extent such agency acts in such capacity;

(8) the term “improved real estate” means real estate upon which a building is located;

(9) “lender” means a regulated lending institution or Federal agency lender;

(10) “regulated lending institution” means any bank, savings and loan association, credit union, farm credit bank, Federal land bank association, production credit association, or similar institution subject to the supervision of a Federal entity for lending regulation; and

(11) “servicer” means the person responsible for receiving any scheduled periodic payments from a borrower pursuant to the terms of a loan, including amounts for taxes, insurance premiums, and other charges with respect to the property securing the loan, and making the payments of principal and interest and such other payments with respect to the amounts received from the borrower as may be required pursuant to the terms of the loan.

(b) The Director is authorized to define or redefine, by rules and regulations, any scientific or technical term used in this Act, insofar as such definition is not inconsistent with the purposes of this Act.
UNITED STATES CODE  
TITLE 42--THE PUBLIC HEALTH AND WELFARE  
CHAPTER 50--NATIONAL FLOOD INSURANCE  

SUBCHAPTER I--THE NATIONAL FLOOD INSURANCE PROGRAM  

{Sec. 1304}  

§ 4011. Authorization to establish and carry out program  

(a) Authorization and establishment  

To carry out the purposes of this chapter, the Director of the Federal Emergency Management Agency is authorized to establish and carry out a national flood insurance program which will enable interested persons to purchase insurance against loss resulting from physical damage to or loss of real property or personal property related thereto arising from any flood occurring in the United States.  

(b) Additional coverage for compliance with land use and control measures  

The national flood insurance program established pursuant to subsection (a) of this section shall enable the purchase of insurance to cover the cost of compliance with land use and control measures established under section 4102 of this title for--  

(1) properties that are repetitive loss structures;  

(2) properties that have flood damage in which the cost of repairs equals or exceeds 50 percent of the value of the structure at the time of the flood event; and  

(3) properties that have sustained flood damage on multiple occasions, if the Director determines that it is cost-effective and in the best interests of the National Flood Insurance Fund to require compliance with the land use and control measures.
ALL-HAZARD AUTHORITIES of the
Federal Emergency Management Agency

Section 1304
[42 U.S.C. § 4011]

The Director shall impose a surcharge on each insured of not more than $75 per policy to provide cost of compliance coverage in accordance with the provisions of this subsection.

(c) Participation and risk sharing by insurers

In carrying out the flood insurance program the Director shall, to the maximum extent practicable, encourage and arrange for--

(1) appropriate financial participation and risk sharing in the program by insurance companies and other insurers, and

(2) other appropriate participation, on other than a risk-sharing basis, by insurance companies and other insurers, insurance agents and brokers, and insurance adjustment organizations, in accordance with the provisions of subchapter II of this chapter [42 U.S.C. § 4041 et seq.].

{Sec. 1305}

§ 4012. Scope of program and priorities

(a) Priority for insurance for certain residential and church properties and business concerns

In carrying out the flood insurance program the Director shall afford a priority to making flood insurance available to cover residential properties which are designed for the occupancy of from one to four families, church properties, and business properties which are owned or leased and operated by small business concerns.

(b) Availability of insurance for other properties

If on the basis of--

(1) studies and investigations undertaken and carried out and information received or exchanged under section 4014 of this title, and

(2) such other information as may be necessary,
the Director determines that it would be feasible to extend the flood insurance program to cover other properties, he may take such action under this chapter as from time to time may be necessary in order to make flood insurance available to cover, on such basis as may be feasible, any types and classes of--

(A) other residential properties,

(B) other business properties,

(C) agricultural properties

(D) properties occupied by private nonprofit organizations, and

(E) properties owned by State and local governments and agencies thereof,

and any such extensions of the program to any types and classes of these properties shall from time to time be prescribed in regulations.

(c) Availability of insurance in States or areas evidencing positive interest in securing insurance and assuring adoption of adequate land use and control measures

The Director shall make flood insurance available in only those States or areas (or subdivisions thereof) which he has determined have--

(1) evidenced a positive interest in securing flood insurance coverage under the flood insurance program, and

(2) given satisfactory assurance that by December 31, 1971, adequate land use and control measures will have been adopted for the State or area (or subdivision) which are consistent with the comprehensive criteria for land management and use developed under section 4102 of this title, and that the application and enforcement of such measures will commence as soon as technical information on floodways and on controlling flood elevations is available.
Testimony of Jo Ann Howard, 
Federal Insurance Administrator 
before the 
Senate Banking, Housing and Urban Affairs 
Committee's 
Field Hearing 
Crookston, Minnesota 
August 25, 1999

Introduction

Good afternoon, Senator Grams. I am Jo Ann Howard, Administrator of the Federal Insurance Administration. I appreciate the opportunity to appear before you today to discuss the National Flood Insurance Program (NFIP).

On behalf of FEMA Director James Lee Witt and myself, I would like to thank you for the continued support this Committee has given the Federal Emergency Management Agency (FEMA) and the Federal Insurance Administration (FIA) in fulfilling our commitment to help individuals and communities protect themselves from flood damage and to assist in their recovery.

In the past 10 years, FEMA has spent $20 billion to help people repair and rebuild their communities after natural disasters. And that is not the total cost. Insurance companies spent additional billions in claims payments; businesses lost revenues; employees lost jobs; other government agencies spent millions more. Worst of all, however, is the loss that can never be recovered: human life.

The increasing number and severity of natural disasters over the past decade
demands that action be taken to reduce the threat that hurricanes, tornadoes, severe storms, floods and fires impose upon the nation's economy and the safety of its citizens. With programs like Project Impact -Building a Disaster Resistant Community and the National Flood Insurance Program, FEMA is changing the way America deals with disasters. FEMA has asked Congress to help us invest new resources in our mission to buy out repetitive flood loss properties - as a matter of prevention; to invest in mapping modernization-that will help FEMA, the States, and local communities work smarter and more efficiently; and once again to invest in pre-disaster mitigation - which is an investment in prevention that supports personal responsibility empowered at the community level. These are investments that will save hundreds of lives and billions of dollars worth of property and personal belongings, as well as help us to further reduce disaster costs.

As it celebrates its 30th Anniversary, the NFIP has mapped over 20,000 communities resulting in improved land use and building practices in floodplains, saving American taxpayers an estimated $770 million per year in flood damage. It is the largest single line insurer in the Nation, protecting over 4 million policyholders with almost $500 billion in coverage. Over 19,000 communities across the United States and its territories of Guam, Puerto Rico and the Virgin Islands participate in the program.

The NFIP reduces Federal disaster assistance outlays by enabling people to insure against flood losses rather than relying on costly Federal disaster assistance and tax write-offs for uninsured losses. Since 1978, almost $8.3 billion in flood losses have all been paid from premiums, thereby reducing the burden on the taxpayers.

The NFIP was created in 1968 in response to the mounting losses and escalating costs of natural disasters. Today, floods are more destructive to the Nation than any other natural disaster, estimated by the U.S. Army Corps of Engineers to cost an average of $5.1 billion in damage each year. To address the mounting losses, Congress designed the program with three major components: mapping flood-prone areas for floodplain management, to make flood hazard determinations and set insurance rates; mitigation to ensure that communities adopt and enforce reasonable land use requirements to reduce future flood damage; and insurance to protect property owners from financial disaster.

As one of the finest examples of government and the private sector working together, the NFIP represents a unique partnership between the Federal government and the private insurance industry. Flood insurance is available through the Write Your Own (WYO) program where State-licensed
insurance companies have signed arrangements with the Federal Insurance Administration to sell and service the program's flood insurance policies. Today, 85 WYO companies sell 94% of the flood insurance policies nationwide, with the remainder written by agents who deal directly with the Federal Government. This partnership enables FIA to provide reasonably priced flood insurance to as many Americans as possible. Without this mechanism, private insurers would be unable to provide flood insurance coverage due to the high risk and cost of providing the insurance.

During the last full fiscal year, FY 1998, the NFIP took in almost $1.3 billion in revenue in premium and the Federal Policy Fee. From fees taken in from premiums, $719 million was paid out in losses; Write Your Own companies retained $370 million in expense allowance; and interest to the Treasury accounted for $43 million.

A unique aspect of the program is that the insurance operation provides funds for mapping and flood mitigation. These funds are obtained through the $30 Federal Policy Fee on every NFIP policy. From dollars taken in from the Federal Policy Fee, we provided approximately $50 million for floodplain mapping; $9 million in Flood Mitigation Assistance grants; $7 million for other flood mitigation activities, including grants to the States; and $20 million for Federal staff and expenses to manage flood mitigation activities and operation of the Federal Insurance Administration.

FEMA's Federal Insurance Administration and Mitigation Directorate jointly administer the NFIP. As Federal Insurance Administrator with responsibility for the insurance operations, I will focus today on the insurance aspects of the program. I will discuss recent flooding events; the major program reforms FEMA is undertaking; our efforts to increase the number of Americans protected; and the ways in which we plan on improving customer service.

**Recent Flooding Events**

We in FEMA have witnessed the families of too many flood victims torn apart because they lost a loved one or their home and personal possessions, some of which can never be replaced. Too often, we have seen them lose their hopes and dreams because of flooding.

Since 1978, there have been 969,333 flood losses paid through the NFIP and Senator, as you know from first hand experience, Minnesota is no exception. Since 1978, there have been 7,393 flood insurance losses paid in Minnesota, amounting to $83 million, with an average loss payment of $11,185. In the
last ten years, there have been six Presidentially-declared disasters for flooding and storm events in the State, the last being for extreme weather last month. FEMA has provided $291.7 million for disaster assistance to the State, of which $256 million or over 90% -- was for severe flooding in the Spring of 1997. That event alone (the Upper Midwest floods) had 2,789 flood insurance losses paid, amounting to over $58 million, with an average loss payment of $21,000.

Minnesota is to be praised for its long-term efforts to address its flood problems. The state is:

- The first to require communities to participate in the NFIP,
- The first to incorporate floodproofing requirements into its state building code,
- One of the first states to establish a comprehensive floodplain management program and to require communities to regulate floodplain development, and
- One of the few states that has established a Flood Damage Reduction program to assist local governments in undertaking structural and non-structural flood damage reduction projects.

FEMA and the State of Minnesota acquired over 220 buildings after the 1993 floods and more than 1300 more properties after the 1997 floods. In Minnesota today, there are only 8,300 structures protected by flood insurance. Minnesota does not have a lot of NFIP properties partly due to the State efforts to minimize development in flood hazard areas and to protect existing development through flood control projects, buyouts, and other mitigation measures. Nevertheless, there are still many people in the State's floodplains who should have flood insurance policies. And you don't have to be in a high-risk area to need insurance; about 25% of our claims come from low-to moderate-risk areas. Renewed efforts by all segments - FIA, insurance agents, lenders, State and local officials, the media and residents themselves - are needed to ensure that more of your citizens have the security of financial protection against flood losses.

**Major Program Reforms**

On March 1, 1999, FEMA sent proposed legislation to Congress to amend the National Flood Insurance Act of 1968. It included major program reforms to reduce losses to properties that have sustained flood damage on multiple occasions. The proposal would create a National Flood Insurance Mapping Fund to support our Map Modernization Initiative, modify borrowing
authority and consolidate and extend authorization for the program.

One of the biggest challenges we face in the NFIP is dealing with properties that have sustained flood damage on multiple occasions. Repetitive loss structures -- defined as "any building with 2 or more flood losses greater than $1,000 in any ten-year period since 1978" -- are expected to cost the Flood Fund about $200 million a year and increase our occasional need for borrowing.

As of May 31, 1999, there are over 87,825 structures across the country that fall under this definition. Of these, about half (43,129) are currently insured under the NFIP. Although they represent a very small portion of our book of business -- at any one time about 1 - 2% -- repetitive loss properties have historically accounted for 1/3 of our losses and about 36% of all NFIP claims dollars paid. To date, we have paid a staggering $3.5 billion dollars in claims for repetitive loss properties. The problem is growing, as new repetitive loss properties emerge each year.

Repetitive loss properties are part of the larger problem of buildings built before Flood Insurance Rate Maps (FIRM's) were prepared. Repetitive loss buildings are the worst of these older, pre-FIRM properties, built in harm's way before risks were fully known and constructed without considering flood loss.

We knew pre-FIRM buildings would experience a higher loss rate. Flood insurance on these "pre-FIRM" buildings would have been prohibitively expensive if the premiums were not subsidized. But we were willing to subsidize them as an incentive to get communities to pass ordinances regulating new construction or "post-FIRM", that is charged at a full-risk premium (premiums for the actual risk). Providing subsidies also increased the number of individuals and business owners who contributed to their own recovery through insurance rather than relying solely on taxpayers for disaster assistance. Building standards apply to post-FIRM construction which saves an estimated $770 million annually in reduced flood damage.

The natural turnover of property and rating and coverage changes implemented since the mid-1980's have significantly reduced the level of NFIP subsidies. Today, only 30% of policies are subsidized, down from about 70% in 1978. On average, subsidized policies pay about 38% of the full-risk premium.

With the assistance of Price-Waterhouse, we are studying the economic
impacts of charging actuarial rates on pre-FIRM buildings. The results of the
study, mandated by the National Flood Insurance Reform Act of 1994, have
recently been received and are under review. We expect to transmit a report
to Congress this fall. We anticipate that the study will help lay the
groundwork for prudent measures to reduce the subsidy, including measures
that affect selected repetitive loss properties, in support of our overall
strategy.

Dealing with repetitive losses and making communities across the country
disaster resistant is one of the Agency's highest priorities. We must stop this
devastating cycle. FEMA's legislative proposal would extend a helping hand
to those locked in a cycle of loss and repair, often simply trapped between
high mortgage payments and low property values. Among its provisions is
authorization of additional Flood Mitigation Assistance (FMA) grant funds to
buy out or elevate their properties. The Administration has also requested an
appropriation of $12 million in FY 2000 to mitigate losses to these buildings
since spending Federal funds to prevent loss just makes more sense than
continually paying to clean up after the fact.

We are encouraged with the support that Members of Congress are providing
in reducing repetitive flood losses. Congressman Blumenauer and
Congressman Bereuter submitted legislation H.R. 2728 on August 5, 1999,
which would go a long way towards reducing repetitive flood losses and
making homeowners less vulnerable to the flood-rebuild-flood cycle.
Congressman Bentsen has also introduced legislation to help stop the cycle of
loss.

Working with States, FEMA has developed and is implementing a Repetitive
Loss Strategy. The strategy has four major components. First is the creation
of a list of repetitive loss properties nationwide that have experienced the
greatest loss --- those 10,000 properties with 4 or more losses or 2 - 3 large
losses which cumulatively exceed the building value. These are our "target
buildings". Our State partners are helping us refine the list. Properties are
being ranked based on the number of losses and value of the claims paid. The
list will help focus our grant programs on preventing further loss to these
highest risk properties.

Secondly, the processing of all NFIP policies covering repetitive loss
structures will be centralized. Effective May 1, 2000, all new policy
applications and renewal requests covering repetitive loss structures will be
referred to a special direct facility. This will improve our information about
these properties and enable us to exert greater control on underwriting the
coverage and adjusting claims, and allow us to gather risk information
(including elevation certificates), on those buildings.

The third component of our strategy is providing funding and incentives for State and community mitigation projects. As funds become available, grants will be offered to owners of the most severe repetitive loss properties. Existing program authorities are also being focused on repetitive loss. As part of Project Impact, a major new initiative to help make the Nation disaster resistant, we are working with communities to address repetitive loss. The NFIP's Community Rating System's credits have also been increased for mitigation actions related to repetitive losses.

The fourth component of the strategy relates to insurance. On August 5, 1999, FEMA proposed a rule that would apply full-risk premium rates to structures that have suffered multiple flood losses and whose owners decline an offer of funding to eliminate or reduce future flood damage. Under this proposal, if an owner of a target repetitive flood loss building declines an offer of mitigation funding to relocate, elevate or flood-proof the structure, then that owner would have to pay full-risk premiums upon the next policy renewal. We have invited the public to comment on this important proposal, and we hope to have the final rule in place this fall. Property owners, policyholders and taxpayers all have a common interest in mitigating repetitive loss structures.

Property owners suffer damage time and again and have a clear financial stake. A recent study conducted by North Dakota State University showed that homes within the floodplain in Fargo, North Dakota and Moorhead, Minnesota (from January 1995 to August 1998) sold for $8,890 less than similar homes outside the floodplain. Policyholders fund most of the Federal flood mitigation efforts and repetitive losses are reflected in the insurance rating.

Taxpayers either "pay now, or pay later" through disaster assistance, reduced tax revenues from tax exemptions for uncovered losses, or ultimately, in insufficient reserves accumulated in the NFIP which may require appropriations.

Voluntary buying out or elevating repetitive loss properties is an investment in the future. The mitigation costs are repaid within 7-9 years. Moreover, returning floodplains to natural open space that sustains wildlife and provides families with places to walk, play, and relax contributes to more livable and economically viable communities.
In addition to the repetitive flood loss initiative Director Witt is proposing an aggressive map modernization effort -- bringing our flood maps up to date and digitizing them so they will be both more accurate and easily available to communities. We are asking for a $5 million appropriation in start up funds until we can generate a steady stream of funding for the program.

FEMA's flood maps are used for several different purposes. Some of the main users are mortgage lenders who use them when a house is purchased to determine whether or not the property is within a flood plain. If a property is likely to be flooded sometime in the future, the lenders require the homebuyers to purchase flood insurance. In addition to lenders, flood plain managers, States, communities, surveyors and insurance companies use the maps for different purposes.

Currently, we spend about $50 million annually from the flood insurance fund to pay to update the flood maps. Unfortunately, at this funding level, we have fallen behind in producing new maps. Most of the $50 million is spent amending the old maps rather than creating entirely new maps. Forty-five percent are at least 10 years old, and seventy percent are five years or older. Current rates of spending support updates of only 2 - 3% of the map panels per year.

Figuring out how to pay for updated maps and who should pay for them are difficult questions. To update all of our maps, we estimate that it will cost nearly $900 million and take more than seven years to complete. The $50 million currently spent on updating maps comes from insurance premiums and fees collected from homeowners who purchase flood insurance. This does not seem fair for the policyholders as many people and businesses benefit from up-to-date maps, while only flood insurance policy holders are paying for them.

FEMA has been asked by Congress to identify a creative way to find funding for updating maps. The Agency came up with the idea of assessing a $15 fee on every federally backed mortgage transaction. Proceeds from the fee will go into a Map Modernization fund that will allow us to start updating and modernizing our map inventory. By charging the fee on mortgage transactions, we will not be putting an additional burden on the flood insurance policy holders.

Another Administrative legislative proposal would change the current borrowing authority of $1.5 billion to a minimum $1.5 billion or a floating 0.5 percent of insurance in force, whichever is greater. The NFIP borrowing
authority as a percent of insurance in force has declined steadily from over seven percent in 1975 to 0.3 percent today. An increase in borrowing authority would provide for higher than average loss years for an increasing number of policies in force. Setting the maximum borrowing authority, as a percentage of total insurance coverage would also provide a clear, readily determinable upper limit that would adjust as total coverage increases or decreases.

Finally, a major issue affecting the NFIP is the need to simplify the process of reauthorization by consolidating and extending the authorizations of the National Flood Insurance Act of 1968, as amended, and extending the authorization for longer periods than in the past. This would increase program stability and facilitate longer range planning.

**Increasing The Number Protected By Flood Insurance**

Preliminary statistics indicate that nationwide only about 35% of the 7,915,875 structures in Special Flood Hazard Areas are insured. Our objective is to increase the number of flood insurance policies-in-force by an average of 5 percent per year. In the last fiscal year, from October 1, 1997 to September 30, 1998, the objective was exceeded, with a growth of eight percent.

A major factor in the growth of policies is our nationwide awareness campaign, called Cover America. This campaign was designed to increase awareness of flood insurance and stimulate demand for it. Between October 1995 and April 1999, awareness of the NFIP increased. The campaign generated more than 500,000 responses, with nearly 20% of the responses being referred to an insurance agent.

Despite these successes, there is much to be done to ensure that more Americans are covered. With the end of the El Nino phenomenon, we have seen a slowing in the overall growth of policies, with a nationwide growth of only 2.6% in the last twelve months. Some areas, particularly in the upper Midwest have experienced negative growth.

Structures below the base flood level (the national standard for floodplain management) have on the average a 2.5% chance of flood damage in any given year - greater than a home burglary and two and a half times the chance of auto theft. Yet, based on an independent evaluation of the Cover America campaign conducted by Gallup and Robinson, most people still believe that floods won't happen to them, or that their homeowners insurance will protect
them from flood losses.

We face a continuing challenge in making people understand the importance of the NFIP and take action to protect their homes, families and businesses. To address this challenge, we will kick off a Cover America II campaign before the end of the year. This campaign has annual goals to increase awareness, improve attitudes and increase sales. To meet these goals, we will be advertising primarily on network and cable TV stations, and in national consumer and business magazines. A new brand image for the NFIP, which will soon be tested, will serve as the foundation for the campaign. The brand - "Be Flood Alert" - builds on the yellow diamond street sign used to warn of upcoming danger or caution about something ahead. It is intended to help people identify the NFIP, understand its importance, and take action - even if they don't live in areas usually affected by floods. The campaign is also designed to encourage more insurance agents to recommend flood insurance, increasing the number protected.

Ensuring that the mandatory purchase requirements of the Flood Disaster Protection Act of 1973 and the National Flood Insurance Reform Act of 1994 (NFIRA) are met is critical to increasing the flood insurance policy base. The Acts require flood insurance on properties with federally backed loans that are located in Special Flood Hazard Areas. About two-thirds of all homes in the U.S. are estimated to be mortgaged, so we have a lot of work to do with our partners in the lending community to make sure that the people who need flood insurance have this essential form of protection.

A December, 1998 Report of the Federal Financial Institutions Examination Council showed a number of cases in which borrowers should have been required to buy flood insurance as a condition of their loan, but their lender failed to impose this requirement. Recent floods and their aftermath have also demonstrated that some buildings in the floodplain that were subject to the mandatory purchase requirement were not insured.

This fall, FEMA will launch a study to identify uninsured structures in the floodplains of selected communities, and will make an attempt, if feasible, to see to what extent there have been violations of the NFIRA and to what extent we can assist in improving compliance. Consideration will be given to examining selected communities in Minnesota as part of the data collection effort. The results of this study will be offered to Federal regulatory agencies for their use in providing oversight.

We are working with Treasury Secretary Summers, Federal Regulators and
the lending industry to ensure that the National Flood Insurance Reform Act of 1994 is being implemented. Efforts are underway to improve the routine collection of lender information to support compliance, establish systems to track lapsed flood policies, and develop quality control systems and broaden underwriting reviews to include lender compliance. We are also working with the National Lenders Insurance Council to increase awareness, develop guidelines for compliance, and conduct training and education for lenders. More than 1500 lenders throughout the country have been trained this fiscal year alone on flood insurance requirements.

When a regulated lending institution is determined by its regulators to have committed a "pattern or practice" of violations under NFIRA that lending institution can be assessed with Civil Monetary Penalties by their Federal Regulatory Agency. We are gratified by the action of the Federal Reserve Board of Governors on June 21, 1999, in levying the first penalty imposed by a Federal regulator for a pattern or practice of non-compliance by a lending institution. The ability of the flood insurance program to protect people against flood losses is heavily dependent upon the enforcement of these mandatory purchase provisions.

**Improving Customer Service**

FIA continually strives to ensure that our customers receive the highest quality service. Efforts are underway to reach out to our stakeholders and customers, streamline and simplify the program, provide information in a timely and responsive manner, and continually improve the flood insurance product and its delivery.

On September 9, 1998, FIA, together with FEMA's Mitigation Directorate, reached out to stakeholders in a formal Call for Issues, asking for recommendations on ways to make the program more effective. Recommendations covering a wide range of issues were received, from coverage, rates, claims and underwriting, marketing, training, lender compliance and mitigation. The recommendations are currently being analyzed for their feasibility and a timetable is being established for implementation of some recommendations. A summary of our response will be published in the Federal Register this fall. The issues raised will help guide us as we work to improve our operations and carry out our mission.

A consumer services operation has recently been established to coordinate FIA's efforts to reach out to customers and increase their levels of satisfaction with the NFIP. Our Telephone Response Center, open from 8 a.m. to 12
midnight, seven days a week, takes an average of 500 customer calls per day. The Cover America II campaign will conduct customer satisfaction surveys with flood insurance policyholders and NFIP stakeholders including insurance agents, WYO companies, and lenders to determine how successfully we are delivering the program. We have established a consumer complaint process in conjunction with the National Association of Insurance Commissioners (NAIC). FIA receives complaints lodged with the State Insurance Commissioners, investigates them with the WYO companies, and reports back to the State Insurance Commissioners on the outcome, and issues periodic reports to the NAIC on the number and types of complaints. The reports will be used to make service improvements.

Efforts are underway to streamline and simplify the NFIP so that it is more easily understandable to customers and insurance agents. A "Plain English" version of the Standard Flood Insurance Policy, Dwelling Form, is being drafted in conjunction with the Insurance Services Office. The "Plain English" policy will provide a clearer explanation of the benefits and limitations of coverage to policyholders, and assist our industry partners in selling and servicing policies. We expect to publish the "plain language" policy as a proposed rule this fall and ask the public for comments before we make final changes to the policy. The NFIP Elevation Certificate has also been redesigned to be more comprehensive and less complicated. The redesigned certificate became effective on August 1, 1999, and will become mandatory on or after January 1, 2000. Training for agents and lenders on the redesigned certificate is now underway.

The Flood Insurance section of FEMA's Website was made available in January, 1998 at www.fema.gov/nfip and recently reorganized to make it more user friendly. Through this site, information is available for all NFIP stakeholders. Individual sections target consumers, insurance agents, insurance companies, lenders and state and local officials. Links to related sites allow visitors to reach information about related topics more quickly. An "Ask the Expert" section added last spring, generates about 150 questions and answers each month. The Website has permitted FIA to communicate with NFIP constituencies in new ways, substantially increasing the amount of information available and reducing publication costs.

Efforts are underway to continually evaluate the insurance product offered through the NFIP and make needed improvements, consistent with the need for an actuarially sound program. A new endorsement for closed basin lakes was added to the policy by final rule on August 2, 1999. The Call for Issues process identified a number of other coverage issues which area currently being analyzed.
I understand Senator Grams, that one of the major concerns of your constituents relates to basement coverage. Let me emphasize that the NFIP does provide significant basement coverage. Our basement coverage is for "essentials" - the structural and mechanical components needed to operate the home and return it to a serviceable condition after a flood. The policy covers the repair of damages to unfinished basement walls and floors. Examples of other covered items include drywall, furnaces and hot water heaters, air conditioners, washers and dryers, stairways, electrical systems and utility connections. Because of consumer concern we plan to suggest to the insurance industry that they consider providing coverage for personal property in basements. It is possible that private insurance companies may want to price and offer this additional coverage on their own. We will continue, however, to cover essential mechanical and structural items in basements.

Insurance agents are on the front lines of delivering our product to consumers. Training workshops are conducted nationwide to disseminate up-to-date information to agents who write or plan to write NFIP policies. The NFIP offers a basic workshop; an advanced workshop which focuses on the elevation certificate and elevation rating; a claims presentation for adjusters; and other specially designed training programs. The NFIP Bureau & Statistical Agent is authorized to provide Continuing Education credits in 44 states to agents who attend the NFIP agent workshops. From October 1, 1994 through June 30, 1999, a total of 1,528 agent workshops were conducted, with a total attendance of 42,583. A Basic Agent Tutorial was recently developed on CD-ROM, and numerous other information materials are available.

Flood Forums, Mini-Conferences and workshops are also used to educate agents about the program. A series of eight Flood Insurance Forums were sponsored by the Minnesota Commerce Department, the NFIP's Bureau and Statistical Agent, the Minnesota Department of Natural Resources, the Independent Insurance Agents of Minnesota, and the Minnesota Bankers Association during fiscal year 1998. These forums, attended by over 450 individuals, educated members of the insurance and lending industries and public officials about the NFIP. The Minnesota Department of Commerce distributed a follow-up brochure to over 600 people.

FIA has been working to ensure continuity of service to our customers as we enter the new millennium. We are confident that our systems will continue to function without glitches. The NFIP was one of the first Federal programs to make its systems Y2K compliant. We are working with the Write Your Own
Companies as our business partners to be compliant as well, with plans in place and fully tested. Only in this way can we ensure quality of service to our customers without interruption.

As we enter the new millennium, we are also looking at ways we can use the internet for the convenience and benefit of the public that buys the coverage, the insurance agents that sell flood policies, and the lenders that must comply with the law in requiring it. We are looking at ways to use existing technology such as the internet and cable-technology that is already in more and more homes and businesses-to make it easier for the public to get accurate information, to have quality service, and to secure flood insurance protection around the clock every day of the year.

Closing Remarks

In closing, we can't let our guard down. What happened in East Grand Forks and Crookston will happen in other communities in the United States every year. The good news is that flood insurance is available and people can protect themselves. Financial devastation caused by floods is preventable.

We all need to work together to end the devastation now. We can do so by encouraging safe building practices and making sure that Minnesota residents and businesses are "Flood Alert" -- protected from the financial losses through the valuable mechanism of flood insurance.

Senator Grams, I thank you for the opportunity to appear before you today. I will be pleased to answer any questions that you have.

Updated: August 30, 1999
TITLE V--NATIONAL FLOOD INSURANCE REFORM

SEC. 501. SHORT TITLE.
This title may be cited as the “National Flood Insurance Reform Act of 1994”.
42 U.S.C.
4001 note.

Subtitle A--Definitions

(a) IN GENERAL.-- Section 3(a) of the Flood Disaster Protection Act of 1973 (42 U.S.C. 4003(a)) is amended--
(1) by striking paragraph (5) and inserting the following new paragraph:
“(5) ‘Federal entity for lending regulation’ means the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Comptroller of the Currency, the Office of Thrift Supervision, the National Credit Union Administration, and the Farm Credit Administration, and with respect to a particular regulated lending institution means the entity primarily responsible for the supervision of the institution;”;
(2) in paragraph (6), by striking the period at the end and inserting a semicolon; and
(3) by inserting after paragraph (6) the following new paragraphs:
“(7) ‘Federal agency lender’ means a Federal agency that makes direct loans secured by improved real estate or a mobile home, to the extent such agency acts in such capacity;
“(8) the term ‘improved real estate’ means real estate upon which a building is located;
“(9) ‘lender’ means a regulated lending institution or Federal agency lender;
“(10) ‘regulated lending institution’ means any bank, savings and loan association, credit union, farm credit bank, Federal land bank association, production credit association, or similar institution subject to the supervision of a Federal entity for lending regulation; and
“(11) ‘servicer’ means the person responsible for receiving any scheduled periodic payments from a borrower pursuant to the terms of a loan, including amounts for taxes, insurance premiums, and other charges with respect to the property securing the loan, and making the payments of principal and interest and such other payments with respect to the amounts
received from the borrower as may be required pursuant to the terms of the
loan.”.

108 STAT. 2278
SEC. 573. MAXIMUM FLOOD INSURANCE COVERAGE AMOUNTS.
(a) IN GENERAL.-- Section 1306(b) of the National Flood Insurance Act of
1968 (42 U.S.C. 4013(b)) is amended as follows:
(1) RESIDENTIAL PROPERTY.-- In paragraph (2), by striking “an amount
of $150,000 under the provisions of this clause” and inserting the following:
“a total amount (including such limits specified in paragraph (1)(A)(i)) of
$250,000”.
(2) RESIDENTIAL PROPERTY CONTENTS.-- In paragraph (3), by striking
“an amount of $50,000 under the provisions of this clause” and inserting the
following: “a total amount (including such limits specified in paragraph
(1)(A)(ii)) of $100,000”.
(3) NONRESIDENTIAL PROPERTY AND CONTENTS.-- By striking
paragraph (4) and inserting the following new paragraph:
“(4) in the case of any nonresidential property, including churches, for
which the risk premium rate is determined in accordance with the provisions
of section 1307(a)(1), additional flood insurance in excess of the limits
specified in subparagraphs (B) and (C) of paragraph (1) shall be made
available to every insured upon renewal and every applicant for insurance, in
respect to any single structure, up to a total amount (including such limit
specified in subparagraph (B) or (C) of paragraph (1), as applicable) of
$500,000 for each structure and $500,000 for any contents related to each
structure; and”.
(b) REMOVAL OF CEILING ON COVERAGE REQUIRED.-- Section 1306(b) of
the National Flood Insurance Act of 1968 (42 U.S.C. 4013(b)) is amended--
(1) in paragraph (5), by striking “; and” at the end and inserting a
period; and
(2) by striking paragraph (6).

SEC. 574. FLOOD INSURANCE PROGRAM ARRANGEMENTS WITH
PRIVATE INSURANCE ENTITIES.
Section 1345(b) of the National Flood Insurance Act of 1968 (42 U.S.C.
4081(b)) is amended by striking the period at the end and inserting the following:
“and without regard to the provisions of the Federal Advisory Committee Act (5
U.S.C. App.).”.

SEC. 575. UPDATING OF FLOOD MAPS.
Section 1360 of the National Flood Insurance Act of 1968 (42 U.S.C. 4101)
is amended by adding at the end the following new subsections:
“(e) REVIEW OF FLOOD MAPS.-- Once during each 5-year period (the1st such
108 STAT. 2278
SEC. 573. MAXIMUM FLOOD INSURANCE COVERAGE AMOUNTS.
(a) IN GENERAL.-- Section 1306(b) of the National Flood Insurance Act of 1968 (42 U.S.C. 4013(b)) is amended as follows:
(1) RESIDENTIAL PROPERTY.-- In paragraph (2), by striking “an amount of $150,000 under the provisions of this clause” and inserting the following: “a total amount (including such limits specified in paragraph (1)(A)(i)) of $250,000”.
(2) RESIDENTIAL PROPERTY CONTENTS.-- In paragraph (3), by striking “an amount of $50,000 under the provisions of this clause” and inserting the following: “a total amount (including such limits specified in paragraph (1)(A)(ii)) of $100,000”.
(3) NONRESIDENTIAL PROPERTY AND CONTENTS.-- By striking paragraph (4) and inserting the following new paragraph: “(4) in the case of any nonresidential property, including churches, for which the risk premium rate is determined in accordance with the provisions of section 1307(a)(1), additional flood insurance in excess of the limits specified in subparagraphs (B) and (C) of paragraph (1) shall be made available to every insured upon renewal and every applicant for insurance, in respect to any single structure, up to a total amount (including such limit specified in subparagraph (B) or (C) of paragraph (1), as applicable) of $500,000 for each structure and $500,000 for any contents related to each structure; and”.
(b) REMOVAL OF CEILING ON COVERAGE REQUIRED.-- Section 1306(b) of the National Flood Insurance Act of 1968 (42 U.S.C. 4013(b)) is amended--
(1) in paragraph (5), by striking “; and” at the end and inserting a period; and
(2) by striking paragraph (6).

SEC. 574. FLOOD INSURANCE PROGRAM ARRANGEMENTS WITH PRIVATE INSURANCE ENTITIES.
Section 1345(b) of the National Flood Insurance Act of 1968 (42 U.S.C. 4081(b)) is amended by striking the period at the end and inserting the following: “and without regard to the provisions of the Federal Advisory Committee Act (5 U.S.C. App.).”.

SEC. 575. UPDATING OF FLOOD MAPS.
Section 1360 of the National Flood Insurance Act of 1968 (42 U.S.C. 4101) is amended by adding at the end the following new subsections:
“(e) REVIEW OF FLOOD MAPS.-- Once during each 5-year period (the 1st such
SEC. 579. EFFECTIVE DATES OF POLICIES.
(a) 30-DAY DELAY.-- Section 1306 of the National Flood Insurance Act of 1968 (42 U.S.C. 4013), as amended by the preceding provisions of this title, is further amended by adding at the end the following new subsection:
“(c) EFFECTIVE DATE OF POLICIES-
“(1) WAITING PERIOD.-- Except as provided in paragraph (2), coverage under a new contract for flood insurance coverage under this title entered into after the date of enactment of the Riegle Community Development and Regulatory Improvement Act of 1994, and any modification to coverage under an existing flood insurance contract made after such date, shall become effective upon the expiration of the 30-day period [2285] beginning Sept.23

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on the date that all obligations for such coverage (including completion of the application and payment of any initial premiums owed) are satisfactorily completed.
“(2) EXCEPTION.-- The provisions of paragraph (1) shall not apply to--
“(A) the initial purchase of flood insurance coverage under this title when the purchase of insurance is in connection with the making, increasing, extension, or renewal of a loan; or
“(B) the initial purchase of flood insurance coverage pursuant to a revision or updating of floodplain areas or flood-risk zones under section 1360(f), if such purchase occurs during the 1-year period beginning upon publication of notice of the revision or updating under section 1360(h).”

(b) STUDY.-- The Director of the Federal Emergency Management Agency shall conduct a study to determine the appropriateness of existing requirements regarding the effective date and time of coverage under flood insurance contracts obtained through the national flood insurance program. In conducting the study, the Director shall determine whether any delay between the time of purchase of flood insurance coverage and the time of initial effectiveness of the coverage should differ for various classes of properties (based upon the type of property, location of the property, or any other factors related to the property) or for various circumstances under which such insurance was purchased. Not later than the expiration of the 6-month period beginning on the date of enactment of this Act, the Director shall submit to the Congress a report on the results of the study.

SEC. 580. AGRICULTURAL STRUCTURES.
Section 1315(a) of the National Flood Insurance Act of 1968 (42 U.S.C. 4022(a)), as amended by the preceding provisions of this title, is further amended by adding at the end the following new paragraph:
“(2) AGRICULTURAL STRUCTURES.--
“(A) ACTIVITY RESTRICTIONS.-- Notwithstanding any other
provision of law, the adequate land use and control measures required
to be adopted in an area (or subdivision thereof) pursuant to paragraph
(1) may provide, at the discretion of the appropriate State or local
authority, for the repair and restoration to predamaged conditions of an
agricultural structure that--
“(i) is a repetitive loss structure; or
“(ii) has incurred flood-related damage to the extent that the
cost of restoring the structure to its predamaged condition would
equal or exceed 50 percent of the market value of the structure
before the damage occurred.
“(B) PREMIUM RATES AND COVERAGE.-- To the extent
applicable, an agricultural structure repaired or restored pursuant to
subparagraph (A) shall pay chargeable premium rates established under
section 1308 at the estimated risk premium rates under section
1307(a)(1). If resources are available, the Director shall provide
technical assistance and counseling, upon request of the owner of the
structure, regarding wet flood-proofing and other flood damage
reduction measures for agricultural structures. The [2286] Director
Reports.

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shall not be required to make flood insurance coverage available for such
an agricultural structure unless the structure is wet flood-proofed through
permanent or contingent measures applied to the structure or its contents
that prevent or provide resistance to damage from flooding by allowing
flood waters to pass through the structure, as determined by the Director.
“(C) PROHIBITION ON DISASTER RELIEF.-- Notwithstanding any other
provision of law, any agricultural structure repaired or restored pursuant to
subparagraph (A) shall not be eligible for disaster relief assistance under
any program administered by the Director or any other Federal agency.
“(D) DEFINITIONS.-- For purposes of this paragraph--
“(i) the term ‘agricultural structure’ means any structure used
exclusively in connection with the production, harvesting, storage,
raising, or drying of agricultural commodities; and
“(ii) the term ‘agricultural commodities’ means agricultural
commodities and livestock.”.

SEC. 581. IMPLEMENTATION REVIEW BY DIRECTOR.
Section 1320 of the National Flood Insurance Act of 1968 (42 U.S.C.
4027) is amended--
(1) by striking “The Director” and inserting “(a) IN GENERAL.-- The
Director”; and
(2) by adding at the end the following new subsection:
Reports. “(b) EFFECTS OF FLOOD INSURANCE PROGRAM.-- The Director shall
include, as part of the biennial report submitted under subsection (a), a chapter reporting on the effects on the flood insurance program observed through implementation of requirements under the Riegle Community Development and Regulatory Improvement Act of 1994.”.
42 USC 5154a.

SEC. 582. PROHIBITED FLOOD DISASTER ASSISTANCE.
(a) GENERAL PROHIBITION.-- Notwithstanding any other provision of law, no Federal disaster relief assistance made available in a flood disaster area may be used to make a payment (including any loan assistance payment) to a person for repair, replacement, or restoration for damage to any personal, residential, or commercial property if that person at any time has received flood disaster assistance that was conditional on the person first having obtained flood insurance under applicable Federal law and subsequently having failed to obtain and maintain flood insurance as required under applicable Federal law on such property.
(b) TRANSFER OF PROPERTY.--
(1) DUTY TO NOTIFY.-- In the event of the transfer of any property described in paragraph (3), the transferor shall, not later than the date on which such transfer occurs, notify the transferee in writing of the requirements to--
(A) obtain flood insurance in accordance with applicable Federal law with respect to such property, if the property is not so insured as of the date on which the property is transferred; and
(B) maintain flood insurance in accordance with applicable Federal law with respect to such property.
Such written notification shall be contained in documents evidencing the transfer of ownership of the property.
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(2) FAILURE TO NOTIFY.-- If a transferor described in paragraph (1) fails to make a notification in accordance with such paragraph and, subsequent to the transfer of the property--
(A) the transferee fails to obtain or maintain flood insurance in accordance with applicable Federal law with respect to the property,
(B) the property is damaged by a flood disaster, and
(C) Federal disaster relief assistance is provided for the repair, replacement, or restoration of the property as a result of such damage, the transferor shall be required to reimburse the Federal Government in an amount equal to the amount of the Federal disaster relief assistance provided with respect to the property.
(3) PROPERTY DESCRIBED.-- For purposes of paragraph (1), a property is described in this paragraph if it is personal, commercial, or residential property for which Federal disaster relief assistance made available in a flood
disaster area has been provided, prior to the date on which the property is transferred, for repair, replacement, or restoration of the property, if such assistance was conditioned upon obtaining flood insurance in accordance with applicable Federal law with respect to such property.

(c) AMENDMENT TO THE FLOOD DISASTER PROTECTION ACT OF 1973.--

Section 102(a) of the Flood Disaster Protection Act of 1973 (42 U.S.C. 4012a(a)) is amended--

(1) by striking “, during the anticipated economic or useful life of the project,”; and

(2) by adding at the end the following: “The requirement of maintaining flood insurance shall apply during the life of the property, regardless of transfer of ownership of such property.”.

(d) DEFINITION.-- For purposes of this section, the term “flood disaster area” means an area with respect to which--

(1) the Secretary of Agriculture finds, or has found, to have been substantially affected by a natural disaster in the United States pursuant to section 321(a) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1961(a)); or

(2) the President declares, or has declared, the existence of a major disaster or emergency pursuant to the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5121 et seq.), as a result of flood conditions existing in or affecting that area.

(e) EFFECTIVE DATE.-- This section and the amendments made by this section shall apply to disasters declared after the date of enactment of this Act.

SEC. 583. REGULATIONS.

The Director of the Federal Emergency Management Agency and any appropriate Federal agency may each issue any regulations necessary to carry out the applicable provisions of this title and the applicable amendments made by this title.

SEC. 584. RELATION TO STATE AND LOCAL LAWS.

This title and the amendments made by this title may not be construed to preempt, annul, alter, amend, or exempt any person from compliance with any law, ordinance, or regulation of any State or local government with respect to land use, management, or control.
is approving the State's SIP revision as a direct final rule without prior proposal because the EPA views this action as noncontroversial and anticipates no adverse comments. A detailed rationale for the approval is set forth in the direct final rule. If no adverse comments are received in response to that direct final rule, no further activity is contemplated in relation to this proposed rule. If the EPA receives adverse comments, the direct final rule will be withdrawn and all public comments received will be addressed in a subsequent final rule based on the proposed rule. The EPA will not institute a second comment period on this action. Any parties interested in commenting on this action should do so at this time.

DATES: Comments on this proposed rule must be received on or before October 23, 1996.

ADDRESSES: Comments should be mailed to Thomas H. Digg, Chief, Air Planning Section (6PD-L), Environmental Protection Agency Region 6, 1445 Ross Avenue, Dallas, Texas 75202-2733. Copies of the State's petition and other information relevant to this action are available for inspection during normal hours at the above location and at the following locations:

Environmental Protection Agency, Region 6, Air Planning Section (6PD-L), 1445 Ross Avenue, Suite 1200, Dallas, TX 75202-2733.

Texas Natural Resource Conservation Commission, Office of Air Quality, 12124 Park 35 Circle, P.O. Box 13087, Austin, TX 78711-3087.

Anyone wishing to review this petition at the U.S. EPA office is asked to contact the person below to schedule an appointment 24 hours in advance.

FOR FURTHER INFORMATION CONTACT: Ms. Petra Sanchez, Air Planning Section (6PD-L), Environmental Protection Agency, Region 6, 1445 Ross Avenue, Dallas, Texas 75202-2733, telephone (214) 665-6686.

SUPPLEMENTARY INFORMATION: For additional information, see the direct final rule published in the rules section of this Federal Register.

List of Subjects in 40 CFR Part 52

Environmental protection, Air pollution control, Hydrocarbons, Incorporation by reference, Intergovernmental regulations, Lead, Reporting and recordkeeping, Ozone, Volatile organic compounds.

Authority: 42 U.S.C. 7401-7671q.

Dated: August 9, 1996.

Allyn M. Davis,
Acting Regional Administrator.

[FR Doc. 96-24046 Filed 9-20-96; 8:45 am]
BILLING CODE 6560-50-P

40 CFR Part 52

[WASA-711b; FRL-5603-8]

Approval and Promulgation of State Implementation Plans: Washington

AGENCY: Environmental Protection Agency (EPA).

ACTION: Proposed rule.

SUMMARY: The EPA proposes to approve in part and take no action in part to the State Implementation Plan (SIP) revision submitted by the State of Washington for the purpose of amending Regulations I and III from a local air agency, the Puget Sound Air Pollution Control Agency. The SIP revision was submitted by the State to satisfy certain Federal Clean Air Act requirements. In the Final Rules Section of this Federal Register, the EPA is approving certain sections and taking no actions on certain sections of the State's SIP revision as a direct final rule without prior proposal because the Agency views this as a noncontroversial revision amendment and anticipates no adverse comments. A detailed rationale for the approval is set forth in the direct final rule. If no adverse comments are received in response to this proposed rule, no further activity is contemplated in relation to this rule. If the EPA receives adverse comments, the direct final rule will be withdrawn and all public comments received will be addressed in a subsequent final rule based on this proposed rule. The EPA will not institute a second comment period on this action.

DATES: Comments on this proposed rule must be received in writing by October 23, 1996.

ADDRESSES: Written comments should be addressed to Montel Livingston, Environmental Protection Specialist (OAQ-107), Office of Air Quality, at the EPA Regional Office listed below. Copies of the documents relevant to this proposed rule are available for public inspection during normal business hours at the following locations.

Interested persons wanting to examine these documents should make an appointment with the appropriate office at least 24 hours before the visiting day.

Environmental Protection Agency, Region 10, Office of Air Quality, 1200 6th Avenue, Seattle, WA 98101.

The State of Washington, Department of Ecology, 300 Desmond Drive, Lacey, Washington 98504.

FOR FURTHER INFORMATION CONTACT: Tamara Langton, Environmental Protection Specialist, Office of Air Quality (OAQ-107), EPA, 1200 6th Avenue, Seattle, WA 98101, (206) 553-2709.

SUPPLEMENTARY INFORMATION: See the information provided in the Direct Final action which is located in the Rules Section of this Federal Register.

Dated: August 19, 1996.

Charles Findley,
Acting Regional Administrator.

[FR Doc. 96-24050 Filed 9-20-96; 8:45 am]
BILLING CODE 6560-50-P

FEDERAL EMERGENCY MANAGEMENT AGENCY

44 CFR Part 61

RIN 3067-AC54

National Flood Insurance Program; Standard Flood Insurance Policy

AGENCY: Federal Insurance Administration (FEMA).

ACTION: Proposed rule.

SUMMARY: This proposed rule would amend the National Flood Insurance Program (NFIP) regulations to add coverage under the Standard Flood Insurance Policy to pay for the increased cost to rebuild or otherwise alter flood-damaged structures to conform with State or local floodplain management ordinances or laws consistent with the requirements and guidance of the NFIP.

DATES: Comments are requested and must be received by November 7, 1996.


FOR FURTHER INFORMATION CONTACT: Charles M. Plaxico, Jr., Federal Insurance Administration, 500 C Street SW., Washington, DC 20472, (202) 646-3422.

SUPPLEMENTARY INFORMATION: The National Flood Insurance Program (NFIP) was authorized by Congress (42 U.S.C. 4001 et seq.) to reduce the mounting losses of life and property from floods through sound land use and control practices in the Nation's floodpains and through the availability of flood insurance. As a condition for the availability of flood insurance,
States and local communities must adopt and enforce laws and ordinances that meet or exceed the minimum requirements of the NFIP's floodplain management regulations at 44 CFR 60.3. In fulfilling the statutory requirements to identify the Nation's floodplain areas and establish flood risk zones, the Federal Emergency Management Agency (FEMA) has produced various forms of flood risk maps and data for each of the Nation's flood-prone communities. The NFIP's floodplain management regulations for buildings and development in special flood hazard areas require that new or substantially improved residential buildings be elevated so that the lowest floor is at or above the Base Flood Elevation (BFE). A substantial improvement is an improvement to a building, such as an addition or rehabilitation, the cost of which equals or exceeds 50 percent of market value. Owners of new or substantially improved buildings have the option of elevating the lowest floor to or above the BFE or dry floodproofing—non-residential structures only have this option—to the base flood level. The base flood or 100-year flood is a flood having a one percent chance of being equaled or exceeded in any given year. Most floodplain buildings that predate the existence of the NFIP were built in the floodplains by individuals who did not have sufficient knowledge of the hazard to make informed decisions. Because of their exposure to and risk of flooding, many of these existing buildings will likely be repetitively or substantially damaged during their lifetime. Claims paid for buildings that are repetitively or substantially damaged account for a significant portion of the NFIP's claim payments. Mitigation actions taken to protect these buildings can significantly reduce future claim payments and strengthen the financial condition of the National Flood Insurance Fund. The NFIP's minimum floodplain management regulations require that a repaired or rebuilt substantially damaged building located in a special flood hazard area be treated as a substantial improvement. This means that if a building is determined to be substantially damaged, the lowest floor, including basement, must be elevated or dry floodproofed—non-residential structures only have this option—to the BFE prior to occupancy of the structure. “Substantial damage” means damage sustained by a structure “whereby the cost of restoring the structure to its before damaged condition would equal or exceed 50 percent of the market value of the structure before the damage occurred” (44 CFR 59.1). Under the terms and conditions of the Standard Flood Insurance Policy (SFIP), property owners are reimbursed for the costs to repair actual physical damages from flood, but not for additional “consequential” costs to comply with a State or local floodplain management ordinance or law requiring that the damaged structure be elevated or floodproofed to the BFE. These requirements during reconstruction to mitigate flood hazards have often created financial hardships for property owners. This prompted Congress to authorize a new benefit under the SFIP to provide assistance to such property owners. Specifically, section 555 of the National Flood Insurance Reform Act of 1994, Title V of the Riegle Community Development and Investment Act of 1994 (Public Law 103–325), requires the NFIP to provide coverage under the SFIP for the increased costs of complying with the land use and control measures established under section 1361 of the National Flood Insurance Act of 1968, as amended. (Hereinafter this mandated coverage will be referred to as “increased cost of construction” (ICC) coverage.) To implement the mandated change in flood insurance coverage, FEMA formed a task force in 1995 consisting of the agency’s insurance and mitigation experts to determine the appropriate terms and conditions of ICC coverage, the limits of its liability, and the amount of the premium surcharges for the coverage consistent with statutory intent and limitations. The FEMA task force also solicited comments from two of the NFIP’s major constituent organizations—the Association of State Flood Plain Managers and the Insurance Institute for Property Loss Reduction. FEMA convened a meeting with representatives of these two organizations on January 17, 1996, and the contributions from that meeting helped shape the conceptual and technical framework for this proposed rule. In proposing this rule for ICC coverage under the SFIP, FEMA had to consider: (1) How the implementation of ICC coverage would conform with the floodplain management laws and ordinances administered by States and local communities participating in the NFIP; (2) how repetitive losses, which are not specifically included in the NFIP’s land use and control measures, would be addressed; (3) what features of the insurance industry, building law and ordinance coverage under conventional property insurance contracts should be included under ICC coverage; (4) what the appropriate limits for ICC coverage would be in the light of the current status of the National Flood Insurance Fund and the $75 limit placed by Congress on the premium surcharge that the NFIP may add to flood insurance policies for ICC coverage (42 U.S.C. 4011(b)); (5) how ICC coverage would be applied to condominiums; and (6) how ICC coverage should be incorporated into the SFIP and the operations of the NFIP. FEMA considered how the three categories of structures eligible for ICC coverage should be treated in light of the NFIP’s current land use and control standards which more than 18,450 local governments have adopted and are enforcing as a condition for participation in the program. The statute authorizes ICC coverage for three categories of structures: (1) Structures that have flood damage in which the cost of repairs equals or exceeds 50 percent of the value of the structure at the time of the flood event; (2) repetitive loss structures (as defined by the statute); and (3) other structures damaged by flood on multiple occasions where the FEMA Director has determined it is in the best interests of the National Flood Insurance Fund to require compliance with land use and control measures (42 U.S.C. 4011(b)(1),(2), and (3)). The NFIP defines “substantial damage,” which applies to the first category of structures eligible by statute for ICC coverage, as “damage from any origin sustained by a structure whereby the cost of restoring the structure to its before damage condition would equal or exceed 50 percent of the market value of the structure before the damage occurred” (44 CFR 59.1). The proposed rule is consistent with the existing NFIP floodplain management requirements that States and localities use “market value” as the basis for determining whether a structure has been substantially damaged. (Non-residential structures have the option of being elevated or floodproofed in order to meet the NFIP’s requirements. Residential structures however may only be elevated to meet the requirement.) The proposed rule would limit ICC coverage to situations where the structure has been damaged by “flood” as defined in the SFIP. The proposed ICC coverage would not pay for the increased cost of repairing or altering structures substantially damaged by wind, fire, or other perils. This, however, is required by the statute which restricts ICC coverage to flood-damaged structures.
The second category of structures eligible for ICC coverage is repetitive loss structures. In considering how the NFIP would treat ICC coverage for repetitive loss structures within the context of the program's authorities, FEMA concluded that: (1) ICC coverage is intended to respond to State or local ordinances or laws requiring damaged buildings to be rebuilt to more stringent flood protection measures, (2) State or local ordinances or laws must be applied consistently and cannot be applied selectively, i.e., independently of whether or not a property owner is to receive insurance payments, and (3) land use and building requirements are to be implemented at the State or local level.

FEMA therefore proposes to implement the repetitive loss aspect of ICC by having the coverage respond to a State or local ordinance or law requiring actions based on cumulative substantial damage, i.e., two losses within a 10-year period causing cumulative damage totaling 50% or more of the building's value. In combination with the NFIP's having a history of paying repetitive insurance claims on the property. FEMA believes that this approach meets the intent of the legislation in a manner that preserves State or local control over building practices, provides ICC coverage in response to a State or local ordinance or law requiring property owner action, and meets the statutory definition of repetitive loss structure. In that connection, the proposed rule uses the statutory definition for repetitive losses, i.e., a structure "covered by a contract for flood insurance under this title that has incurred flood-related damage on 2 occasions during a 10-year period ending on the date of the event for which a second claim is made, in which the cost of repair, on the average, equal or exceeded 25 percent of the value of the structure at the time of each such flood event" (42 U.S.C. 4121(a)(7)).

The benefit of ICC under the SFIP for repetitive loss structures requires that two criteria be met. First, the community has to have in place a cumulative flood damage ordinance consistent with the statutory definition of repetitive loss structure, i.e., involving 2 flood losses within a 10-year period. Secondly, the NFIP must have a history of claims payments for a property that match the flood losses used by the community in enforcing this ordinance for the structure and that satisfy the statutory definition of repetitive loss structure. FEMA has structured loss structures addition to the SFIP to incorporate both of these criteria.

While States and communities participating in the NFIP are not required to adopt a floodplain management ordinance or law for repetitive loss structures, FEMA recognizes that many NFIP communities may already have an existing provision in their floodplain management law or ordinance which addresses repetitive loss structures. States or communities with a repetitive or cumulative substantial damage/improvement provision in current floodplain management laws or ordinances that are similar or more restrictive than the definition for "repetitive loss structure" in the Act (42 U.S.C. 4121(a)(7)) are acceptable as long as the provision is applied consistently to all structure in special flood hazard areas regardless of whether or not the structure is covered by a contract of flood insurance. Also, for a State or local repetitive loss provision to be acceptable, the two losses, when combined, must equal or exceed 50 percent of the value of the structure within a 10-year period ending on the date of the event for which the second claim is made. Since "repetitive loss structures" are not addressed in the NFIP's minimum floodplain management requirements, FEMA will provide model repetitive loss law or ordinance language and other guidance to States and communities so that they may adopt such measures prior to the effective date of the final rule providing ICC coverage under the SFIP. FEMA expects that States and communities will require the first of the 2 losses meeting the statutory definition of "repetitive loss structure" to occur after the State or community's repetitive loss ordinance or law is in effect.

Also, a State or community official must determine that a structure is substantially or repetitively damaged in accordance with the adopted floodplain management law or ordinance. However, the proposed ICC coverage does not pay for the increased cost of construction to meet State or community floodplain management laws or ordinances which exceed the minimum floodplain management criteria at 44 CFR 60.3, except as provided for properties that are repetitive loss structures in special flood hazard areas as defined in the Act (42 U.S.C. 4121(a)(7)). For example, ICC coverage will not pay for the increased cost of construction to meet substantial damage thresholds which are less than 50 percent of the market value of the structure. Buildings in these communities must be elevated to 50 percent or more of their market value to be eligible for the ICC benefit. ICC coverage will pay for the elevation or floodproofing of structures up to the base flood level but not for elevation or floodproofing above the base flood level. For example, where States or local communities require 1 or 2 feet of freeboard above the BFE, ICC coverage will pay for costs to elevate only to the BFE. Also, ICC coverage will not pay for the cost to elevate or otherwise alter flood-damaged structures located outside of special flood hazard areas. The surcharge limit of $75 per policy for ICC coverage set by Congress prevents extending ICC benefits to damaged structures that must meet State or community laws or ordinances that are more restrictive than the minimum criteria of the NFIP. On the other hand, ICC coverage will not pay for rebuilding to standards that do not meet the NFIP's minimum requirements, i.e., when the property owner has received a variance from the community to rebuild the property to an elevation below the BFE.

While the proposed rule responds to the first two categories of properties, it would not however attempt to address the third category of losses—"multiple losses"—which are not quantified in the statute. The third situation, which is discretionary, may be added to future proposed changes to the SFIP based on greater loss experience and the status of the National Flood Insurance Fund at that time.

FEMA also considered the generic building law and ordinance coverage offered by the insurance industry in homeowners and other property insurance contracts to cover the costs to rebuild, in compliance with State or local ordinances or laws, a structure damaged by a number of covered perils. The sole "triggering loss event" however for ICC coverage proposed in this rule is a loss from "flood" (including covered flood-related erosion) as defined in the SFIP. This is required by the statute which restricts ICC coverage to pay for the increased cost of construction to comply with a State or local floodplain management ordinance or law requiring elevation of the structure to the BFE or other appropriate mitigation measure after a flood loss.

The proposed rule would establish a limit of $15,000 for ICC coverage. The $15,000 limit considers the average range of actual costs to elevate, relocate, or floodproof various types of construction during reconstruction after a flood, e.g., from slab-on-grade foundations to structures already elevated but below base flood elevation. In many cases, the maximum limit of $15,000 will enable the homeowner to pay for most of the costs to elevate or floodproof an existing structure.
following a flood loss. Insureds will still have to bear a portion of the costs to improve the structure so that it meets current State or local floodplain management ordinances or laws. In practically all cases, however, the limit of ICC coverage will make a significant contribution toward rebuilding flood-damaged structures in conformity with the NFIP's elevation and floodproofing standards.

In arriving at a limit for ICC coverage, FEMA wanted to establish the highest amount possible for insureds. In light of the maximum surcharge for ICC coverage allowed under law ($75) and the Congressional intent that the program be actuarially sound, however, FEMA has determined that $15,000 is the maximum benefit that could be currently justified under the SFIP.

Additionally, the ICC benefit would be added to the payment for direct loss from flood but the total reimbursement for ICC coverage and direct loss from flood would not be greater than the maximum coverage for that class of structure established under the National Flood Insurance Act of 1968, as amended.

FEMA also considered the appropriate scope and limits of ICC coverage for condominiums. Under the Dwelling Form of the SFIP, individual condominium unit owners may, in addition to the coverage purchased by the condominium association for the commonly owned portions of the complex, receive coverage for the portions of their unit not covered by the association policy and for assessments placed by the association on the unit owner to pay a prorated portion of the physical damage from flood exceeding the association's policy limits. FEMA considered whether ICC coverage should be provided to individual unit owners in a condominium for the increased costs to ensure that elevation or other alterations of commonly owned portions of the condominium complex substantially or repetitively damaged by flood would comply with State or local floodplain management laws or ordinances. The surcharge limit of $75 per policy for ICC coverage set by Congress prevents extending ICC benefits to individual condominium unit owners for assessments.

FEMA also considered the appropriate approach for providing ICC payments. On the one hand, delaying payment of the ICC benefit until after the flood-damaged structure had been rebuilt or otherwise altered to comply with State or local ordinances or laws would make it impossible for many insureds to initiate the extensive mitigation effort necessary to bring the structure into compliance with floodplain management ordinances or laws. On the other hand, a full payment of the ICC benefit before the necessary mitigation effort is undertaken creates the potential to abandon the structure. Given the financial hardships of many flood victims and the inability to pay out-of-pocket the costs to elevate or floodproof a building before a claim is adjusted, FEMA plans to provide partial payments for ICC claims. Making partial payments is an accepted practice under the NFIP's adjustment process for flood loss. This practice will enable the insured to initiate the mitigation activity required by the State or local ordinance or law. FEMA also plans to defer final payments until the community ensures that the mitigation activity is satisfactorily completed.

In that connection, FEMA believes that the property owner should accomplish required repairs within a reasonable period of time, i.e., within 2 years from the date of loss which time frame is consistent with insurance industry practices. Also, the property owner may decide which mitigation measure will be taken to accomplish the repair or reconstruction of the structure under ICC coverage, (i.e., elevation, retrofitting, floodproofing, relocation, demolition, or any combination thereof). It is expected however that States or communities will work closely with the property owner to discuss alternatives in determining the most technically feasible and cost effective mitigation measure for the damaged structure. It is also the State or community's responsibility to ensure that all other necessary Federal, State, or local permits have been received pertaining to laws, ordinances, building codes, or other requirements in conjunction with the repair, elevation, floodproofing, retrofitting, relocation, demolition, or other alteration to the building and site on which the property is or is to be located. Additionally, the State or community must ensure that all work is completed in accordance with State or local laws and ordinances prior to issuing an occupancy permit. States or communities must obtain an elevation certificate or floodproofing certificate for structures that are elevated or floodproofed.

The FEMA Regional Offices are available to provide technical assistance to property owners and communities on technically feasible and cost effective mitigation measures that can be applied to the structure and that qualify for the ICC benefit. FEMA also has a number of publications to assist communities, individuals, architects, engineers, builders, and contractors on various mitigation measures and techniques including elevation, floodproofing, retrofitting, and relocation.

Finally, FEMA considered how ICC coverage should be implemented within the context of the insurance operations of the program. Under the proposed rule, ICC coverage would not be subject to the liberalization clause of the SFIP. Rather, since a premium surcharge must be added to pay for the required additional ICC, policyholders would obtain this coverage upon renewal of their policies with effective dates on or after May 1, 1997—the target date for inauguration of this coverage. After the effective date of the final rule, policyholders with three-year policies in force would also have the option of canceling their flood insurance policy on the anniversary date and obtaining the coverage under a rewritten policy. All new flood insurance policies with effective dates on or after May 1, 1997 would include ICC coverage, and policyholders would be charged the premium surcharge appropriate for their flood risk classification.

The proposed rule would add a new section on ICC coverage in the SFIP. In implementing any such changes in coverage, however, insurance companies participating in the Write Your Own program would have the option of printing a new SFIP incorporating the changes in coverage for ICC or attaching an endorsement to the SFIP.

National Environmental Policy Act

This proposed rule is categorically excluded from the requirements of 44 CFR part 10, Environmental Consideration. No environmental assessment has been prepared.

Executive Order 12898, Environmental Justice

The socioeconomic conditions to this proposed rule were reviewed and a finding was made that no disproportionately high and adverse effect on minority or low income populations would result from this proposed rule.

Executive Order 12866, Regulatory Planning and Review

This proposed rule would not be a significant regulatory action within the meaning of sec. 2(f) of E.O. 12866 of September 30, 1993, 58 FR 51735, and has not been reviewed by the Office of Management and Budget. Nevertheless, this proposed rule adheres to the regulatory principles set forth in E.O. 12866.
Paperwork Reduction Act

This proposed rule does not contain a collection of information and is therefore not subject to the provisions of the Paperwork Reduction Act.

Executive Order 12612, Federalism

This proposed rule involves no policies that have federalism implications under Executive Order 12612, Federalism, dated October 26, 1987.

Executive Order 12778, Civil Justice Reform

This proposed rule meets the applicable standards of section 2(b)(2) of Executive Order 12778.

List of Subjects in 44 CFR Part 61

Flood insurance. Accordingly, 44 CFR part 61 is proposed to be amended as follows:

PART 61—INSURANCE COVERAGE AND RATES

1. The authority citation for Part 61 continues to read as follows:

2. Paragraph A. 6. of Article 3 of Appendix A (1) is proposed to be amended to add the following phrase at the end:
   "* * * except as provided in Coverage D—Increased Cost of Construction.
   * * *"

   3. A new section is proposed to be added to Article 4 of Appendix A (1) to read as follows:
   "* * *"

   Coverage D—Increased Cost of Construction Coverage ("Building Law and Ordinance Coverage")

   Increased Cost of Construction coverage (Coverage D) is for the consequential loss brought on by a floodplain management ordinance or law affecting repair and reconstruction involving elevation, relocation, retrofitting, or demolition of a structure (or any combination), after a direct loss caused by a "flood" as defined by this policy. The limit of liability under this Coverage D (Increased Cost of Construction) will not exceed $15,000. This coverage is only applicable to policies with building coverage (Coverage A) and is in addition to the Building limit you selected on your application, and appears on the Declaration Page. No separate deductible applies. The maximum amount collectible under this policy for both Coverage A (Building Property) and Coverage D (Increased Cost of Construction) cannot exceed the maximum permitted under the Act.

   Eligibility
   A structure covered under Coverage A—Dwelling sustaining a loss caused by a "flood" as defined by this policy must:
   (1) Be a structure that is a repetitive loss structure. A "repetitive loss structure" means a structure, covered by a contract for flood insurance issued pursuant to the Act, that has incurred flood-related damage on 2 occasions during a 10-year period ending on the date of the event for which a second claim is made, in which the cost of repairing the flood damage, on the average, equaled or exceeded 25% of the market value of the structure at the time of each such flood event. The National Flood Insurance Program must have paid the previous qualifying claim, and the State or community must have a cumulative flood damage provision in its flood plain management law or ordinance being enforced against the structure.
   Or
   2. have had flood damage in which the cost to repair equals or exceeds 50% of the market value of the structure at the time of the flood event.

   This policy will not pay for Increased Cost of Construction to meet State or local floodplain management laws or ordinances which exceed the minimum criteria at 44 CFR 60.3, except as provided in No. 1 above.

   Conditions
   1. When a structure covered under Coverage A—Dwelling sustains a loss caused by a "flood" as defined by this policy, our payment for the loss will be based on:
      (a) The increased cost to repair, retrofit, relocate, or otherwise alter the building caused by enforcement of current State or local floodplain management ordinances or laws.
      (b) The cost to demolish and clear the site of the building or a portion thereof caused by enforcement of current State or local floodplain management ordinances or laws.

   Eligible activities for the cost of clearing the site will include those necessary to discontinue utility service to the site and ensure proper abandonment of on-site utilities.

   2. When the building is repaired or rebuilt, it must be intended for the same occupancy as the present building unless otherwise required by current floodplain management ordinance or laws.

   3. If this coverage is concurrent with other insurance covering the same loss, this coverage will be prorated with the other insurance. This coverage is primary when the other insurance is expressly excess insurance. This coverage is primary when the insurance is expressly excess insurance.

   Exclusions
   Under this Coverage D (Increased Cost of Construction), we will not pay for:
   (1) The loss in value to any covered building or other structure due to the requirements of any ordinance or law;
   (2) Any increased cost of construction under this Coverage D (Increased Cost of Construction) is for the consequential loss brought on by a floodplain management ordinance or law affecting repair and reconstruction involving elevation, relocation, retrofitting, or demolition of a structure (or any combination), after a direct loss caused by a "flood" as defined by this policy.
   The limit of liability under this Coverage D (Increased Cost of Construction) will not exceed $15,000. This coverage is only applicable to policies with building coverage (Coverage A) and is in addition to the Building limit you selected on your application, and appears on the Declaration Page. No separate deductible applies. The maximum amount collectible under this policy for both Coverage A (Building Property) and Coverage D (Increased Cost of Construction) cannot exceed the maximum permitted under the Act.

   Note: Increased Cost of Construction coverage will not be included in the calculation to determine whether coverage meets the 80% insurance-to-value requirement for replacement cost coverage under Article 8 or for payment under Article 3.B.3 for loss from land subsidence, sewer backup, or seepage of water.

   All other conditions and provisions of the policy apply.

   4. Paragraph A. 6. of Article 3 of Appendix A (2) would be amended to add the following phrase at the end:
      "* * * except as provided in Coverage D—Increased Cost of Construction.
      * * *"

   5. A new section would be added to Article 4 of Appendix A (2), to read as follows:
      "* * *"

   Coverage D—Increased Cost of Construction Coverage ("Building Law and Ordinance Coverage")
Eligibility

A structure covered under Coverage A—Building sustaining a loss caused by a “flood” as defined by this policy must:

1. Be a structure that is a repetitive loss structure. A “repetitive loss structure” means a structure, covered by a contract for flood insurance issued pursuant to the Act, that has incurred flood-related damage on 2 occasions during a 10-year period ending on the date of the event for which a second claim is made, in which the cost to repair equals or exceeds 50% of the market value of the structure at the time of the event or for which a second claim was made, in which the cost to repair equals or exceeds 50% of the market value of the structure at the time of each such flood event.

2. Have had flood damage in which the cost to repair equals or exceeds 50% of the market value of the structure at the time of the flood event.

This policy will not pay for Increased Cost of Construction to meet State or local floodplain management laws or ordinances which exceed the minimum criteria at 44 CFR 60.3, except as provided in No. 1 above.

Conditions

1. When a structure covered under Coverage A—Building sustains a loss caused by a “flood” as defined by this policy, our payment for the loss will be based on:

   (a) The increased cost to repair, retrofit, relocate, or otherwise alter the building caused by enforcement of current State or local floodplain management ordinances or laws.

   (b) The cost to demolish and clear the site of the building or a portion thereof caused by enforcement of current State or local floodplain management ordinances or laws.

   (c) The cost to demolish and clear the site of the building or a portion thereof caused by enforcement of current State or local floodplain management ordinances or laws.

2. When the building is repaired or rebuilt, it must be intended for the same occupancy as the present building unless otherwise required by current floodplain management ordinance or laws.

3. If this coverage is concurrent with other insurance covering the same loss, this coverage will be prorated with the other insurance. This coverage is primary when the other insurance is expressly excess insurance.

Exclusions

Under this Coverage D (Increased Cost of Construction), we will not pay for:

(1) The cost associated with enforcement of any ordinance or law which requires any insured or others to test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of pollutants. Pollutants mean any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acid, alkalis, chemicals and waste. Waste includes materials to be recycled, reconditioned or reclaimed.

(2) The loss in value to any covered building or other structure due to the requirements of any ordinance or law; or

(3) Any increased cost of construction under this Coverage D:

(a) Until the covered building is actually demolished, repaired, retrofitted, or otherwise altered at the same or another premise; and

(b) Unless the covered building is demolished, repaired, retrofitted, or otherwise altered as soon as reasonably possible after the loss, not to exceed two years.

(4) Loss due to any ordinance or law that you were required to comply with before the current loss.

Note: Increased Cost of Construction coverage will not be included in the calculation to determine whether coverage meets the 80% insurance-to-value requirement for payment under Article 3, B.3 for loss from land subsidence, sewer backup, or seepage of water.

All other conditions and provisions of the policy apply.

6. Paragraph A.6. of Article 3 of Appendix A (3) would be amended to add to the end of the foregoing phrase:

* * * * * except as provided in Coverage D—Increased Cost of Construction.

* * * * * 7. A new section would be added to Article 4 of Appendix A (3), to read as follows:

* * * * * Coverage D—Increased Cost of Construction Coverage ("Building Law and Ordinance Coverage")

Increased Cost of Construction coverage (Coverage D) is for the consequential loss brought on by a floodplain management ordinance or law affecting repair and reconstruction involving elevation, relocation, retrofitting, or demolition of a structure (or any combination), after a direct loss caused by a “flood” as defined by this policy.

The limit of liability under this Coverage D (Increased Cost of Construction) will not exceed $15,000. This coverage is only applicable to policies with building coverage (Coverage A) and is in addition to the Building limit you selected on your application, and appears on the Declaration Page. No separate deductible applies. The maximum amount collectible under this policy for both Coverage A (Building Property) and Coverage D (Increased Cost of Construction) cannot exceed the maximum permitted under the Act.

Eligibility

A structure covered under Coverage A—Building sustaining a loss caused by a “flood” as defined by this policy must:

1. Be a structure that is a repetitive loss structure.

A “repetitive loss structure” means a structure, covered by a contract for flood insurance issued pursuant to the Act, that has incurred flood-related damage on 2 occasions during a 10-year period ending on the date of the event for which a second claim is made, in which the cost of repairing the flood damage, on the average, equaled or exceeded 25% of the market value of the structure at the time of each such flood event. The National Flood Insurance Program must have paid the previous qualifying claim, and the State or community must have a cumulative flood damage provision in its floodplain management law or ordinance being enforced against the structure.

2. Have had flood damage in which the cost to repair equals or exceeds 50% of the market value of the structure at the time of the flood event.

This policy will not pay for Increased Cost of Construction to meet State or local floodplain management laws or ordinances which exceed the minimum criteria at 44 CFR 60.3, except as provided in No. 1 above.

Conditions

1. When a structure covered under Coverage A—Building sustains a loss caused by a “flood” as defined by this policy, our payment for the loss will be based on:

   (a) The increased cost to repair, retrofit, relocate, or otherwise alter the building caused by enforcement of current State or local floodplain management ordinances or laws.

   (b) The cost to demolish and clear the site of the building or a portion thereof caused by enforcement of current State or local floodplain management ordinances or laws.

   (c) The cost to demolish and clear the site of the building or a portion thereof caused by enforcement of current State or local floodplain management ordinances or laws.

2. When the building is repaired or rebuilt, it must be intended for the same occupancy as the present building unless otherwise required by current floodplain management ordinance or laws.

3. If this coverage is concurrent with other insurance covering the same loss, this coverage will be prorated with the other insurance. This coverage is primary when the other insurance is expressly excess insurance.

Exclusions

Under this Coverage D (Increased Cost of Construction), we will not pay for:

(1) The cost associated with enforcement of any ordinance or law that requires any insured or others to test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of pollutants. Pollutants mean any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acid, alkalis, chemicals and waste. Waste includes materials to be recycled, reconditioned or reclaimed.

(2) The loss in value to any covered building or other structure due to the requirements of any ordinance or law; or

(3) Any increased cost of construction under this Coverage D:

(a) Until the covered building is actually demolished, repaired, retrofitted, or otherwise altered at the same or another premise; and
DEPARTMENT OF TRANSPORTATION

Research and Special Programs Administration

49 CFR Parts 171, 172, 173, 174, 175, 176, 177, 178, 179, and 180

[Docket HM–223; Notice No. 96–18]

RIN 2137–AC68

Applicability of the Hazardous Materials Regulations to Loading, Unloading and Storage

AGENCY: Research and Special Programs Administration (RSPA), DOT.

ACTION: Notice of meeting; issues to be discussed in Sacramento.

SUMMARY: On July 29, 1996, RSPA published an Advance Notice of Proposed Rulemaking and notice of meeting in the Federal Register. In that document, RSPA announced three public meetings at which it would seek ideas, proposals and recommendations regarding the applicability of the Hazardous Materials Regulations to particular hazardous materials transportation activities. The first of the three public meetings was held in Atlanta, Georgia on September 13, 1996.

Based on information gathered at that public meeting and information in the docket, RSPA is announcing the topics to be discussed at the September 25, 1996 meeting in Sacramento, California, by two working groups comprised of interested members of the public. Those two topics are: The unloading of hazardous materials and the storage of hazardous materials. Also, commenters to date have identified several factors which could provide a framework for possible regulation in these areas. These factors are set forth in this notice and will serve as a starting point for discussion for each working group in Sacramento.

DATES:

Meetings

(1) September 25, 1996 from 9:00 a.m. to 4:00 p.m. in Sacramento, California—public working-group session

(2) October 30, 1996 from 9:00 a.m. to 4:00 p.m. in Philadelphia, Pennsylvania—public working-group session

Written Comments; Public Working-Group Sessions in Sacramento and Philadelphia

Written comments must be received on or before November 30, 1996. Any person wishing to participate in the Sacramento working-group session should notify Nancy E. Machado by telephone, at the number listed below, or by writing, on or before September 23, 1996. Any person wishing to participate in the Philadelphia working-group session should notify Nancy E. Machado by telephone or in writing on or before October 23, 1996. RSPA will attempt to accommodate anyone who indicates, after the deadlines, a desire to participate in either of the two remaining public meetings.

ADDRESSES:

Meetings

(1) California State Department of Social Services Auditorium, 744 P Street, Sacramento, CA 95814.

(2) Penn Tower Hotel, Civic Center Boulevard at 34th St., Philadelphia, PA 19104.

Comments


FOR FURTHER INFORMATION CONTACT:


SUPPLEMENTARY INFORMATION:

On July 29, 1996, RSPA published an Advance Notice of Proposed Rulemaking (ANPRM) and notice of meeting in the Federal Register (61 FR 39522). In that document, RSPA announced three public meetings at which it would seek ideas, proposals and recommendations regarding the applicability of the Hazardous Materials Regulations (HMR) (49 C.F.R. Parts 171–180) to particular hazardous materials transportation activities. In the ANPRM, RSPA asked that participants in the first meeting, held in Atlanta, Georgia, comment on issues identified and respond to questions raised in the July 29, 1996 ANPRM. RSPA proposed to begin the Sacramento and Philadelphia meetings with an overview of the issues of greatest concern to commenters in Atlanta, and then have participants break out into working groups to discuss those issues and to generate further ideas, proposals and recommendations. At the conclusion of the working-group sessions, RSPA proposed to have each working group present its ideas, proposals and recommendations to all meeting participants for further discussion.

The Atlanta meeting was held on September 13, 1996, and was attended by members of the regulated community, local government interests, and Department of Transportation (DOT), Environmental Protection Agency (EPA) and Occupational Safety and Health Administration (OSHA) representatives.

After considering the oral statements made by participants in the Atlanta meeting, and information already in the public docket, RSPA announced at the conclusion of the Atlanta meeting that the two topics for working-group discussions in Sacramento would be the unloading of hazardous materials and the storage of hazardous materials. RSPA also noted that, to date, commenters have identified several criteria which might be used to determine the applicability or non-applicability of the HMR. The working-group discussions will focus on those criteria and the advantages and disadvantages of each. The criteria are:

(1) The nature of the activity;

(2) The intent of the activity;

(3) The time-frame involved in the activity;
Valley ozone nonattainment area as defined in 40 CFR 81.339 may not be challenged later in proceedings to enforce its requirements. (See section 307(b)(2).)

List of Subjects in 40 CFR Part 81
Environmental protection, Air pollution control, National parks, Wilderness areas.

SUMMARY:
The agency proposes to amend the National Flood Insurance Program (NFIP) regulations by adding coverage under the Standard Flood Insurance Policy (SFIP) for the increased cost, up to a maximum liability of $15,000, to bring structures into compliance with State or community floodplain management laws or ordinances after flood losses. This coverage, which is referred to in the proposed rule as “increased cost of construction” coverage, is mandated by section 1361 of the National Flood Insurance Act of 1968 (42 U.S.C. 4121). It is intended to “enable the purchase of insurance to cover the cost of compliance with land use and control measures established under section 1361.” The following are the principal features of the September 23, 1996 proposed rule:

1. The limit for ICC coverage would be $15,000.
2. Only flood-damaged structures would be eligible for the coverage.
3. Only those structures substantially damaged by flood would be eligible for ICC coverage.
4. Only structures in areas of special flood hazard would be eligible for ICC payments.
5. ICC payments would be limited to the amount necessary to meet but not exceed the NFIP elevation requirements after flood damage.

W. Michael McCabe,
Regional Administrator, Region III.

PART 81—AMENDED
1. The authority citation for part 81 continues to read as follows:

PENNSYLVANIA—OZONE

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1 This date is November 15, 1990, unless otherwise noted.

2 Attainment date extended to 11/15/97.

Federal Emergency Management Agency
44 CFR Part 61
RIN 3067-AC54
National Flood Insurance Program; Standard Flood Insurance Policy
AGENCY: Federal Insurance Administration (FEMA).
ACTION: Final rule.
SUMMARY: This rule amends the National Flood Insurance Program (NFIP) regulations to add coverage under the Standard Flood Insurance Policy (SFIP) for the increased cost, up to a maximum liability of $15,000, to bring structures into compliance with State or community floodplain management laws or ordinances after flood losses. This coverage, which is referred to in the proposed rule as “increased cost of construction” coverage, is mandated by section 1361 of the National Flood Insurance Act of 1968 (42 U.S.C. 4121). It is intended to “enable the purchase of insurance to cover the cost of compliance with land use and control measures established under section 1361.”

The following are the principal features of the September 23, 1996 proposed rule:

1. The limit for ICC coverage would be $15,000.
2. Only flood-damaged structures would be eligible for the coverage.
3. Only those structures substantially damaged by flood would be eligible for ICC coverage.
4. Only structures in areas of special flood hazard would be eligible for ICC payments.
5. ICC payments would be limited to the amount necessary to meet but not exceed the NFIP elevation requirements after flood damage.

Authority: 42 U.S.C. 7401-7671q.

2. In § 81.339, the “Pennsylvania—Ozone” table is amended by revising the entry for “Pittsburgh-Beaver Valley Area” to read as follows:

§ 81.339 Pennsylvania.

FEDERAL REGISTER
Vol. 62, No. 37 / Tuesday, February 25, 1997 / Rules and Regulations

[FR Doc. 97-4119 Filed 2-24-97; 8:45 am] BILLING CODE 6560-50-P
structure." Another commenter recommended "full Ordinance or Law coverage up to the statutory limit" which, for a single family dwelling, would be $250,000. One commenter, however, supported this maximum benefit for ICC coverage saying, "in order to maintain fiscal control over the program the $15,000 cap on ICC payment should be retained." FEMA arrived at the $15,000 cap from basic pricing considerations and the current status of the National Flood Insurance Fund. After years of surplus in the Fund, FEMA currently has in excess of $600 million on loan from the Treasury under the program's borrowing authority as a result of unusually heavy flood losses since 1993. With this as a backdrop, FEMA had to consider several issues in establishing the coverage and in pricing ICC. First, the pricing for this coverage should be actuarially sound with premiums varying, to the extent practical, by risk. Second, § 555 of the National Flood Insurance Reform Act of 1994 sets a cap on the amount the NFIP may bear a portion of the cost of the selected mitigation measure (elevation, relocation, or any combination thereof), there should be a commensurate increase in the value of the property that will offset at least part of those costs. FEMA will review its experience with ICC from time to time to determine whether adjustments should be made in the pricing, the amount of the benefit, or other aspects of the coverage.

Furthermore, other mitigation resources and programs from FEMA, as well as other Federal, State and local resources, can be used to supplement the ICC payment to help property owners comply with State and community laws and ordinances. For example, currently, the Hazard Mitigation Grant Program available pursuant to § 404 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, Pub. L. 93–288, as amended, could be used to supplement the ICC benefit in communities which initiate mitigation projects.

**Limitation of ICC to Flood Damaged Structures**

One commenter recommended that ICC coverage not be limited to flood damaged. This recommendation, however, cannot be incorporated in the final rule since § 555 of the National Flood Insurance Reform Act of 1994 authorizes ICC coverage only for flood-damaged structures. The statute authorizes ICC coverage for "(1) properties that are subject to repetitive loss; (2) properties that have sustained flood damage in which the cost of repairs equals or exceeds 50 percent of the value of the structure at the time of the flood event; and (3) properties that have sustained flood damage on multiple occasions." Repetitive loss structure is defined at § 512 of Pub. L. 103–325 as "a structure covered by a contract for flood insurance under this title that has incurred flood-related damage on 2 occasions during a 10-year period ending on the date of the event for which a second claim is made, in which the cost of repair, on the average, equaled or exceeded 25 percent of the value of the structure at the time of each such flood event." (Emphasis added.) The final rule limits the benefit of ICC coverage under Coverage D of the Standard Flood Insurance Policy to bring flood-damaged structures into compliance with State or local floodplain management laws or ordinances.

**ICC Benefits Within the Maximum Limits of Insurance Coverage**

One commenter objected that the $15,000 ICC benefit was included within, and not in addition to, the maximum statutory limits of flood insurance coverage available to property owners for direct, physical damage from flood, which for a single family dwelling is $250,000. The commenter felt that the maximum liability of $250,000 for a single family dwelling for Coverage A (direct, physical loss from flood), combined with the new Coverage D (increased cost of compliance), effectively denied $15,000 of flood insurance benefits to the policyholder who has purchased the statutory limits of coverage. FEMA considered this objection but concluded it does not have the authority to exceed the maximum statutory limits set by Congress for the NFIP in the Act, as amended (42 U.S.C. 4013).

Consequently, as stated in the proposed rule, the ICC benefit is added to the policy limit for direct loss from flood, but the total payment for the ICC benefit and the direct loss payment for flood would not be greater than the maximum limits of coverage for that class of structure authorized under the Act, as amended. In that connection, § 573 of Pub. L. 103–325 increased the maximum limit of flood insurance coverage for a single family dwelling from $185,000 to $250,000 and for nonresidential structures from $250,000 to $500,000. For structures insured to the statutory limit, FEMA's pricing of ICC coverage, however, reflects the possibility that, under some conditions, a full $15,000 could not be collected.

**Types of Mitigation Allowed**

One commenter stated that the proposed rule centers on elevation and floodproofing and does not address relocation or demolition. The Proposed Rule for ICC coverage indicated in the Standard Flood Insurance Policy and in the "Supplementary Information" section that the allowable mitigation measures under ICC include elevation, floodproofing, relocation, and demolition, or any combination thereof. These allowable mitigation activities have been retained in the final rule. It is the property owner's decision which mitigation measure will be undertaken provided that he or she complies with applicable State or community floodplain management laws or ordinances. However, FEMA expects that States or communities will work closely with the property owner to determine the most technically feasible and cost effective mitigation measure for the damaged structure. It is also expected that States or communities that have adopted a mitigation plan will ensure that the selection of the mitigation measure will be consistent with the approved plan and coordinated with other mitigation programs and activities.

Another commenter asked whether ICC is available for floodproofing residential buildings in those communities that are permitted by FEMA to adopt standards for residential
floodproofed basements. Under 44 CFR 60.6 (b) or (c) of the NFIP's Floodplain Management Regulations, communities that have been approved for residential basement exceptions by FEMA may adopt standards for floodproofed residential buildings. The ICC benefits can be used to floodproof a residential basement only if the building is located in one of these communities approved for residential basements exceptions. The final rule says this and also indicates that ICC payments will be made in connection with non-residential floodproofing to meet State or local floodplain management requirements.

Payments for Elevating or Floodproofing to Elevations Which Exceed NFIP Minimum Requirements

Seven comments objected to the limitation in the proposed rule that ICC pay for the cost of elevation or floodproofing flood-damaged structures only to the base flood elevation, the NFIP minimum standard, and not to a higher elevation required in some State and community laws and ordinances. The comments pointed out that some States and communities, in the interest of sound floodplain management and in recognition of future floodplain development, exceed the NFIPs minimum standards by requiring new or substantially improved structures to be elevated or floodproofed to one or more feet above the base flood elevation. This more restrictive elevation requirement is generally referred to as "freeboard." Furthermore, the comments noted that FEMA has, as a matter of policy, encouraged communities to exceed the NFIP's minimum standards, and that FEMA's Community Rating System (CRS) in fact provides premium rate discounts to communities that exceed the minimum requirements.

FEMA agrees with these comments that the cost to elevate or floodproof structures to higher State or community floodplain management standards should be eligible for ICC benefits. The final rule has, therefore, been revised to permit ICC payments, up to the $15,000 limit of coverage, to elevate or floodproof structures to the "freeboard" established and enforced in the State or community's floodplain management law or ordinance.

ICC Benefits for Map Revisions and Areas Designated as Zone A

Two aspects of ICC that should be clarified are: (1) How ICC coverage will respond to situations where FEMA issues an advisory map or has issued a preliminary or draft Flood Insurance Study, and (2) how ICC will respond to floodplain management requirements in areas designated as Zone A. If FEMA issues an advisory map and increases the base flood elevation, and the community adopts the map and the higher base flood elevations, ICC benefits will be paid to elevate or floodproof flood-damaged structures to these preliminary or advisory base flood elevations. ICC benefits will be paid even if the zone was previously designated Zone B, C, X, or D. Also, in communities that have areas designated as unnumbered A Zones on their Flood Insurance Rate Map, ICC benefits will be paid on a flood damaged structure for elevation, floodproofing, demolition, relocation, or any combination thereof. The community must obtain, review and reasonably utilize any base flood elevation data available from a Federal, State, or other sources in accordance with 44 CFR 60.3(b)(4) and require that the structure be elevated or floodproofed to that elevation. The base flood elevation data should be used as long as the data: (1) Reasonably reflect flooding conditions established during the base (100-year) flood, (2) are not known to be scientifically or technically incorrect, and (3) represent the best data available.

Demolition

An issue needing clarification is where a structure is demolished, and a replacement structure is built at the same or another site. In this situation, ICC coverage will pay for the cost of demolition as well as for the incremental costs to elevate or floodproof the structure during the course of rebuilding to meet elevation requirements at the same site or another location provided the elevation or floodproofing is to comply with State or community floodplain management laws or ordinances. The ICC payment, within the $15,000 limit, will also be made when the structure, after demolition, is rebuilt at a new site even if the base flood elevations are higher there than at the original location. FEMA's decision to permit ICC benefits to pay for the incremental costs of elevation or floodproofing after a structure has been demolished is based on the statutory language of §555 of Public Law 103-325, i.e., that the new coverage is to pay for "increased cost of compliance" with land use and control measures being enforced by the State or community that meet the standards of 44 CFR 60.3 established under § 1361 of the National Flood Insurance Act of 1968, as amended.

In the course of rebuilding to meet flood elevation requirements in areas designated as Zone A, ICC benefits will be paid to perform mitigation activities to help bring a structure into compliance with State and community floodplain management laws or ordinances. Not included in any ICC payment for elevation or floodproofing will be the residual value of the undamaged portion of the structure. FEMA considered whether to pay for loss of residual value when the demolition option is selected. Offering ICC benefits for loss of residual value is a potentially costly initiative—one that could undermine FEMA's ability to raise the initial cap of $15,000 at some later date if program experience warrants such an increase. Hence, FEMA has decided to gain experience with ICC and to analyze that program experience in order to determine the feasibility of providing ICC benefits for loss of residual value. FEMA will initiate this analysis after nine months from the effective date on this final rule.

Market Value versus Replacement Cost and Substantial Improvements

One commenter stated that "market value" was not defined and recommended the use of "replacement cost" instead. Another commenter asked how States or communities in the use of "replacement cost" instead of "market value" implement the substantial damage requirement.

While the statute does not specify what value should be used in determining substantially damaged or repetitive loss structures, "market value" is currently used in the definitions of "substantial damage" and "substantial improvement" in the NFIP's Regulations (44 CFR 59.1). For this reason, "market value" will be used for consistency for ICC substantial damage and repetitive loss determinations. Under the NFIP, substantially damaged structures must be elevated or floodproofed (non-residential structures only) to or above the Base Flood Elevation. States and communities participating in the NFIP are required to use market value in determining whether a structure has been substantially damaged. Use of "replacement cost" is not permitted under the NFIP's floodplain management regulations.

A related issue that should be clarified is how ICC coverage will respond to situations involving improvements that are made to a damaged structure at the same time that it is being repaired. The final rule provides that payment be made to help policyholders comply with State and community floodplain management laws and ordinances after a flood loss. Unless the flood loss alone constitutes "substantial damage" or the loss meets the criteria for a "repetitive loss", ICC will not provide coverage even if the
combination of the cost of the repair and the cost of the improvement exceeds the 50 percent of market value threshold for a "substantial improvement" under the community’s ordinance. The improvement represents a voluntary decision by the individual to improve or add on to an existing structure in a special flood hazard area and is not a flood loss as required by the statute. In addition, ICC will not cover the costs to bring into compliance with State or community elevation or floodproofing requirements any improvements or additions to damaged structures at the time repairs are made, such as a new addition. Although ICC benefits are not paid for substantial improvements, substantially improved structures and improvements made along with repairs to a substantially damaged structure must still meet all the minimum requirements of the NFIP.

Repetitive Loss Structures

A number of comments were received on implementation of the repetitive loss coverage under ICC. These comments relate to ordinance adoption, timing of the flood losses relative to the effective date of the final rule, and how losses are counted toward a repetitive loss determination.

There were several questions and comments on whether States and communities will be required to amend their floodplain management ordinances to include a repetitive loss provision. One commenter suggested that communities be given a reasonable timeframe within which to adopt this provision before the coverage goes into effect. One commenter recommended that the requirement to adopt a repetitive loss provision be eliminated as a condition for receiving the benefit. Two other commenters noted that very few communities currently have a repetitive loss provision in their floodplain management ordinance and that the requirement to adopt such a provision would be at great expense and difficulty. A commenter also asked what the effect would be on a policyholder if a community did not adopt a repetitive loss provision.

Based on a review of the statute and the NFIP’s other authorities, FEMA has concluded that the statute does not mandate that it change the NFIP’s floodplain management regulations at 44 CFR 59.1 and 60.3 to require States and communities to adopt a repetitive loss requirement. Therefore, adoption of a cumulative substantial damage provision or a repetitive loss provision is voluntary and at the discretion of the State or community. Making adoption of such a provision voluntary recognizes that very few of the approximately 18,500 participating NFIP communities have adopted a cumulative substantial damage provision or repetitive loss provision in their floodplain management laws or ordinances. Furthermore, FEMA recognizes that there is an added administrative burden to communities in adopting and administering these types of provisions. Finally, not all NFIP communities have a history of repetitive flood losses to existing structures. Making this feature of ICC implementation voluntary will allow States and communities to evaluate historic flood losses carefully to determine whether such a provision would significantly mitigate the flood risk to existing structures. While the ICC benefit will not be paid for a repetitive loss structure if the State or local government has not adopted a cumulative substantial damage or repetitive loss provision in its floodplain management law or ordinance, the ICC benefit will still be paid for substantially damaged structures whether or not the community adopts a repetitive loss provision. A State or community can adopt a law or ordinance addressing repetitive loss structures at any time before or after this final rule becomes effective.

FEMA has concluded that since the statute ties the availability of ICC to the land use and control measures under § 1361 of the Act (42 U.S.C. 4102), as amended, ICC coverage is intended to respond only to local ordinances or laws requiring repetitive loss structures to be rebuilt to at least NFIP floodplain management requirements for substantially damaged structures. Therefore, one of the conditions for the ICC benefit to be paid under the SFIP for repetitive loss structures is for the State or community to be enforcing a repetitive loss provision or a cumulative substantial damage provision requiring action by the property owner. The second condition that must be met is that the structure have a history of claims payments that satisfy the statutory definition of repetitive loss structure.

Several commenters recommended that ordinance language be flexible to meet local concerns. One commenter noted that communities may already have a cumulative substantial damage requirement that is inconsistent with the repetitive loss definition in the proposed rule. The State or community’s requirement for a property owner's choice of compliance can be triggered by a cumulative substantial damage or repetitive loss ordinance that deviates from the National Flood Insurance Reform Act’s definition; however, a policyholder will only be eligible for ICC payments when the Act’s repetitive loss definition is satisfied. With either type of provision, the State or community must apply it consistently to all structures regardless of whether or not the structure is covered by a contract for flood insurance. At a minimum, structures that met the definition of a “repetitive loss structure” would be required to meet the minimum floodplain management requirements that apply to substantially damaged structures.

FEMA will develop model ordinance language for addressing repetitive loss structures consistent with the statute’s definition. FEMA also will be developing guidance on adoption of the repetitive loss provision; however, States or communities with questions concerning whether an existing repetitive loss or cumulative substantial damage provision in a community’s law or ordinance is consistent with the definition in the final rule can contact their respective FEMA Regional Offices for assistance.

Questions were raised concerning the timing of the first and second loss relative to when the ICC coverage takes effect and when the community adopts a repetitive loss provision for determining if a structure has been repetitively damaged. Specifically, the comments questioned why the first qualifying loss has to occur before the first requirement that is consistent with the definition in the final rule can contact their respective FEMA Regional Offices for assistance. Questions were raised concerning the timing of the first and second loss relative to when the ICC coverage takes effect and when the community adopts a repetitive loss provision for determining if a structure has been repetitively damaged. Specifically, the comments questioned why the first qualifying loss has to occur after the State or community amends its law or ordinance to include a repetitive loss provision or why both claims have to occur after ICC coverage takes effect. In a related comment, it was asked how FEMA intends to treat a loss after the effective date of the final rule on ICC coverage, but before community adoption of a repetitive loss provision.

The proposed rule stated that the benefit of ICC under the SFIP for repetitive loss structures requires that two conditions be met. First, the State or community must be enforcing a cumulative substantial damage or repetitive loss provision requiring action by the property owner. Second, the NFIP must have a history of claims payments for the structure that satisfies the statutory definition of repetitive loss structure.

FEMA is implementing the repetitive loss provision of the statute by providing ICC coverage when a property owner is required to rebuild. The policyholder will only be eligible for ICC payments when the Act’s repetitive loss definition is satisfied. The repetitive loss provision requires that the State or community must apply it consistently to all structures regardless of whether or not the structure is covered by a contract for flood insurance. A minimum, structures that met the definition of a “repetitive loss structure” would be required to meet the NFIP floodplain management requirements that apply to substantially damaged structures.

The proposed rule stated that the benefit of ICC under the SFIP for repetitive loss structures requires that two conditions be met. First, the State or community must be enforcing a cumulative substantial damage or repetitive loss provision requiring action by the property owner. Second, the NFIP must have a history of claims payments for the structure that satisfies the statutory definition of repetitive loss structure.

anmarriage of such a provision voluntary
period that, combined, total more than 50% of the value of the structure. The date on which the first loss occurred is immaterial as to eligibility, even if the loss occurred before the effective date of this final rule since ICC coverage will respond to enforceable State or community floodplain management laws or ordinances for compliance.

Several comments and questions were received on how repetitive losses are counted toward a repetitive loss determination. One commenter asked whether each of the two losses have to equal at least 25% of the value of the structure for a total of 50% in order to qualify as a repetitive loss structure. Another commenter suggested that the determination should be flexible to reach a 50% loss, whether the first loss is only 10% and the second is 40%.

The definition of “repetitive loss structure” in the statute, states that “the cost of repair, on the average, equal or exceeded 25 percent of the value of the structure at the time of each such flood event”. In the proposed rule, FEMA stated that the two losses, when combined, must equal or exceed 50 percent of the market value of the structure within a 10-year period ending on the date of the event for which the second claim is made. Therefore, if the first loss is only 10% and the second loss is 40% and the State or community enforces the repetitive loss ordinance for these losses, the structure qualifies for the ICC payment. However, two or more losses that when combined are less than 50 percent of the market value of the structure do not qualify under the statutory definition of a “repetitive loss structure.”

ICC Coverage for Multiple Flood Damages

Two commenters mentioned that specific guidance should be developed as soon as possible for the third category of flood-damaged structures eligible under the statute for ICC coverage. The third category consists of structures damaged by flood “on multiple occasions” if the Director determines that it is cost-effective and in the best interests of the National Flood Insurance Fund to require compliance with the land use and control measures (42 U.S.C. 4011). As mentioned in the “Supplementary Information” section of the September 23, 1996 proposed rule, since the statute does not specify a specific loss threshold for the third category of multiple losses, the NFIP needs specific experience with this new coverage to determine what multiple loss situations would be reasonable, cost-effective candidates for compliance with State or local land use and control measures after a flood loss. FEMA will review the loss history for ICC coverage and the status of the National Flood Insurance Fund after the first several years of implementation of this coverage. At that point, FEMA will decide whether ICC coverage should be implemented for the third category of structures “damaged by flood on multiple occasions” when the FEMA Director had determined it is in the best interests of the National Flood Insurance Fund to require compliance with land use and control measures (42 U.S.C. 4011). The decision will be based on the best interests of the NFIP’s financial status at that time, and whether the pricing constraints imposed by the statute can accommodate an expansion of coverage.

Adjustment of ICC Claims

Three commenters raised specific questions about the adjustment process for ICC claims under the SFIP. FEMA is drafting detailed procedures to be used by adjusters for ICC claims. The final adjustment procedures implementing ICC coverage will be distributed to the companies participating in the Write Your Own program and the NFIP’s Bureau and Statistical Agent will conduct approximately 30 workshops for insurance adjusters to address ICC.

ICC: Optional vs. Mandatory Coverage

Two commenters recommended that ICC coverage should be made optional. Section 555 of Public Law 103-325 requires the NFIP to “enable the purchase of this coverage * * * *” What makes any coverage under an insurance contract possible, however, is the spread of the risk over a sufficiently large population exposed to a common peril. For this reason, and the high potential that only the worst risks would purchase ICC coverage if it were optional, it is necessary to provide this coverage by incorporating it as a standard coverage for every flood insurance policy. Reasonable pricing would be impossible otherwise.

One commenter raised a related question whether policyholders outside areas of special flood hazard could ever be eligible to make an ICC claim. ICC coverage for policies in zones B, C, X, and D insures against the possibility that, after the rating of policies in those zones, the Flood Insurance Rate Map (FIRM) is changed and the community requires such structures to be in compliance after substantial or cumulative substantial flood damage. Because of the lower potential for ICC claims from policies rated outside of the current special flood hazard area, the premium charges are considerably less, at $6 per year, than for the higher risk, i.e., pre-FIRM properties in the special flood hazard area at $75 per year.

Range of Premiums Charged for ICC Coverage

On a related issue, four commenters asked how the premiums charged for ICC would be calculated and whether the maximum surcharge of $75 would be applied to all structures. As explained above, the surcharge for ICC coverage ranges from $6 to $75 and is based on the likelihood of loss payments for each risk zone. The underlying concern was that surcharges would be assessed of policyholders who would not be eligible for the ICC coverage. As indicated above, all structures regardless of risk zone are eligible for ICC coverage, and premium surcharges, reflective of the risk, have been set for ICC coverage.

Exclusions

The September 23, 1996 proposed rule was silent on the availability of ICC coverage in Emergency Program communities and for those recipients of Individual and Family Grant (IFG) awards insured under a Group Flood Insurance Policy (GFIP). FEMA’s pricing considerations for ICC coverage have never included policyholders in Emergency Program communities or IFG recipients insured under the GFIP since any premium surcharge would be onerous in light of the limited amount of structure coverage available to these categories of policyholders. (The maximum amount of structure coverage authorized by the Act for a single family dwelling under the Emergency Program is $35,000 which would also be the limit on the combined building and ICC loss payment.)

With regard to the GFIP, FEMA is considering whether to issue a proposed rule soliciting comments on adding ICC coverage to the certificate holders covered under the GFIP. At this juncture, however, those insured under the GFIP are excluded from ICC coverage.

This final rule addresses the omissions by excluding from ICC coverage “the cost associated with enforcement of any floodplain management ordinance or law in communities participating in the Emergency Program” and “for any structure insured under a Group Flood
Appurtenant Structures

One commenter asked whether ICC coverage would apply to appurtenant structures. Only the SFIP’s Dwelling Form provides coverage against direct, physical loss from flood for appurtenant structures. As indicated in the “Exclusions” section of the Dwelling Form of the SFIP (see new Article 4 of Appendix A (1) being added by this final rule), ICC coverage does not apply to appurtenant structures. No similar exclusionary language is needed for ICC coverage in the General Property Form (Appendix A (2)) and the Residential Condominium Building Association Policy Form (Appendix A (3)) since there is no coverage for direct physical loss from flood for appurtenant structures in those forms. ICC coverage is available for appurtenant structures only when a separate flood insurance policy is written on an appurtenant structure, since ICC coverage will be included as Coverage D in every SFIP written or renewed on and after June 1, 1997.

Cancellations and Refunds

Two commenters asked specific questions on cancellations and refunds. One commenter asked, since it will be possible for the owners of 3-year policies to cancel on the anniversary date and purchase a new policy with ICC coverage on and after the effective date of the final rule on ICC coverage, will the owners of 1-year policies have the option of canceling mid-term? Cancellations in connection with ICC will be subject to the SFIP’s current rules. A policyholder of a 1-year policy will have to wait until the policy is renewed at which time the premium surcharge will automatically be charged for ICC coverage. A policyholder of a 3-year policy written before this coverage becomes effective may cancel and rewrite on the anniversary date of the policy on and after June 1, 1997 in order to add ICC coverage. To ensure continuous coverage, policyholders must submit policy applications and premium payments 30 days before the anniversary date of the policy since “cancel-rewrite” situations for 3-year policies are subject to the statutory 30-day waiting period.

One commenter also asked about whether a refund of premium for ICC coverage is available when a policy is canceled. Refunds for ICC coverage will also be subject to the NFIP’s current rules for premium refunds.

Interim Final Rule vs. Final Rule

Three commenters recommended that, in implementing ICC coverage, FEMA publish this rule as an “interim final” rule rather than a “final rule” which would conceivably permit more time by States to recommend adjustments to the implementation of ICC coverage.

The Office of the Federal Register, National Archives and Records Administration, has issued guidance to Federal agencies on the appropriate type of action, i.e., proposed, interim, or final rule, to be selected for any rule making activity. The following selection from the Federal Register’s Document Drafting Handbook says, “An interim rule is usually issued without prior notice of proposed rule making. An immediate effective date is generally specified and comments on the interim rule may be requested. The interim rule is designed to respond to an emergency situation and is usually followed by a final rule which confirms that the interim rule is final and may include further amendments.” (p. 39). The particularars of this final rule do not warrant publication as an interim final rule since proposed rule making has been conducted, comments have been solicited on the proposed rule, substantive changes have been made to this final rule based on comments received during the comment period, and no emergency situation exists.

Consistent with agency policy, FEMA considers State and local governments to be essential partners in the implementation of a national emergency management program, and mitigation is the cornerstone of that program. As a result, during the first years of implementing ICC coverage, FEMA expects to benefit from the experience of States, local governments, policyholders, insurance agents, insurance adjusters, and the Write Your Own companies selling and servicing a majority of the SFIPs and make any necessary changes to the rule implementing ICC coverage as necessary.

Increased Cost of Compliance Coverage

One commenter from the insurance industry recommended that the title for Coverage D read “increased cost of compliance” coverage rather than “increased cost of construction” as reflected in the September 23, 1996 proposed rule. FEMA agrees with this recommendation since the new coverage mandated by § 555 of Pub. L. 103–325 is described as “compliance coverage” in the statute. “Increased cost of compliance” more accurately describes the kind of coverage being added to the SFIP and is consistent with the terminology in the industry’s Law and Ordinance coverage.

Guidance and Technical Assistance

Questions were also raised on how FEMA intends to inform policyholders as well as States and communities and others impacted on the availability of this new coverage. Several commenters stated that implementation procedures will need to be developed for State and local officials who may potentially have increased responsibility as a result of this new coverage. In addition, it was recommended that a model ordinance on the repetitive loss aspect of ICC be developed and assistance be provided to communities regarding this provision. It was also recommended that FEMA provide an explanatory letter or brochure to accompany each policy which fully explains the new coverage.

It is FEMA’s intention to inform policyholders in the renewal notice on the new ICC coverage. All future insurance adjuster and agents workshops will include a segment explaining the new coverage. It is also FEMA’s intention to develop before the effective date of the final rule a publication for use by State and local officials explaining the details of the new coverage, their responsibilities under their floodplain management laws and ordinances as it pertains to the ICC coverage, their relationship to the flood insurance adjustment process, as well as information on cost effective mitigation measures. FEMA will also include in this guidance model ordinance language on a repetitive loss provision. FEMA Regional Office will provide technical assistance to States and communities on technically feasible and cost-effective mitigation measures. Existing opportunities, such as Community Assistance Visits, workshops, conferences, and FEMA sponsored flood mitigation courses will be utilized to explain this new coverage. There are also a number of FEMA publications available to assist States, communities, architects, engineers, builders, and contractors, as well as individual property owners on various mitigation measures and techniques for elevation, floodproofing, and relocation (e.g., Engineering Principles and Practices for Retrofitting Flood Prone Residential Structures”, “Elevated Residential Structures”, “Flooding Non-Residential Structures”, and “Technical Bulletins” on NFIP building standards).
Technical Corrections to the Policy Language

The final rule clarifies coverage issues and corrects several technical inconsistencies in the policy language as it appeared in the September 23, 1996, proposed rule. For example, to make clear for the policyholder, community officials, and insurance adjusters precisely what floodproofing activities are eligible for ICC coverage, eligible floodproofing have been related to the applicable NFIP floodplain management standards at 44 CFR 60.3(b) or (c). As mentioned above, the proposed rule was silent on several exclusions, and the final rule has been revised to correct that omission. Also, Coverage A was incorrectly referred to in the proposed rule as “Dwelling” in the proposed addition to Appendix A (1) and “Building” in the proposed addition to Appendixes A (2) and (3). The final rule has been revised to correctly identify Coverage A in each of the SFIP’s Forms as “Building Property.” Also, the reference to “other insurance” which was contained in the proposed rule has been removed from Coverage D since the SFIP already treats the issue of “other insurance” in Article 9 of the Dwelling Form, Article 8 of the General Property Form, and Article 10 of the Residential Condominium Building Association Policy Form.

National Environmental Policy Act

This final rule is categorically excluded from the requirements of 44 CFR Part 10, Environmental Consideration. No environmental assessment has been prepared.

Executive Order 12898, Environmental Justice

The socio-economic conditions to this final rule were reviewed and a finding was made that no disproportionately high and adverse effect on minority or low income populations would result from this final rule.

Executive Order 12866, Regulatory Planning and Review

This final rule is not a significant regulatory action within the meaning of sec. 2(f) of E.O. 12866 of September 30, 1993, 58 FR 51735, and has not been reviewed by the Office of Management and Budget. Nevertheless, this final rule adheres to the regulatory principles set forth in E.O. 12866.

Paperwork Reduction Act

This final rule does not contain a collection of information and is therefore not subject to the provisions of the Paperwork Reduction Act.

Executive Order 12612, Federalism

This final rule involves no policies that have federalism implications under Executive Order 12612, Federalism, dated October 26, 1987.

Executive Order 12778, Civil Justice Reform

This final rule meets the applicable standards of section 2(b)(2) of Executive Order 12778.

List of Subjects in 44 CFR Part 61

Flood insurance.

Accordingly, 44 CFR Part 61 is amended as follows:

PART 61—INSURANCE COVERAGE AND RATES

1. The authority citation for Part 61 continues to read as follows:


Appendix A(1)—[Amended]

2. Paragraph A.6. of Article 3 of Appendix A (1) is amended to add the following phrase at the end:

* * * * * except as provided in Coverage D—Increased Cost of Compliance.

* * * * *

3. A new section is added to Article 4 of Appendix A (1) to read as follows:

* * * * *

Coverage D—Increased Cost of Compliance Coverage

Increased Cost of Compliance coverage (Coverage D) is for the consequential loss brought on by a floodplain management ordinance or law affecting repair and reconstruction involving elevation, floodproofing, relocation, or demolition (or any combination thereof) of a structure, after a direct loss caused by a “flood” as defined by this policy. (Floodproofing activities eligible for Coverage D and referred to hereafter in this policy are limited to residential structures with basements that satisfy the criteria of 44 CFR 60.6 (b) or (c) and to non-residential structures.) The limit of liability under this Coverage D (Increased Cost of Compliance) will not exceed $15,000. This coverage is only applicable to policies with building coverage (Coverage A) and is in addition to the Building limit you selected on your application, and appears on the Declarations Page. No separate deductible applies. The maximum amount collectible under this policy for both Coverage A (Building Property) and Coverage D (Increased Cost of Compliance), however, cannot exceed the maximum permitted under the Act.

Eligibility

A structure covered under Coverage A—Building Property—sustaining a loss caused by a “flood” as defined by this policy must:

1. Be a structure that is a repetitive loss structure. A “repetitive loss structure” means a structure, covered by a contract for flood insurance issued pursuant to the Act, that has incurred flood-related damage on at least 2 occasions during a 10-year period ending on the date of the event for which a second claim is made, in which the cost of repairing the flood damage, on the average, equals or exceeds 25% of the market value of the structure at the time of each such flood event. In addition to the current claim, the National Flood Insurance Program must have paid the previous qualifying claim, and the State or community must have a cumulative, substantial damage provision or repetitive loss provision in its floodplain management law or ordinance being enforced against the structure; or

2. Be a structure that has had flood damage in which the cost to repair equals or exceeds 50% of the market value of the structure at the time of the flood event. The State or community must have a substantial damage provision in its floodplain management law or ordinance being enforced against the structure.

This Coverage D will not pay for Increased Cost of Compliance to meet State or community floodplain management laws or ordinances which exceed the minimum criteria at 44 CFR 60.3, except as provided in 1. above or a. or b. as follows:

a. elevation or floodproofing in any risk zone to preliminary or advisory base flood elevations provided by FEMA which the State or local government has adopted and is enforcing for flood-damaged structures in such areas. (This includes compliance activities in B, C, X, or D zones which are being changed to zones with base flood elevations. This also includes compliance activities in zones where base flood elevations are being increased, and a flood-damaged structure must comply with the higher advisory base flood elevation.)

b. elevation or floodproofing above the base flood elevation to meet State or local “freeboard” requirements, i.e., that a structure must be elevated above the base flood elevation.

Under the minimum NFIP criteria at 44 CFR 60.3(b) (4), States and communities must require the elevation or floodproofing of structures in unnumbered A zones to the base flood elevation where elevation data are obtained from a Federal, State, or other source. Such compliance activities are also eligible for this Coverage D.

This coverage will also pay for the incremental cost, after demolition, or relocation, of elevating or floodproofing a structure during its rebuilding at the same or another site to meet State or local floodplain management laws or ordinances, subject to Exclusion (7).
This coverage will also pay to bring a flood-damaged structure into compliance with State or local floodplain management laws or ordinances even if the structure had received a variance before the present loss from the applicable floodplain management requirements.

Conditions

(1) When a structure covered under Coverage A—Building Property—sustains a loss caused by a "flood" as defined by this policy, our payment for the loss under this Coverage D will be for the increased cost to elevate, floodproof, relocate, demolish, or any combination thereof, caused by enforcement of current State or local floodplain management ordinances or laws. Our payment for eligible demolition activities will be for the cost to demolish and clear the site of the building or a portion thereof caused by enforcement of current State or local floodplain management ordinances. Eligible activities for the cost of clearing the site will include those necessary to discontinue utility service to the site and ensure proper abandonment of on-site utilities.

(2) When the building is repaired or rebuilt, it must be intended for the same occupancy as the present building unless otherwise required by current floodplain management ordinances or laws.

Exclusions

Under this Coverage D (Increased Cost of Compliance), we will not pay for:

(1) The cost associated with enforcement of any floodplain management ordinance or law in communities participating in the Emergency Program.

(2) The cost associated with enforcement of any ordinance or law that requires any insured or others to test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of pollutants. Pollutants include but are not limited to any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acid, alkalis, chemicals and waste. Waste includes but is not limited to materials to be recycled, reconditioned or reclaimed.

(3) The loss in value to any covered building or other structure due to the requirements of any ordinance or law.

(4) The loss in residual value of the undamaged portion of a building demolished as a consequence of enforcement of any State or local floodplain management law or ordinance.

(5) Any increased cost of compliance under this Coverage D:

(a) Until the covered building is actually elevated, floodproofed, demolished or relocated on the same or to another premises; and

(b) Unless the covered building is elevated, floodproofed, demolished, or relocated as soon as reasonably possible after the loss, not to exceed two years.

(6) For any code upgrade requirements, e.g., plumbing or electrical wiring, not specifically related to the State or local floodplain management law or ordinance.

(7) For any compliance activities needed to bring additions or improvements made after the loss occurred into compliance with State or local floodplain management laws or ordinances.

(8) Loss due to any ordinance or law that you were required to comply with before the current loss.

(9) For any rebuilding activity to standards that do not meet the NFIP's minimum requirements. This includes any situation where the insured has received from the State or community a variance in connection with the current flood loss to rebuild the property to an elevation below the base flood elevation.

(10) Increased cost of compliance for appurtenant structure(s).

(11) For any structure insured under a Group Flood Insurance Policy issued pursuant to 44 CFR 61.17.

(12) Assessments made by a condominium association on individual condominium unit owners to pay increased costs of repairing or completely rebuilding a building affected by flood in compliance with State or local floodplain management ordinances or laws.

Other Provisions

(1) Increased Cost of Compliance coverage will not be included in the calculation to determine whether coverage meets the 80% insurance-to-value requirement for replacement cost coverage under Article 8 or for payment under Article 3.B.3 for loss from land subsidence, sewer backup, or seepage of water.

(2) All other conditions and provisions of the policy apply.

Appendix A(2)—[Amended]

4. Paragraph A.6. of Article 3 of Appendix A (2) is amended to add the following phrase at the end:

* * * * * * except as provided in Coverage D—Increased Cost of Compliance.

5. A new section is added to Article 4 of Appendix A (2), to read as follows:

* * * * * * Coverage D—Increased Cost of Compliance Coverage.

Increased Cost of Compliance coverage (Coverage D) is for the consequential loss brought on by a floodplain management ordinance or law affecting repair and reconstruction involving elevation, floodproofing, relocation, or demolition (or any combination thereof) of a structure, after a direct loss caused by a "flood" as defined by this policy. (Floodproofing activities eligible for Coverage D and referred to hereafter in this policy are limited to residential structures with basements that satisfy the criteria of 44 CFR 60.6(b) or (c) and to non-residential structures.) The limit of liability under this Coverage D (Increased Cost of Compliance) will not exceed $15,000. This coverage is only applicable to policies with building coverage (Coverage A) and is in addition to the Building limit you selected on your application, and appears on the Declarations Page. No separate deductible applies. The maximum amount collectible under this policy for both Coverage A (Building Property) and Coverage D (Increased Cost of Compliance), however, cannot exceed the maximum permitted under the Act.

Eligibility

A structure covered under Coverage A—Building Property—sustains a loss caused by a "flood" as defined by this policy must:

1. Be a structure that is a repetitive loss structure. A "repetitive loss structure" means a structure, covered by a contract for flood insurance issued pursuant to the Act, that has incurred flood-related damage on 2 occasions during a 10-year period ending on the date of the event for which a second claim is made, in which the cost of repairing the flood damage, on the average, equalled or exceeded 25% of the market value of the structure at the time of each such flood event. In addition to the current claim, the National Flood Insurance Program must have paid the previous qualifying claim, and the State or community must have a cumulative, substantial damage provision or repetitive loss provision in its floodplain management law or ordinance being enforced against the structure.

2. Be a structure that has had flood damage in which the cost to repair equals or exceeds 50% of the market value of the structure at the time of the flood event. The State or community must have a substantial damage provision in its floodplain management law or ordinance being enforced against the structure.

This Coverage D will not pay for Increased Cost of Compliance to meet State or community floodplain management laws or ordinances which exceed the minimum criteria at 44 CFR 60.3, except as provided in 1. above or a. or b. as follows:

a. Elevation or floodproofing in any risk zone to preliminary or advisory base flood elevations provided by FEMA which the State or local government has adopted and is enforcing for flood-damaged structures in such areas. (This includes compliance activities in B, C, X, or D zones which are being changed to zones with base flood elevations. This also includes compliance activities in zones where base flood elevations are being increased, and a flood-damaged structure must comply with the higher advisory base flood elevation.)

Increased Cost of Compliance coverage does not respond to situations in B, C, X, or D zones where the community has derived its own elevations and is enforcing elevation or floodproofing requirements for flood-damaged structures to elevations derived solely by the community.

b. Elevation or floodproofing above the base flood elevation to meet State or local "freeboard" requirements, i.e., that a structure must be elevated above the base flood elevation.

Under the minimum NFIP criteria at 44 CFR 60.3(b)(4), States and communities must require the elevation or floodproofing of structures to the base flood elevation where elevation data are obtained from a Federal,
State, or other source. Such compliance activities are also eligible for this Coverage D.

This coverage will also pay for the incremental cost, after demolition, or relocation, of elevating or floodproofing a structure during its rebuilding at the same or another site to meet State or local floodplain management laws or ordinances, subject to Exclusion (7).

This coverage will also pay to bring a flood-damaged structure into compliance with State or local floodplain management laws or ordinances even if the structure had received a variance before the present loss from the applicable floodplain management requirements.

Conditions

1. When a structure covered under Coverage A—Building Property—sustains a loss caused by a "flood" as defined by this policy, our payment for the loss under this Coverage D will be for the increased cost to elevate, floodproof, relocate, demolish, or any combination thereof, caused by enforcement of current State or local floodplain management ordinances or laws. Our payment for eligible demolition activities will be for the cost to demolish and clear the site of the building or a portion thereof caused by enforcement of current State or local floodplain management ordinances or laws. Eligible activities for the cost of clearing the site will include those necessary to discontinue utility service to the site and ensure proper abandonment of on-site utilities.

2. When the building is repaired or rebuilt, it must be intended for the same occupancy as the present building unless otherwise required by current floodplain management ordinances or laws.

Exclusions

Under this Coverage D (Increased Cost of Compliance), we will not pay for:

1. The cost associated with enforcement of any floodplain management ordinance or law in communities participating in the Emergency Program.

2. The cost associated with enforcement of any ordinance or law that requires any insured or others to test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of pollutants. Pollutants include but are not limited to any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acid, alkalis, chemicals and waste. Waste includes but is not limited to materials that are to be recycled, reconditioned or reclaimed.

3. The loss in value to any covered building or other structure due to the requirements of any ordinance or law.

4. The loss in residual value of the undamaged portion of a building demolished as a consequence of enforcement of any State or local floodplain management law or ordinance.

5. Any increased cost of compliance under this Coverage D:

(a) Until the covered building is actually elevated, floodproofed, demolished or relocated on the same or to another premises; and

(b) Unless the covered building is elevated, floodproofed, demolished, or relocated as soon as reasonably possible after the loss, not to exceed two years.

6. For any code upgrade requirements, e.g., plumbing or electrical wiring, not specifically related to the State or local floodplain management law or ordinance.

7. For any compliance activities needed to bring additions or improvements made after the loss occurred into compliance with State or local floodplain management laws or ordinances.

8. Loss due to any ordinance or law that you were required to comply with before the current loss.

9. For any rebuilding activity to standards that do not meet the NFIP's minimum requirements. This includes any situation where the insured has received from the State or community a variance in connection with the current flood loss to rebuild the property to an elevation below the base flood elevation.

10. For any structure insured under a Group Flood Insurance Policy issued pursuant to 44 CFR 61.17.

Other Provisions

(1) Increased Cost of Compliance coverage will not be included in the calculation to determine whether coverage meets the 80% insurance-to-value requirement for payment under Article 3.B.3 for loss from land subsidence, sewer backup, or seepage of water.

(2) All other conditions and provisions of the policy apply.

Appendix A (3)—[Amended]

6. Paragraph A.6. of Article 3 of Appendix A (3) is amended to add to the end the following phrase:

*(except as provided in Coverage D—Increased Cost of Compliance)*

7. A new section is added to Article 4 of Appendix A (3), to read as follows:

*Coverage D—Increased Cost of Compliance Coverage*

Increased Cost of Compliance coverage (Coverage D) is for the consequential loss brought on by a floodplain management ordinance or law affecting repair and reconstruction involving elevation, floodproofing, relocation, or demolition (or any combination thereof) of a structure, after a direct loss caused by a "flood" as defined by this policy. (Floodproofing activities eligible for Coverage D and referred to hereafter in this policy are limited to residential structures with basements that satisfy the criteria of 44 CFR 60.6 (b) or (c) and to non-residential structures.)*

The limit of liability under this Coverage D (Increased Cost of Compliance) will not exceed $15,000. This coverage is only applicable to policies with building coverage (Coverage A) and is in addition to the Building limit you selected on your application, and appears on the Declarations Page. No separate deductible applies. The maximum amount collectible under this policy for both Coverage A (Building Property) and Coverage D (Increased Cost of Compliance), however, cannot exceed the maximum permitted under the Act.

Eligibility

A structure covered under Coverage A—Building Property—sustaining a loss caused by a "flood" as defined by this policy, must have:

1. Be a structure that is a repetitive loss structure. A "repetitive loss structure" means a structure, covered by a contract for flood insurance issued pursuant to the Act, that has incurred flood-related damage on 2 occasions during a 10-year period ending on the date of the event for which a second claim is made, in which the cost of repairing the flood damage, on the average, equalled or exceeded 25% of the market value of the structure at the time of such flood event.

In addition to the current claim, the National Flood Insurance Program must have paid the previous qualifying claim, and the State or community must have a cumulative, substantial damage provision or repetitive loss provision in its floodplain management law or ordinance being enforced against the structure, or

2. Be a structure that has had flood damage in which the cost to repair equals or exceeds 50% of the market value of the structure at the time of the flood event. The State or community must have a substantial damage provision in its floodplain management law or ordinance being enforced against the structure.

This Coverage D will not pay for Increased Cost of Compliance to meet State or community floodplain management laws or ordinances which exceed the minimum criteria at 44 CFR 60.3, except as provided in 1. above or a, b, as follows:

a. Elevations or floodproofing in any risk zone to preliminary or advisory base flood elevations provided by FEMA which the State or local government has adopted and is enforcing for flood-damaged structures in such areas. (This includes compliance activities in B, C, X, or D zones which are being changed to zones with base flood elevations. This also includes compliance activities in areas where base flood elevations are being increased, and a flood-damaged structure must comply with the higher advisory base flood elevation.)

b. Elevations or floodproofing above the base flood elevation to meet State or local "treeboard" requirements, i.e., that a structure must be elevated above the base flood elevation.

Under the minimum NFIP criteria at 44 CFR 60.3(b)(4), States and communities must require the elevation or floodproofing of structures to the base flood elevation where elevation data are obtained from a Federal, State, or other source. Such compliance activities are also eligible for this Coverage D.
This coverage will also pay for the incremental cost, after demolition, or relocation, of elevating or floodproofing a structure during its rebuilding at the same or another site to meet State or local floodplain management laws or ordinances, subject to Exclusion (7).

This coverage will also pay to bring a flood-damaged structure into compliance with State or local floodplain management laws or ordinances even if the structure had received a variance before the present loss from the applicable floodplain management requirements.

Conditions

(1) When a structure covered under Coverage A—Building Property—sustains a loss caused by a “flood” as defined by this policy, our payment for the loss under this Coverage D will be for the increased cost to elevate, floodproof, relocate, demolish, or any combination thereof, caused by enforcement of current State or local floodplain management ordinances or laws. Our payment for eligible demolition activities will be for the cost to demolish and clear the site of the building or a portion thereof caused by enforcement of current State or local floodplain management ordinances or laws. Eligible activities for the cost of clearing the site will include those necessary to discontinue utility service to the site and ensure proper abandonment of on-site utilities.

(2) When the building is repaired or rebuilt, it must be intended for the same occupancy as the present building unless otherwise required by current floodplain management ordinances or laws.

Exclusions

Under this Coverage D (Increased Cost of Compliance), we will not pay for:

(1) The cost associated with enforcement of any floodplain management ordinance or law in communities participating in the Emergency Program.

(2) The cost associated with enforcement of any ordinance or law that requires any insured or others to test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of pollutants. Pollutants include but are not limited to any solid, liquid, gaseous or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acid, alkalis, chemicals and waste. Waste includes but is not limited to materials to be recycled, reconditioned or reclaimed.

(3) The loss in value to any covered building or other structure due to the requirements of any ordinance or law.

(4) The loss in residual value of the undamaged portion of a building demolished as a consequence of enforcement of any State or local floodplain management law or ordinance.

(5) Any increased cost of compliance under this Coverage D:

(a) Until the covered building is actually elevated, floodproofed, demolished or relocated on the same or to another premises; and

(b) Unless the covered building is elevated, floodproofed, demolished, or relocated as soon as reasonably possible after the loss, not to exceed two years.

(6) For any code upgrade requirements, e.g., plumbing or electrical wiring, not specifically related to the State or local floodplain management law or ordinance.

(7) For any compliance activities needed to bring additions or improvements made after the loss occurred into compliance with State or local floodplain management laws or ordinances.

(8) Loss due to any ordinance or law that were required to comply with before the current loss.

(9) For any rebuilding activity to standards that do not meet the NFIP’s minimum requirements. This includes any situation where the insured has received from the State or community a variance in connection with the current flood loss to rebuild the property to an elevation below the base flood elevation.

(10) For any structure insured under a Group Flood Insurance Policy issued pursuant to 44 CFR 61.17.

Other Provisions

(1) Increased Cost of Compliance coverage will not be included in the calculation to determine whether coverage meets the 80% replacement cost requirement under Article 9 or for payment under Article 3.B.3 for loss from land subsidence, sewer backup, or seepage of water.

(2) All other conditions and provisions of the policy apply.

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(Catalog of Federal Domestic Assistance No. 83.100, "Flood Insurance")


Spence W. Perry,
Executive Administrator, Federal Insurance Administration.

[FR Doc. 97-4640 Filed 2-24-97; 8:45 am]
BILLING CODE 6718-03-P

FEDERAL COMMUNICATIONS COMMISSION

47 CFR Part 0

[FCC 96-467]

Commission Organization; Cable Services Bureau

AGENCY: Federal Communications Commission.

ACTION: Final rule.

SUMMARY: In this Order, we amend the Commission’s rules regarding the functions of the Cable Services Bureau and the delegated authority of the Chief of the Cable Services Bureau. This action is necessary to permit the Cable Services Bureau to oversee pole attachment matters and administration and enforcement of relevant provisions of the Telecommunications Act of 1996. The amendments adopted herein pertain to agency organization, procedure and practice. Consequently, the requirements of notice and comment rulemaking contained in 5 U.S.C. 553(b) and the effective date provisions of 5 U.S.C. 553(d) of the Administrative Procedure Act do not apply. Authority for the amendments adopted herein is contained in section 4(i), 5(c)(1), 303(r) of the Communications Act of 1934, as amended, 47 U.S.C. 154(i), 155(c)(1), 303(r).

It is ordered that §§ 0.91, 0.101 and 0.321 of the Commission’s rules, 47 CFR 0.91, 0.101, 0.321 are amended as set forth below, effective February 25, 1997.

LISTS OF SUBJECTS IN 47 CFR PART 0

Organization and functions (Government agencies).

Federal Communications Commission.

William F. Caton,
Acting Secretary.

RULE CHANGES

Part 0 of Title 47 of the Code of Federal Regulations is amended as follows:

PART 0—COMMISSION ORGANIZATION

1. The authority citation for part 0 continues to read as follows:


2. Section 0.91 is amended by revising the introductory text, removing
The National Flood Insurance Program is administered by the Federal Insurance Administration, part of the Federal Emergency Management Agency (FEMA)
1. **Section III. Property Covered, A. Coverage A - Building Property, 2.**

Additions and extensions to buildings that are connected by a rigid exterior wall, a solid load-bearing interior wall, a stairway, an elevated walkway, or a roof may be insured as part of the dwelling. At the option of the insured, these extensions and additions may be insured separately. Additions and extensions that are attached to and in contact with the building by means of a common interior wall that is not a solid load-bearing wall are always considered part of the dwelling and cannot be insured separately.

2. **Section III. Property Covered, A. Coverage A - Building Property, 3.**

Coverage for detached carports has been eliminated.

3. **Section III. Property Covered, B. Coverage B - Personal Property 4.**

Coverage has been extended to include coverage for cooking stoves, ranges, or refrigerators belonging to the renter, as well as 10 percent of contents coverage for improvements made by the renter to the building.

4. **Section III. Property Covered, B. Coverage B - Personal Property, 5.**

Coverage for condominium unit owners has been extended to apply up to 10 percent of the contents coverage for losses to interior walls, floors, and ceilings not covered by the condominium association's master policy.

5. **Section III. Property Covered, B. Coverage B - Personal Property, 6. Special Limits**

Coverage for fine arts, collectibles, jewelry, and furs, etc. has been increased to $2500. Also, personal property used in a business has been added under this extension of coverage.

6. **Section III. Property Covered, C. Coverage C - Other Coverages, 2.a. & b.**

Coverage for the two loss avoidance measures (sandbagging and relocation of property to protect it from flood or the imminent danger of flood) has been increased to $1,000 for each.

7. **Section IV. Property Not Covered, 5.a. & b.**

Coverage has been changed to pay for losses to self-propelled vehicles used to service the described location or designed to assist handicapped persons provided that the vehicles are in a building at the described location.

8. **Section IV. Property Not Covered, 7.**

Coverage is now specifically excluded for scrip and stored value cards.

9. **Section IV. Property Not Covered, 14.**

Coverage for swimming pools, hot tubs and spas (that are not bathroom hot tubs or spas), and their equipment is now excluded.

10. **Section V. Exclusions, B.1. & 2.**

The explanation of when coverage begins as it relates to a loss in progress has been simplified.

11. **Section V. Exclusions, C.**

Coverage has been clarified to pay for losses from land subsidence under certain circumstances. Subsidence of land along a lake shore or similar body of water which results from the erosion or undermining of the shoreline caused by waves or currents of water exceeding cyclical levels that result in a flood continues to be covered. All other land subsidence is now excluded.

12. **Section V. Exclusions, D.4.b.(3)**

Coverage is now excluded for water, moisture, mildew, or mold damage caused by the policyholder’s failure to inspect and maintain the insured property after the flood waters recede.

13. **Section V. Exclusions, D.6.**

Coverage is now added for damage from the pressure of water against the insured structure with the requirement that there be a flood in the area and the flood is the proximate cause of damage from the pressure of water against the insured structure.

14. **Section V. Exclusions, F.**

An exclusion for the cost of testing for or monitoring of pollutants unless it is required by law or ordinance has been added.

15. **Section VII. General Conditions, G. Reduction and Reformation of Coverage, 2.a.(2)**

If it is discovered before a claim occurs that there is incomplete rating information, the policyholder has 60 days to submit the missing rating information. Otherwise, the coverage is limited to the amount of coverage that can be purchased for the premium originally received and can only be increased by an endorsement that is subject to the appropriate waiting period (currently 30 days).

16. **Section VII. General Conditions, V. Loss Settlement, 3. Special Loss Settlement, b.(1)**

Coverage for a manufactured or mobile home or a travel trailer eligible for replacement cost coverage is limited to 1.5 times its actual cash value.
FEDERAL EMERGENCY MANAGEMENT AGENCY
FEDERAL INSURANCE ADMINISTRATION
STANDARD FLOOD INSURANCE POLICY

DWELLING FORM

PLEASE READ THE POLICY CAREFULLY. THE FLOOD INSURANCE PROVIDED IS SUBJECT TO LIMITATIONS, RESTRICTIONS, AND EXCLUSIONS.

THIS POLICY COVERS ONLY:

1. A NON-CONDOMINIUM RESIDENTIAL BUILDING DESIGNED FOR PRINCIPAL USE AS A DWELLING PLACE FOR ONE TO FOUR FAMILIES, OR

2. A SINGLE-FAMILY DWELLING UNIT IN A CONDOMINIUM BUILDING.

I. AGREEMENT


We will pay you for direct physical loss by or from flood to your insured property if you:

1. Have paid the correct premium;

2. Comply with all terms and conditions of this policy;

3. Have furnished accurate information and statements.

We have the right to review the information you give us at any time and to revise your policy based on our review.

II. DEFINITIONS

A. In this policy, "you" and "your" refer to the insured(s) shown on the Declarations Page of this policy and your spouse, if a resident of the same household. "Insured(s)" includes: Any mortgagee and loss payee named in the Application and Declarations Page, as well as any other mortgagee or loss payee determined to exist at the time of loss in the order of precedence. "We," "us," and "our" refer to the insurer.

Some definitions are complex because they are provided as they appear in the law or regulations, or result from court cases. The precise definitions are intended to protect you.

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 (at least 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.

B. The following are the other key definitions that we use in this policy:


2. Actual Cash Value. The cost to replace an insured item of property at the time of loss, less the value of its physical depreciation.

3. Application. The statement made and signed by you or your agent in applying for this policy. The application gives information we use to determine the eligibility of the risk, the kind of policy to be issued, and the correct premium payment. The application is part of this flood insurance policy. For us to issue you a policy, the correct premium payment must accompany the application.

4. Base Flood. A flood having a one percent chance of being equaled or exceeded in any given year.
5. **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.

6. **Building.**
   a. A structure with two or more outside rigid walls and a fully secured roof, that is affixed to a permanent site;
   b. A manufactured home (a "manufactured home," also known as a mobile home, is a structure: built on a permanent chassis, transported to its site in one or more sections, and affixed to a permanent foundation); or
   c. A travel trailer without wheels, built on a chassis and affixed to a permanent foundation, that is regulated under the community's floodplain management and building ordinances or laws.

   **Building** does not mean a gas or liquid storage tank or a recreational vehicle, park trailer, or other similar vehicle, except as described in **B.6.c.** above.

7. **Cancellation.** The ending of the insurance coverage provided by this **policy** before the expiration date.

8. **Condominium.** That form of ownership of real property in which each **unit** owner has an undivided interest in common elements.

9. **Condominium Association.** The entity made up of the **unit** owners responsible for the maintenance and operation of:
   a. Common elements owned in undivided shares by **unit** owners; and
   b. Other real property in which the **unit** owners have use rights;

   where membership in the entity is a required condition of **unit** ownership.

10. **Declarations Page.** A computer-generated summary of information you provided in the **application** for insurance. The **Declarations Page** also describes the term of the **policy**, limits of coverage, and displays the premium and our name. The **Declarations Page** is a part of this flood insurance **policy**.

11. **Described Location.** The location where the insured **building(s)** or personal property are found. The **described location** is shown on the **Declarations Page**.

12. **Direct Physical Loss By or From Flood.** Loss or damage to insured property, directly caused by a flood. There must be evidence of physical changes to the property.

13. ** Dwelling.** A **building** designed for use as a residence for no more than four families or a single-family **unit** in a **building** under a **condominium** form of ownership.

14. **Elevated Building.** A **building** that has no **basement** and that has its lowest elevated floor raised above ground level by foundation walls, shear walls, posts, piers, pilings, or columns.

15. **Emergency Program.** The initial phase of a community's participation in the **National Flood Insurance Program**. During this phase, only limited amounts of insurance are available under the **Act**.

16. **Expense Constant.** A flat charge you must pay on each new or renewal **policy** to defray the expenses of the Federal Government related to flood insurance.

17. **Federal Policy Fee.** A flat charge you must pay on each new or renewal **policy** to defray certain administrative expenses incurred in carrying out the **National Flood Insurance Program**. This fee covers expenses not covered by the **expense constant**.

18. **Improvements.** Fixtures, alterations, installations, or additions comprising a part of the insured **dwelling** or the apartment in which you reside.

19. **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**.

20. **National Flood Insurance Program (NFIP).** The program of flood insurance coverage and floodplain management administered under the **Act** and applicable Federal regulations in Title 44 of the Code of Federal Regulations, Subchapter B.

21. **Policy.** The entire written contract between you and us. It includes:
   a. This printed form;
   b. The **application** and **Declarations Page**;
   c. Any endorsement(s) that may be issued; and
   d. Any renewal certificate indicating that coverage has been instituted for a new **policy** and new **policy term**.

   Only one **dwelling**, which you specifically described in the **application**, may be insured under this **policy**.

22. **Pollutants.** Substances that include, but are not limited to, any solid, liquid, gaseous, or thermal irritant or contaminant, including smoke, vapor, soot, fumes, acids, alkalis, chemicals, and waste. "Waste" includes, but is not limited to, materials to be recycled, reconditioned, or reclaimed.
23. **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.

24. **Probation Premium.** A flat charge you must pay on each new or renewal policy issued covering property in a community that the NFIP has placed on probation under the provisions of 44 CFR 59.24.

25. **Regular Program.** The final phase of a community's participation in the National Flood Insurance Program. In this phase, a Flood Insurance Rate Map is in effect and full limits of coverage are available under the Act.

26. **Special Flood Hazard Area.** An area having special flood, or mudflow, and/or flood-related erosion hazards, and shown on a Flood Hazard Boundary Map or Flood Insurance Rate Map as Zone A, AO, A1-A30, AE, A99, AH, AR, AR/A, AR/AF, AR/AF/A, AR/AF/AO, AR/A1-A30, V1-V30, VE, or V.

27. **Unit.** A single-family unit you own in a condominium building.

28. **Valued Policy.** A policy in which the insured and the insurer agree on the value of the property insured, that value being payable in the event of a total loss. The Standard Flood Insurance Policy is not a valued policy.

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### III. PROPERTY COVERED

#### A. COVERAGE A - BUILDING PROPERTY

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

1. The **dwelling** at the described location, or for a period of 45 days at another location as set forth in III.C.2.b., Property Removed to Safety.

2. Additions and extensions attached to and in contact with the **dwelling** by means of a rigid exterior wall, a solid load-bearing interior wall, a stairway, an elevated walkway, or a roof. At your option, additions and extensions connected by any of these methods may be separately insured. Additions and extensions attached to and in contact with the building by means of a common interior wall that is not a solid load-bearing wall are always considered part of the dwelling and cannot be separately insured.

3. A detached garage at the described location. Coverage is limited to no more than 10 percent of the limit of liability on the dwelling. Use of this insurance is at your option but reduces the building limit of liability. We do not cover any detached garage used or held for use for residential (i.e., dwelling), business, or farming purposes.

4. Materials and supplies to be used for construction, alteration, or repair of the dwelling or a detached garage while the materials and supplies are stored in a fully enclosed building at the described location or on an adjacent property.

5. A building under construction, alteration, or repair at the described location.
   
   a. If the structure is not yet walled or roofed as described in the definition for building (see II.B.6.a.) then coverage applies:
   
   (1) Only while such work is in progress; or
   
   (2) If such work is halted, only for a period of up to 90 continuous days thereafter.

   b. However, coverage does not apply until the building is walled and roofed if the lowest floor, including the basement floor, of a non-elevated building or the lowest elevated floor of an elevated building is:


   (2) Below the base flood elevation adjusted to include the effect of wave action in Zones VE or V1-V30.

   The lowest floor levels are based on the bottom of the lowest horizontal structural member of the floor in Zones VE or V1-V30 and the top of the floor in Zones AH, AE, A1-A30, AR, AR/AE, AR/AH, AR/A1-A30, AR/A, AR/AO.

6. A manufactured home or a travel trailer as described in the Definitions section (see II.B.6.b. and II.B.6.c.).

If the manufactured home or travel trailer is in a special flood hazard area, it must be anchored in the following manner at the time of the loss:

a. By over-the-top or frame ties to ground anchors; or

b. In accordance with the manufacturer's specifications; or

c. In compliance with the community's floodplain management requirements;
unless it has been continuously insured by the NFIP at the same described location since September 30, 1982.

7. The following items of property which are covered under Coverage A only:

   a. Awnings and canopies;
   b. Blinds;
   c. Built-in dishwashers;
   d. Built-in microwave ovens;
   e. Carpet permanently installed over unfinished flooring;
   f. Central air conditioners;
   g. Elevator equipment;
   h. Fire sprinkler systems;
   i. Walk-in freezers;
   j. Furnaces and radiators;
   k. Garbage disposal units;
   l. Hot water heaters, including solar water heaters;
   m. Light fixtures;
   n. Outdoor antennas and aerials fastened to buildings;
   o. Permanently installed cupboards, bookcases, cabinets, paneling, and wallpaper;
   p. Plumbing fixtures;
   q. Pumps and machinery for operating pumps;
   r. Ranges, cooking stoves, and ovens;
   s. Refrigerators; and
   t. Wall mirrors, permanently installed.

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.

B. COVERAGE B - PERSONAL PROPERTY

1. If you have purchased personal property coverage, we insure against direct physical loss by or from flood to personal property inside a building at the described location, if:

   a. The property is owned by you or your household family members; and
   b. At your option, the property is owned by guests or servants.

   Personal property is also covered for a period of 45 days at another location as set forth in III.C.2.b., Property Removed to Safety.

   Personal property in a building that is not fully enclosed must be secured to prevent flotation out of the building. If the personal property does float out during a flood, it will be conclusively presumed that it was not reasonably secured. In that case there is no coverage for such property.

2. Coverage for personal property includes the following property, subject to B.1. above, which is covered under Coverage B only:

   a. Air conditioning units, portable or window type;
   b. Carpets, not permanently installed, over unfinished flooring;
   c. Carpets over finished flooring;
   d. Clothes washers and dryers;
   e. "Cook-out" grills;
   f. Food freezers, other than walk-in, and food in any freezer; and
   g. Portable microwave ovens and portable dishwashers.

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:

   a. Air conditioning units, portable or window type;
   b. Clothes washers and dryers; and
   c. Food freezers, other than walk-in, and food in any freezer.
4. If you are a tenant and have insured personal property under Coverage B in this policy, we will cover such property, including your cooking stove or range and refrigerator. The policy will also cover improvements made or acquired solely at your expense in the dwelling or apartment in which you reside, but for not more than 10 percent of the limit of liability shown for personal property on the Declarations Page. Use of this insurance is at your option but reduces the personal property limit of liability.

5. If you are the owner of a unit and have insured personal property under Coverage B in this policy, we will also cover your interior walls, floor, and ceiling (not otherwise covered under a flood insurance policy purchased by your condominium association) for not more than 10 percent of the limit of liability shown for personal property on the Declarations Page. Use of this insurance is at your option but reduces the personal property limit of liability.

6. Special Limits. We will pay no more than $2,500 for any one loss to one or more of the following kinds of personal property:
   a. Artwork, photographs, collectibles, or memorabilia, including but not limited to, porcelain or other figures, and sports cards;
   b. Rare books or autographed items;
   c. Jewelry, watches, precious and semiprecious stones, or articles of gold, silver, or platinum;
   d. Furs or any article containing fur which represents its principal value; or
   e. Personal property used in any business.

7. We will pay only for the functional value of antiques.

C. COVERAGE C - OTHER COVERAGES

1. Debris Removal
   a. We will pay the expense to remove non-owned debris on or in insured property and owned debris anywhere.
   b. If you or a member of your household perform the removal work, the value of your work will be based on the Federal minimum wage.
   c. This coverage does not increase the Coverage A or Coverage B limit of liability.

2. Loss Avoidance Measures
   a. Sandbags, Supplies, and Labor
      (1) We will pay up to $1,000 for costs you incur to protect the insured building from a flood or imminent danger of flood, for the following:
         (a) Your reasonable expenses to buy:
             (i) Sandbags, including sand to fill them;
             (ii) Fill for temporary levees;
             (iii) Pumps; and
             (iv) Plastic sheeting and lumber used in connection with these items.
         (b) The value of work, at the Federal minimum wage, that you or a member of your household perform.
      (2) This coverage for Sandbags, Supplies, and Labor applies only if damage to insured property by or from flood is imminent, and the threat of flood damage is apparent enough to lead a person of common prudence to anticipate flood damage. One of the following must also occur:
         (a) A general and temporary condition of flooding in the area near the described location must occur, even if the flood does not reach the insured building; or
         (b) A legally authorized official must issue an evacuation order or other civil order for the community in which the insured building is located calling for measures to preserve life and property from the peril of flood.
      This coverage does not increase the Coverage A or Coverage B limit of liability.
   b. Property Removed to Safety
      (1) We will pay up to $1,000 for the reasonable expenses you incur to move insured property to a place other than the described location that contains the property in order to protect it from flood or the imminent danger of flood.
Reasonable expenses include the value of work, at the Federal minimum wage, that you or a member of your household perform.

(2) If you move insured property to a location other than the described location that contains the property, in order to protect it from flood or the imminent danger of flood, we will cover such property while at that location for a period of 45 consecutive days from the date you begin to move it there. The personal property that is moved must be placed in a fully enclosed building or otherwise reasonably protected from the elements.

Any property removed, including a moveable home described in II.B.6.b. and c., must be placed above ground level or outside of the special flood hazard area.

This coverage does not increase the Coverage A or Coverage B limit of liability.

3. Condominium Loss Assessments

a. If this policy insures a unit, we will pay, up to the Coverage A limit of liability, your share of loss assessments charged against you by the condominium association in accordance with the condominium association's articles of association, declarations and your deed.

The assessment must be made as a result of direct physical loss by or from flood during the policy term, to the building's common elements.

b. We will not pay any loss assessment charged against you:

(1) And the condominium association by any governmental body;

(2) That results from a deductible under the insurance purchased by the condominium association insuring common elements;

(3) That results from a loss to personal property, including contents of a condominium building;

(4) That results from a loss sustained by the condominium association that was not reimbursed under a flood insurance policy written in the name of the association under the Act because the building was not, at the time of loss, insured for an amount equal to the lesser of:

(a) 80 percent or more of its full replacement cost; or

(b) The maximum amount of insurance permitted under the Act;

(5) To the extent that payment under this policy for a condominium building loss, in combination with payments under any other NFIP policies for the same building loss, exceeds the maximum amount of insurance permitted under the Act for that kind of building; or

(6) To the extent that payment under this policy for a condominium building loss, in combination with any recovery available to you as a tenant in common under any NFIP condominium association policies for the same building loss, exceeds the amount of insurance permitted under the Act for a single-family dwelling.

Loss assessment coverage does not increase the Coverage A limit of liability.

D. COVERAGE D - INCREASED COST OF COMPLIANCE

1. General

This policy pays you to comply with a State or local floodplain management law or ordinance affecting repair or reconstruction of a structure suffering flood damage. Compliance activities eligible for payment are: elevation, floodproofing, relocation, or demolition (or any combination of these activities) of your structure. Eligible floodproofing activities are limited to:

a. Nonresidential structures.

b. Residential structures with basements that satisfy the Federal Emergency Management Agency’s (FEMA’s) standards published in the Code of Federal Regulations [44 CFR 60.6 (b) or (c)].

2. Limit of Liability

We will pay you up to $20,000 under this Coverage D - Increased Cost of Compliance, which only applies to policies with building coverage (Coverage A). Our payment of claims under Coverage D is in addition to the amount of coverage which you selected on the application and which appears on the Declarations Page. But the maximum you can collect under this policy for both Coverage A - Building Property and Coverage D - Increased Cost of Compliance cannot exceed the maximum permitted under the Act. We do not charge a separate deductible for a claim under Coverage D.
3. Eligibility

a. A structure covered under Coverage A - Building Property sustaining a loss caused by a flood as defined by this policy must:

   (1) Be a "repetitive loss structure." A repetitive loss structure is one that meets the following conditions:

      (a) The structure is covered by a contract of flood insurance issued under the NFIP.

      (b) The structure has suffered flood damage on two occasions during a 10-year period which ends on the date of the second loss.

      (c) The cost to repair the flood damage, on average, equaled or exceeded 25 percent of the market value of the structure at the time of each flood loss.

      (d) In addition to the current claim, the NFIP must have paid the previous qualifying claim, and the State or community must have a cumulative, substantial damage provision or repetitive loss provision in its floodplain management law or ordinance being enforced against the structure; or

   (2) Be a structure that has had flood damage in which the cost to repair equals or exceeds 50 percent of the market value of the structure at the time of the flood. The State or community must have a substantial damage provision in its floodplain management law or ordinance being enforced against the structure.

b. This Coverage D pays you to comply with State or local floodplain management laws or ordinances that meet the minimum standards of the National Flood Insurance Program found in the Code of Federal Regulations at 44 CFR 60.3. We pay for compliance activities that exceed those standards under these conditions:

   (1) 3.a.(1) above.

   (2) Elevation or floodproofing in any risk zone to preliminary or advisory base flood elevations provided by FEMA which the State or local government has adopted and is enforcing for flood-damaged structures in such areas. (This includes compliance activities in B, C, X, or D zones which are being changed to zones with base flood elevations. This also includes compliance activities in zones where base flood elevations are being increased, and a flood-damaged structure must comply with the higher advisory base flood elevation.)

   Increased Cost of Compliance coverage does not apply to situations in B, C, X, or D zones where the community has derived its own elevations and is enforcing elevation or floodproofing requirements for flood-damaged structures to elevations derived solely by the community.

   (3) Elevation or floodproofing above the base flood elevation to meet State or local "freeboard" requirements, i.e., that a structure must be elevated above the base flood elevation.

   c. Under the minimum NFIP criteria at 44 CFR 60.3 (b)(4), States and communities must require the elevation or floodproofing of structures in unnumbered A zones to the base flood elevation where elevation data is obtained from a Federal, State, or other source. Such compliance activities are also eligible for Coverage D.

   d. This coverage will also pay for the incremental cost, after demolition or relocation, of elevating or floodproofing a structure during its rebuilding at the same or another site to meet State or local floodplain management laws or ordinances, subject to Exclusion D.5.g. below.

   e. This coverage will also pay to bring a flood-damaged structure into compliance with State or local floodplain management laws or ordinances even if the structure had received a variance before the present loss from the applicable floodplain management requirements.

4. Conditions

a. When a structure covered under Coverage A - Building Property sustains a loss caused by a flood, our payment for the loss under this Coverage D will be for the increased cost to elevate, floodproof, relocate, or demolish (or any combination of these activities) caused by the enforcement of current State or local floodplain management ordinances or laws. Our payment for eligible demolition activities will be for the cost to demolish and clear the site of the building debris or a portion thereof caused by the enforcement of current State or local floodplain management ordinances or laws. Eligible activities for the cost of clearing the site will include those necessary to discontinue utility service to the site and ensure proper abandonment of on-site utilities.

b. When the building is repaired or rebuilt, it must be intended for the same occupancy as the present building unless otherwise required by current floodplain management ordinances or laws.
5. Exclusions

Under this Coverage D - Increased Cost of Compliance, we will not pay for:

a. The cost to comply with any floodplain management law or ordinance in communities participating in the Emergency Program.

b. The cost associated with enforcement of any ordinance or law that requires any insured or others to test for, monitor, clean up, remove, contain, treat, detoxify or neutralize, or in any way respond to, or assess the effects of pollutants.

c. The loss in value to any insured building or other structure due to the requirements of any ordinance or law.

d. The loss in residual value of the undamaged portion of a building demolished as a consequence of enforcement of any State or local floodplain management law or ordinance.

e. Any Increased Cost of Compliance under this Coverage D:

   (1) Until the building is elevated, floodproofed, demolished, or relocated on the same or to another premises; and

   (2) Unless the building is elevated, floodproofed, demolished, or relocated as soon as reasonably possible after the loss, not to exceed 2 years (see 3.b.).

f. Any code upgrade requirements, e.g., plumbing or electrical wiring, not specifically related to the State or local floodplain management law or ordinance.

g. Any compliance activities needed to bring additions or improvements made after the loss occurred into compliance with State or local floodplain management laws or ordinances.

h. Loss due to any ordinance or law that you were required to comply with before the current loss.

i. Any rebuilding activity to standards that do not meet the NFIP’s minimum requirements. This includes any situation where you have received from the State or community a variance in connection with the current flood loss to rebuild the property to an elevation below the base flood elevation.

j. Increased Cost of Compliance for a garage or carport.

k. Any structure insured under an NFIP Group Flood Insurance Policy.

l. Assessments made by a condominium association on individual condominium unit owners to pay increased costs of repairing commonly owned buildings after a flood in compliance with State or local floodplain management ordinances or laws.

6. Other Provisions

a. Increased Cost of Compliance coverage will not be included in the calculation to determine whether coverage meets the 80 percent insurance-to-value requirement for replacement cost coverage as set forth in VII. General Conditions, V. Loss Settlement.

b. All other conditions and provisions of this policy apply.

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IV. PROPERTY NOT COVERED

We do not cover any of the following property:

1. Personal property not inside the fully enclosed building;

2. A building, and personal property in it, located entirely in, on, or over water or seaward of mean high tide if it was constructed or substantially improved after September 30, 1982;

3. Open structures, including a building used as a boathouse or any structure or building into which boats are floated, and personal property located in, on, or over water;

4. Recreational vehicles other than travel trailers described in II.B.6.c., whether affixed to a permanent foundation or on wheels;

5. Self-propelled vehicles or machines, including their parts and equipment. However, we do cover self-propelled vehicles or machines not licensed for use on public roads that are:

   a. Used mainly to service the described location, or

   b. Designed and used to assist handicapped persons,

   while the vehicles or machines are inside a building at the described location;

6. Land, land values, lawns, trees, shrubs, plants, growing crops, or animals;

7. Accounts, bills, coins, currency, deeds, evidences of debt, medals, money, scrip, stored value cards, postage stamps, securities, bullion, manuscripts, or other valuable papers;
8. Underground structures and equipment, including wells, septic tanks, and septic systems;

9. Those portions of walks, walkways, decks, driveways, patios, and other surfaces, all whether protected by a roof or not, located outside the perimeter, exterior walls of the insured building or the building in which the insured unit is located;

10. Containers, including related equipment, such as, but not limited to, tanks containing gases or liquids;

11. Buildings or units and all their contents if more than 49 percent of the actual cash value of the building or unit is below ground, unless the lowest level is at or above the base flood elevation and is below ground by reason of earth having been used as insulation material in conjunction with energy efficient building techniques;

12. Fences, retaining walls, seawalls, bulkheads, wharves, piers, bridges, and docks;

13. Aircraft or watercraft, or their furnishings and equipment;

14. Hot tubs and spas that are not bathroom fixtures, and swimming pools, and their equipment such as, but not limited to, heaters, filters, pumps, and pipes, wherever located;

15. Property not eligible for flood insurance pursuant to the provisions of the Coastal Barrier Resources Act and the Coastal Barrier Improvement Act and amendments to these acts;

16. Personal property you own in common with other unit owners comprising the membership of a condominium association.

V. EXCLUSIONS

A. We only provide coverage for direct physical loss by or from flood, which means that we do not pay you for:

1. Loss of revenue or profits;

2. Loss of access to the insured property or described location;

3. Loss of use of the insured property or described location;

4. Loss from interruption of business or production;

5. Any additional living expenses incurred while the insured building is being repaired or is unable to be occupied for any reason;

6. The cost of complying with any ordinance or law requiring or regulating the construction, demolition, remodeling, renovation, or repair of property, including removal of any resulting debris. This exclusion does not apply to any eligible activities that we describe in Coverage D - Increased Cost of Compliance; or

7. Any other economic loss.

B. We do not insure a loss directly or indirectly caused by a flood that is already in progress at the time and date:

1. The policy term begins; or

2. Coverage is added at your request.

C. We do not insure for loss to property caused directly by earth movement even if the earth movement is caused by flood. Some examples of earth movement that we do not cover are:

1. Earthquake;

2. Landslide;

3. Land subsidence;

4. Sinkholes;

5. Destabilization or movement of land that results from accumulation of water in subsurface land area; or


We do, however, pay for losses from mudflow and land subsidence as a result of erosion that are specifically covered under our definition of flood (see II.A.1.c. and II.A.2.).

D. We do not insure for direct physical loss caused directly or indirectly by any of the following:

1. The pressure or weight of ice;

2. Freezing or thawing;

3. Rain, snow, sleet, hail, or water spray;

4. Water, moisture, mildew, or mold damage that results primarily from any condition:
   a. Substantially confined to the dwelling; or
   b. That is within your control, including but not limited to:
      (1) Design, structural, or mechanical defects;
(2) Failure, stoppage, or breakage of water or sewer lines, drains, pumps, fixtures, or equipment; or

(3) Failure to inspect and maintain the property after a flood recedes;

5. Water or waterborne material that:
   a. Backs up through sewers or drains;
   b. Discharges or overflows from a sump, sump pump, or related equipment; or
   c. Seeps or leaks on or through the covered property;

   unless there is a flood in the area and the flood is the proximate cause of the sewer or drain backup, sump pump discharge or overflow, or seepage of water;

6. The pressure or weight of water unless there is a flood in the area and the flood is the proximate cause of the damage from the pressure or weight of water;

7. Power, heating, or cooling failure unless the failure results from direct physical loss by or from flood to power, heating, or cooling equipment on the described location;

8. Theft, fire, explosion, wind, or windstorm;

9. Anything you or any member of your household do or conspire to do to cause loss by flood deliberately; or

10. Alteration of the insured property that significantly increases the risk of flooding.

E. We do not insure for loss to any building or personal property located on land leased from the Federal Government, arising from or incident to the flooding of the land by the Federal Government, where the lease expressly holds the Federal Government harmless under flood insurance issued under any Federal Government program.

F. We do not pay for the testing for or monitoring of pollutants unless required by law or ordinance.

VI. DEDUCTIBLES

A. When a loss is covered under this policy, we will pay only that part of the loss that exceeds your deductible amount, subject to the limit of liability that applies. The deductible amount is shown on the Declarations Page.

   However, when a building under construction, alteration, or repair does not have at least two rigid exterior walls and a fully secured roof at the time of loss, your deductible amount will be two times the deductible that would otherwise apply to a completed building.

B. In each loss from flood, separate deductibles apply to the building and personal property insured by this policy.

C. The deductible does not apply to:
   1. III.C.2. Loss Avoidance Measures;
   2. III.C.3. Condominium Loss Assessments; or
   3. III.D. Increased Cost of Compliance.

VII. GENERAL CONDITIONS

A. Pairs and Sets

   In case of loss to an article that is part of a pair or set, we will have the option of paying you:

   1. An amount equal to the cost of replacing the lost, damaged, or destroyed article, minus its depreciation; or
   2. The amount that represents the fair proportion of the total value of the pair or set that the lost, damaged, or destroyed article bears to the pair or set.

B. Concealment or Fraud and Policy Voidance

   1. With respect to all insureds under this policy, this policy:
      a. Is void;
      b. Has no legal force or effect;
      c. Cannot be renewed; and
      d. Cannot be replaced by a new NFIP policy;
if, before or after a loss, you or any other insured or your agent have at any time:

(1) Intentionally concealed or misrepresented any material fact or circumstance;

(2) Engaged in fraudulent conduct; or

(3) Made false statements;

relating to this policy or any other NFIP insurance.

2. This policy will be void as of the date the wrongful acts described in B.1. above were committed.

3. Fines, civil penalties, and imprisonment under applicable Federal laws may also apply to the acts of fraud or concealment described above.

4. This policy is also void for reasons other than fraud, misrepresentation, or wrongful act. This policy is void from its inception and has no legal force under the following conditions:

a. If the property is located in a community that was not participating in the NFIP on the policy’s inception date and did not join or reenter the program during the policy term and before the loss occurred; or

b. If the property listed on the application is otherwise not eligible for coverage under the NFIP.

C. Other Insurance

1. If a loss covered by this policy is also covered by other insurance that includes flood coverage not issued under the Act, we will not pay more than the amount of insurance that you are entitled to for lost, damaged, or destroyed property insured under this policy subject to the following:

a. We will pay only the proportion of the loss that the amount of insurance that applies under this policy bears to the total amount of insurance covering the loss, unless C.1.b. or c. immediately below applies.

b. If the other policy has a provision stating that it is excess insurance, this policy will be primary.

c. This policy will be primary (but subject to its own deductible) up to the deductible in the other flood policy (except another policy as described in C.1.b. above). When the other deductible amount is reached, this policy will participate in the same proportion that the amount of insurance under this policy bears to the total amount of both policies, for the remainder of the loss.

2. If there is other insurance in the name of your condominium association covering the same property covered by this policy, then this policy will be in excess over the other insurance.

D. Amendments, Waivers, Assignment

This policy cannot be changed nor can any of its provisions be waived without the express written consent of the Federal Insurance Administrator. No action that we take under the terms of this policy constitutes a waiver of any of our rights. You may assign this policy in writing when you transfer title of your property to someone else, except under these conditions:

1. When this policy covers only personal property; or

2. When this policy covers a structure during the course of construction.

E. Cancellation of Policy by You

1. You may cancel this policy in accordance with the applicable rules and regulations of the NFIP.

2. If you cancel this policy, you may be entitled to a full or partial refund of premium also under the applicable rules and regulations of the NFIP.

F. Nonrenewal of the Policy by Us

Your policy will not be renewed:

1. If the community where your covered property is located stops participating in the NFIP; or

2. If your building has been declared ineligible under Section 1316 of the Act.

G. Reduction and Reformation of Coverage

1. If the premium we received from you was not enough to buy the kind and amount of coverage you requested, we will provide only the amount of coverage that can be purchased for the premium payment we received.

2. The policy can be reformed to increase the amount of coverage resulting from the reduction described in G.1. above to the amount you requested as follows:

a. Discovery of insufficient premium or incomplete rating information before a loss.

   (1) If we discover before you have a flood loss that your premium payment was not enough to buy the requested amount of coverage, we will send you and any mortgagee or trustee known to us a bill for the required additional premium for the current policy term (or that portion of the current policy term following any endorsement changing
the amount of coverage). If you or the mortgagee or trustee pay the additional premium within 30 days from the date of our bill, we will reform the policy to increase the amount of coverage to the originally requested amount effective to the beginning of the current policy term (or subsequent date of any endorsement changing the amount of coverage).

(2) If we determine before you have a flood loss that the rating information we have is incomplete and prevents us from calculating the additional premium, we will ask you to send the required information. You must submit the information within 60 days of our request. Once we determine the amount of additional premium for the current policy term, we will follow the procedure in G.2.a.(1) above.

(3) If we do not receive the additional premium (or additional information) by the date it is due, the amount of coverage can only be increased by endorsement subject to any appropriate waiting period.

b. Discovery of insufficient premium or incomplete rating information after a loss.

(1) If we discover after you have a flood loss that your premium payment was not enough to buy the requested amount of coverage, we will send you and any mortgagee or trustee known to us a bill for the required additional premium for the current and the prior policy terms. If you or the mortgagee or trustee pay the additional premium within 30 days from the date of our bill, we will reform the policy to increase the amount of coverage to the originally requested amount effective to the beginning of the prior policy term.

(2) If we discover after you have a flood loss that the rating information we have is incomplete and prevents us from calculating the additional premium, we will ask you to send the required information. You must submit the information before your claim can be paid. Once we determine the amount of additional premium for the current and prior policy terms, we will follow the procedure in G.2.b.(1) above.

(3) If we do not receive the additional premium by the date it is due, your flood insurance claim will be settled based on the reduced amount of coverage. The amount of coverage can only be increased by endorsement subject to any appropriate waiting period.

3. However, if we find that you or your agent intentionally did not tell us, or falsified, any important fact or circumstance or did anything fraudulent relating to this insurance, the provisions of Condition B. Concealment or Fraud and Policy Voidance apply.

H. Policy Renewal

1. This policy will expire at 12:01 a.m. on the last day of the policy term.

2. We must receive the payment of the appropriate renewal premium within 30 days of the expiration date.

3. If we find, however, that we did not place your renewal notice into the U.S. Postal Service, or if we did mail it, we made a mistake, e.g., we used an incorrect, incomplete, or illegible address, which delayed its delivery to you before the due date for the renewal premium, then we will follow these procedures:

   a. If you or your agent notified us, not later than 1 year after the date on which the payment of the renewal premium was due, of nonreceipt of a renewal notice before the due date for the renewal premium, and we determine that the circumstances in the preceding paragraph apply, we will mail a second bill providing a revised due date, which will be 30 days after the date on which the bill is mailed.

   b. If we do not receive the premium requested in the second bill by the revised due date, then we will not renew the policy. In that case, the policy will remain an expired policy as of the expiration date shown on the Declarations Page.

4. In connection with the renewal of this policy, we may ask you during the policy term to recertify, on a Recertification Questionnaire we will provide to you, the rating information used to rate your most recent application for or renewal of insurance.

I. Conditions Suspending or Restricting Insurance

We are not liable for loss that occurs while there is a hazard that is increased by any means within your control or knowledge.

J. Requirements in Case of Loss

In case of a flood loss to insured property, you must:

1. Give prompt written notice to us;

2. As soon as reasonably possible, separate the damaged and undamaged property, putting it in the best possible order so that we may examine it;

3. Prepare an inventory of damaged property showing the quantity, description, actual cash value, and amount of loss. Attach all bills, receipts, and related documents;
4. Within 60 days after the loss, send us a proof of loss, which is your statement of the amount you are claiming under the policy signed and sworn to by you, and which furnishes us with the following information:

   a. The date and time of loss;
   b. A brief explanation of how the loss happened;
   c. Your interest (for example, "owner") and the interest, if any, of others in the damaged property;
   d. Details of any other insurance that may cover the loss;
   e. Changes in title or occupancy of the covered property during the term of the policy;
   f. Specifications of damaged buildings and detailed repair estimates;
   g. Names of mortgagees or anyone else having a lien, charge, or claim against the damaged property;
   h. Details about who occupied any insured building at the time of loss and for what purpose; and
   i. The inventory of damaged personal property described in J.3. above.

5. In completing the proof of loss, you must use your own judgment concerning the amount of loss and justify that amount.

6. You must cooperate with the adjuster or representative in the investigation of the claim.

7. The insurance adjuster whom we hire to investigate your claim may furnish you with a proof of loss form, and she or he may help you complete it. However, this is a matter of courtesy only, and you must still send us a proof of loss within 60 days after the loss even if the adjuster does not furnish the form or help you complete it.

8. We have not authorized the adjuster to approve or disapprove claims or to tell you whether we will approve your claim.

9. At our option, we may accept the adjuster's report of the loss instead of your proof of loss. The adjuster's report will include information about your loss and the damages you sustained. You must sign the adjuster's report. At our option, we may require you to swear to the report.

K. Our Options After a Loss

Options we may, in our sole discretion, exercise after loss include the following:

1. At such reasonable times and places that we may designate, you must:
   a. Show us or our representative the damaged property;
   b. Submit to examination under oath, while not in the presence of another insured, and sign the same; and
   c. Permit us to examine and make extracts and copies of:
      (1) Any policies of property insurance insuring you against loss and the deed establishing your ownership of the insured real property;
      (2) Condominium association documents including the Declarations of the condominium, its Articles of Association or Incorporation, Bylaws, rules and regulations, and other relevant documents if you are a unit owner in a condominium building; and
      (3) All books of accounts, bills, invoices and other vouchers, or certified copies pertaining to the damaged property if the originals are lost.

2. We may request, in writing, that you furnish us with a complete inventory of the lost, damaged, or destroyed property, including:
   a. Quantities and costs;
   b. Actual cash values or replacement cost (whichever is appropriate);
   c. Amounts of loss claimed;
   d. Any written plans and specifications for repair of the damaged property that you can reasonably make available to us; and
   e. Evidence that prior flood damage has been repaired.

3. If we give you written notice within 30 days after we receive your signed, sworn proof of loss, we may:
   a. Repair, rebuild, or replace any part of the lost, damaged, or destroyed property with material or property of like kind and quality or its functional equivalent; and
   b. Take all or any part of the damaged property at the value we agree upon or its appraised value.

L. No Benefit to Bailee

No person or organization, other than you, having custody of covered property will benefit from this insurance.
M. Loss Payment

1. We will adjust all losses with you. We will pay you unless some other person or entity is named in the policy or is legally entitled to receive payment. Loss will be payable 60 days after we receive your proof of loss (or within 90 days after the insurance adjuster files an adjuster’s report signed and sworn to by you in lieu of a proof of loss) and:
   a. We reach an agreement with you;
   b. There is an entry of a final judgment; or
   c. There is a filing of an appraisal award with us, as provided in VII.P.

2. If we reject your proof of loss in whole or in part you may:
   a. Accept our denial of your claim;
   b. Exercise your rights under this policy;
   c. File an amended proof of loss, as long as it is filed within 60 days of the date of the loss.

N. Abandonment

You may not abandon to us damaged or undamaged property insured under this policy.

O. Salvage

We may permit you to keep damaged insured property after a loss, and we will reduce the amount of the loss proceeds payable to you under the policy by the value of the salvage.

P. Appraisal

If you and we fail to agree on the actual cash value or, if applicable, replacement cost of your damaged property to settle upon the amount of loss, then either may demand an appraisal of the loss. In this event, you and we will each choose a competent and impartial appraiser within 20 days after receiving a written request from the other. The two appraisers will choose an umpire. If they cannot agree upon an umpire within 15 days, you or we may request that the choice be made by a judge of a court of record in the State where the covered property is located. The appraisers will separately state the actual cash value, the replacement cost, and the amount of loss to each item. If the appraisers submit a written report of an agreement to us, the amount agreed upon will be the amount of loss. If they fail to agree, they will submit their differences to the umpire. A decision agreed to by any two will set the amount of actual cash value and loss, or if it applies, the replacement cost and loss.

Each party will:

1. Pay its own appraiser; and

2. Bear the other expenses of the appraisal and umpire equally.

Q. Mortgage Clause

The word “mortgagee” includes trustee.

Any loss payable under Coverage A - Building Property will be paid to any mortgagee of whom we have actual notice as well as any other mortgagee or loss payee determined to exist at the time of loss, and you, as interests appear. If more than one mortgagee is named, the order of payment will be the same as the order of precedence of the mortgages.

If we deny your claim, that denial will not apply to a valid claim of the mortgagee, if the mortgagee:

1. Notifies us of any change in the ownership or occupancy, or substantial change in risk of which the mortgagee is aware;

2. Pays any premium due under this policy on demand if you have neglected to pay the premium; and

3. Submits a signed, sworn proof of loss within 60 days after receiving notice from us of your failure to do so.

All of the terms of this policy apply to the mortgagee.

The mortgagee has the right to receive loss payment even if the mortgagee has started foreclosure or similar action on the building.

If we decide to cancel or not renew this policy, it will continue in effect for the benefit of the mortgagee only for 30 days after we notify the mortgagee of the cancellation or nonrenewal.

If we pay the mortgagee for any loss and deny payment to you, we are subrogated to all the rights of the mortgagee granted under the mortgage on the property. Subrogation will not impair the right of the mortgagee to recover the full amount of the mortgagee's claim.

R. Suit Against Us

You may not sue us to recover money under this policy unless you have complied with all the requirements of the policy. If you do sue, you must start the suit within 1 year after the date of the written denial of all or part of the claim, and you must file the suit in the United States District Court of the district in which the insured property was located at the time of loss. This requirement applies to any claim that you may have under this policy and to any dispute that you may have arising out of the handling of any claim under the policy.

S. Subrogation

Whenever we make a payment for a loss under this policy, we are subrogated to your right to recover for that loss from any other person. That means that your right to
recover for a loss that was partly or totally caused by someone else is automatically transferred to us, to the extent that we have paid you for the loss. We may require you to acknowledge this transfer in writing. After the loss, you may not give up our right to recover this money or do anything that would prevent us from recovering it. If you make any claim against any person who caused your loss and recover any money, you must pay us back first before you may keep any of that money.

T. Continuous Lake Flooding

1. If your insured building has been flooded by rising lake waters continuously for 90 days or more and it appears reasonably certain that a continuation of this flooding will result in a covered loss to the insured building equal to or greater than the building policy limits plus the deductible or the maximum payable under the policy for any one building loss, we will pay you the lesser of these two amounts without waiting for the further damage to occur if you sign a release agreeing:
   
   a. To make no further claim under this policy;
   
   b. Not to seek renewal of this policy;
   
   c. Not to apply for any flood insurance under the Act for property at the described location; and
   
   d. Not to seek a premium refund for current or prior terms.

   If the policy term ends before the insured building has been flooded continuously for 90 days, the provisions of this paragraph T.1 will apply when the insured building suffers a covered loss before the policy term ends.

2. If your insured building is subject to continuous lake flooding from a closed basin lake, you may elect to file a claim under either paragraph T.1. above or paragraph T.2. (A "closed basin lake" is a natural lake from which water leaves primarily through evaporation and whose surface area now exceeds or has exceeded 1 square mile at any time in the recorded past. Most of the nation's closed basin lakes are in the western half of the United States, where annual evaporation exceeds annual precipitation and where lake levels and surface areas are subject to considerable fluctuation due to wide variations in the climate. These lakes may overtop their basins on rare occasions.) Under this paragraph T.2. we will pay your claim as if the building is a total loss even though it has not been continuously inundated for 90 days, subject to the following conditions:
   
   a. Lake flood waters must damage or imminently threaten to damage your building.
   
   b. Before approval of your claim, you must:
      
      (1) Agree to a claim payment that reflects your buying back the salvage on a negotiated basis; and
      
      (2) Grant the conservation easement described in FEMA's "Policy Guidance for Closed Basin Lakes," to be recorded in the office of the local recorder of deeds. FEMA, in consultation with the community in which the property is located, will identify on a map an area or areas of special consideration (ASC) in which there is a potential for flood damage from continuous lake flooding. FEMA will give the community the agreed-upon map showing the ASC. This easement will only apply to that portion of the property in the ASC. It will allow certain agricultural and recreational uses of the land. The only structures that it will allow on any portion of the property within the ASC are certain simple agricultural and recreational structures. If any of these allowable structures are insurable buildings under the NFIP and are insured under the NFIP, they will not be eligible for the benefits of this paragraph T.2.

   If a U.S. Army Corps of Engineers certified flood control project or otherwise certified flood control project later protects the property, FEMA will, upon request, amend the ASC to remove areas protected by those projects. The restrictions of the easement will then no longer apply to any portion of the property removed from the ASC; and

   (3) Comply with paragraphs T.1.a. through T.1.d. above.

   c. Within 90 days of approval of your claim, you must move your building to a new location outside the ASC. FEMA will give you an additional 30 days to move if you show that there is sufficient reason to extend the time.

   d. Before the final payment of your claim, you must acquire an elevation certificate and a floodplain development permit from the local floodplain administrator for the new location of your building.

   e. Before the approval of your claim, the community having jurisdiction over your building must:
      
      (1) Adopt a permanent land use ordinance, or a temporary moratorium for a period not to exceed 6 months to be followed immediately by a permanent land use ordinance, that is consistent with the provisions specified in the easement required in paragraph T.2.b. above.
      
      (2) Agree to declare and report any violations of this ordinance to FEMA so that under Section 1316 of the National Flood Insurance Act of 1968, as amended, flood insurance to the building can be denied; and
(3) Agree to maintain as deed-restricted, for purposes compatible with open space or agricultural or recreational use only, any affected property the community acquires an interest in. These deed restrictions must be consistent with the provisions of paragraph T.2.b. above, except that, even if a certified project protects the property, the land use restrictions continue to apply if the property was acquired under the Hazard Mitigation Grant Program or the Flood Mitigation Assistance Program. If a nonprofit land trust organization receives the property as a donation, that organization must maintain the property as deed-restricted, consistent with the provisions of paragraph T.2.b. above.

f. Before the approval of your claim, the affected State must take all action set forth in FEMA's "Policy Guidance for Closed Basin Lakes."

g. You must have NFIP flood insurance coverage continuously in effect from a date established by FEMA until you file a claim under paragraph T.2. If a subsequent owner buys NFIP insurance that goes into effect within 60 days of the date of transfer of title, any gap in coverage during that 60-day period will not be a violation of this continuous coverage requirement. For the purpose of honoring a claim under this paragraph T.2., we will not consider to be in effect any increased coverage that became effective after the date established by FEMA. The exception to this is any increased coverage in the amount suggested by your insurer as an inflation adjustment.

h. This paragraph T.2. will be in effect for a community when the FEMA Regional Director for the affected region provides to the community, in writing, the following:

(1) Confirmation that the community and the State are in compliance with the conditions in paragraphs T.2.e. and T.2.f. above; and

(2) The date by which you must have flood insurance in effect.

U. Duplicate Policies Not Allowed

1. We will not insure your property under more than one NFIP policy.

   If we find that the duplication was not knowingly created, we will give you written notice. The notice will advise you that you may choose one of several options under the following procedures:

   a. If you choose to keep in effect the policy with the earlier effective date, you may also choose to add the coverage limits of the later policy to the limits of the earlier policy. The change will become effective as of the effective date of the later policy.

   b. If you choose to keep in effect the policy with the later effective date, you may also choose to add the coverage limits of the earlier policy to the limits of the later policy. The change will be effective as of the effective date of the later policy.

   In either case, you must pay the pro rata premium for the increased coverage limits within 30 days of the written notice. In no event will the resulting coverage limits exceed the permissible limits of coverage under the Act or your insurable interest, whichever is less.

   We will make a refund to you, according to applicable NFIP rules, of the premium for the policy not being kept in effect.

2. Your option under Condition U. Duplicate Policies Not Allowed to elect which NFIP policy to keep in effect does not apply when duplicates have been knowingly created. Losses occurring under such circumstances will be adjusted according to the terms and conditions of the earlier policy. The policy with the later effective date will be canceled.

V. Loss Settlement

1. Introduction

   This policy provides three methods of settling losses: Replacement Cost, Special Loss Settlement, and Actual Cash Value. Each method is used for a different type of property, as explained in a.-c. below.

   a. Replacement Cost loss settlement, described in V.2. below, applies to a single-family dwelling provided:

      (1) It is your principal residence, which means that, at the time of loss, you or your spouse lived there for at least 80 percent of:

         (a) The 365 days immediately preceding the loss; or

         (b) The period of your ownership, if you owned the dwelling for less than 365 days; and

      (2) At the time of loss, the amount of insurance in this policy that applies to the dwelling is 80 percent or more of its full replacement cost immediately before the loss, or is the maximum amount of insurance available under the NFIP.

   b. Special loss settlement, described in V.3. below, applies to a single-family dwelling that is a manufactured or mobile home or a travel trailer.

   c. Actual Cash Value loss settlement applies to a single-family dwelling not subject to replacement cost or special loss settlement, and to the property listed in V.4. below.
2. Replacement Cost Loss Settlement

The following loss settlement conditions apply to a single-family dwelling described in V.1.a. above:

a. We will pay to repair or replace the damaged dwelling after application of the deductible and without deduction for depreciation, but not more than the least of the following amounts:

(1) The building limit of liability shown on your Declarations Page;

(2) The replacement cost of that part of the dwelling damaged, with materials of like kind and quality, and for like use; or

(3) The necessary amount actually spent to repair or replace the damaged part of the dwelling for like use.

b. If the dwelling is rebuilt at a new location, the cost described above is limited to the cost that would have been incurred if the dwelling had been rebuilt at its former location.

c. When the full cost of repair or replacement is more than $1,000 or more than 5 percent of the whole amount of insurance that applies to the dwelling, we will not be liable for any loss under V.2.a. above or V.4.a.(2) below unless and until actual repair or replacement is completed.

d. You may disregard the replacement cost conditions above and make claim under this policy for loss to dwellings on an actual cash value basis. You may then make claim for any additional liability according to V.2.a., b., and c. above, provided you notify us of your intent to do so within 180 days after the date of loss.

e. If the community in which your dwelling is located has been converted from the Emergency Program to the Regular Program during the current policy term, then we will consider the maximum amount of available NFIP insurance to be the amount that was available at the beginning of the current policy term.

3. Special Loss Settlement

a. The following loss settlement conditions apply to a single-family dwelling that:

(1) Is a manufactured or mobile home or a travel trailer, as defined in II.B.6.b. and II.B.6.c.;

(2) Is at least 16 feet wide when fully assembled and has an area of at least 600 square feet within its perimeter walls when fully assembled; and

(3) Is your principal residence, as specified in V.1.a.(1) above.

b. If such a dwelling is totally destroyed or damaged to such an extent that, in our judgment, it is not economically feasible to repair, at least to its predamage condition, we will, at our discretion, pay the least of the following amounts:

(1) The lesser of the replacement cost of the dwelling or 1.5 times the actual cash value, or

(2) The building limit of liability shown on your Declarations Page.

c. If such a dwelling is partially damaged and, in our judgment, it is economically feasible to repair it to its predamage condition, we will settle the loss according to the Replacement Cost conditions in paragraph V.2. above.

4. Actual Cash Value Loss Settlement

The types of property noted below are subject to actual cash value or in the case of V.4.a.(2) below, proportional loss settlement.

a. A dwelling, at the time of loss, when the amount of insurance on the dwelling is both less than 80 percent of its full replacement cost immediately before the loss and less than the maximum amount of insurance available under the NFIP. In that case, we will pay the greater of the following amounts, but not more than the amount of insurance that applies to that dwelling:

(1) The actual cash value, as defined in II.B.2., of the damaged part of the dwelling; or

(2) A proportion of the cost to repair or replace the damaged part of the dwelling, without deduction for physical depreciation and after application of the deductible.

This proportion is determined as follows: If 80 percent of the full replacement cost of the dwelling is less than the maximum amount of insurance available under the NFIP, then the proportion is determined by dividing the actual amount of insurance on the dwelling by the amount of insurance that represents 80 percent of its full replacement cost. But if 80 percent of the full replacement cost of the dwelling is greater than the maximum amount of insurance available under the NFIP, then the proportion is determined by dividing the actual amount of insurance on the dwelling by the maximum amount of insurance available under the NFIP.

b. A two-, three-, or four-family dwelling.

c. A unit that is not used exclusively for single-family dwelling purposes.
d. Detached garages.

e. Personal property.

f. Appliances, carpets, and carpet pads.

g. Outdoor awnings, outdoor antennas or aerials of any type, and other outdoor equipment.

h. Any property covered under this policy that is abandoned after a loss and remains as debris anywhere on the described location.

i. A dwelling that is not your principal residence.

5. Amount of Insurance Required

To determine the amount of insurance required for a dwelling immediately before the loss, do not include the value of:

- Footings, foundations, piers, or any other structures or devices that are below the undersurface of the lowest basement floor and support all or part of the dwelling;

- Those supports listed in V.5.a. above that are below the surface of the ground inside the foundation walls if there is no basement; and

- Excavations and underground flues, pipes, wiring, and drains.

The Coverage D - Increased Cost of Compliance limit of liability is not included in the determination of the amount of insurance required.

---

VIII. LIBERALIZATION CLAUSE

If we make a change that broadens your coverage under this edition of our policy, but does not require any additional premium, then that change will automatically apply to your insurance as of the date we implement the change, provided that this implementation date falls within 60 days before, or during, the policy term stated on the Declarations Page.

IX. WHAT LAW GOVERNS

This policy and all disputes arising from the handling of any claim under the policy are governed exclusively by the flood insurance regulations issued by FEMA, the National Flood Insurance Act of 1968, as amended (42 U.S.C. 4001, et seq.), and Federal common law.

IN WITNESS WHEREOF, we have signed this policy below and hereby enter into this Insurance Agreement.

Company Official Signature
CLAIM GUIDELINES IN CASE OF A FLOOD

For the protection of you and your family, the following claim guidelines are provided by the National Flood Insurance Program (NFIP). If you are ever in doubt as to what action is needed, consult your insurance representative.

Know your insurance representative's name and telephone number. List them here for fast reference:

Insurance Representative _________________________________
Representative's Phone Number ______________________________

• Notify your insurance representative, in writing, as soon as possible after the flood.
• When you report to your insurance representative, remind him or her to assign the claim to an NFIP-approved claims adjuster.
• Determine the independent claims adjuster assigned to your claim and contact him or her if you have not been contacted within 24 hours after you reported the claim to your insurance representative.
• As soon as possible, separate damaged property from undamaged property so that damage can be inspected and evaluated.
• Discuss with the claims adjuster any need you may have for an advance or partial payment for your loss.
• To help the claims adjuster, try to take photographs of the outside of the premises showing the flooding and the damage and photographs of the inside of the premises showing the height of the water and the damaged property.
• Place all account books, financial records, receipts, and other loss verification material in a safe place for examination and evaluation by the claims adjuster.
• Work cooperatively and promptly with the claims adjuster to determine and document all claim items. Be prepared to advise the claims adjuster of the cause and responsible party(ies), if the flooding resulted from other than natural cause.
• Make sure that the claims adjuster fully explains, and that you fully understand, all allowances and procedures for processing claim payments on the basis of your proof of loss. This policy requires you to send us detailed proof of loss within 60 days after the loss.
• Any and all coverage problems and claim allowance restrictions must be communicated directly from the Company. Claims adjusters are not authorized to approve or deny claims; their job is to report to the Company on the elements of flood cause and damage.

At our option, we may accept an adjuster's report of the loss instead of your proof of loss. The adjuster's report will include information about your loss and the damages to your insured property. You must sign the adjuster's report. At our option, we may require you to swear to the report.
COVERAGE INFORMATION

- How Much Coverage Is Available?
- What Does It Cover?
- What Is Covered in My Basement?
- What is Increased Cost of Compliance (ICC) Coverage?
- When Will My Policy Go Into Effect?
- What Is A Flood?

Flood Insurance Coverage Available Limits Of Liability

<table>
<thead>
<tr>
<th>Coverage Category</th>
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<tr>
<td>BUILDING COVERAGE</td>
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<td>CONTENTS COVERAGE</td>
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</tr>
<tr>
<td>Non-residential</td>
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What Does It Cover?
The Standard Flood Insurance Policy (SFIP) Forms contain complete definitions of the coverages they provide. Direct physical losses caused by "floods" are covered. Also covered are losses resulting from flood-related erosion caused by waves or currents of water activity exceeding anticipated cyclical levels, or caused by a severe storm, flash flood, abnormal tidal surge, or the like, which result in flooding, as defined. Damage caused by mudslides (i.e., mudflows), as specifically defined in the policy forms, is covered.

What Is Covered in My Basement?
The NFIP defines a basement as any area of a building with a floor that is below ground level on all sides. While flood insurance does not cover basement improvements, such as
finished walls, floors or ceilings, or personal belongings that may be kept in a basement, such as furniture and other contents, it does cover structural elements, essential equipment and other basic items normally located in a basement. Many of these items are covered under building coverage, and some are covered under contents coverage. The NFIP encourages people to purchase both building and contents coverage for the broadest protection.

The following items are covered under building coverage, as long as they are connected to a power source and installed in their functioning location:

- Sump pumps.
- Well water tanks and pumps, cisterns and the water in them.
- Oil tanks and the oil in them, natural gas tanks and the gas in them.
- Pumps and/or tanks used in conjunction with solar energy.
- Furnaces, hot water heaters, air conditioners, and heat pumps.
- Electrical junction and circuit breaker boxes, and required utility connections.
- Foundation elements.
- Stairways, staircases, elevators and dumbwaiters.
- Unpainted drywall and sheet rock walls and ceilings, including fiberglass insulation.
- Cleanup.

The following items are covered under contents coverage:

- Clothes washers.
- Clothes dryers.
- Food Freezers and the food in them.

What Is Increased Cost of Compliance (ICC) Coverage?

Increased Cost of Compliance (ICC) under the NFIP provides for the payment of a claim to help pay for the cost to comply with State or community floodplain management laws or ordinances from a flood event in which a building has been declared substantially damaged or repetitively damaged. When an insured building is damaged by a flood and the State or community declares the building to be substantially damaged or repetitively damaged, ICC will help pay for the cost to elevate, floodproof, demolish or relocate the building up to $20,000. This coverage is in addition to the building coverage for the repair of actual physical damages from flood under the Standard Flood Insurance Policy (SFIP).

When Will My Policy Go Into Effect?

There is a 30-day waiting period before a flood insurance policy can become effective. In most instances, the insurance producer
who writes your policy can provide you with the date that your policy should go into effect.

**What Is A Flood?**

Under the National Flood Insurance Program (NFIP) a flood is defined as a general and temporary condition of partial or complete inundation of normally dry land by:

- The overflow of inland or tidal waters.
- The unusual and rapid accumulation or runoff of surface waters from any source.
- Mudslides (i.e., mudflows) which are proximately caused by flooding, as defined above and are akin to a river of liquid and flowing mud on the surfaces of normally dry land areas, including your premises, as when earth is carried by a current of water and deposited along the path of the current.
- The collapse or subsidence of land along the shore of a lake or other body of water as a result of erosion or undermining caused by waves or currents of water exceeding the cyclical levels which result in flood as defined above.

To qualify as a general and temporary condition, the flood must affect either two or more adjacent properties or two or more acres of land and have a distinct beginning point and ending point.

Also, to qualify, the flood waters can only be surface water that covers land that is normally dry.

*Updated: April 14, 2000*

[Federal Emergency Management Agency](http://www.fema.gov/nfip/c_cov.htm)
This report responds to your request for information on the financial condition of the National Flood Insurance Program administered by the Federal Emergency Management Agency's (FEMA) Federal Insurance Administration. The program, along with low-interest loans provided by the Small Business Administration and individual and family grants provided by FEMA, is a major component of the federal government's efforts to provide flood-related disaster assistance. Floods during fiscal year 1993, including last summer's flood in the Midwest, have resulted in the payment of hundreds of millions of dollars in federal flood insurance claims that have drained the cash reserves of the program. Members of Congress and the public have raised concerns about whether the program has sufficient financial resources to meet its current and potential future obligations.

Prior to the inception of the flood insurance program in 1968, flood insurance was generally not available from private insurance companies. The National Flood Insurance Act of 1968 (P.L. 90-448) established the program to identify flood-prone areas, make flood insurance available to property owners living in communities that joined the program, encourage floodplain management efforts to mitigate flood hazards, and reduce federal expenditures on disaster assistance. Flood insurance rate maps (FIRM) were prepared to identify special flood hazard areas. In order for a community to join the program, any structures built within a special flood hazard area after the FIRM was completed were required to be built to the program's building standards that are aimed at minimizing flood
losses. Owners of these post-FIRM structures pay actuarial rates for national flood insurance.\1 By contrast, subsidized insurance rates are available for owners of older, generally less flood-worthy pre-FIRM structures.

This report provides information on the (1) actuarial soundness of the program, (2) potential financial impacts of increasing subsidized flood insurance rates and enhancing program participation, and (3) procedures used to set the program's insurance rates. In addition, as agreed with your offices, appendix I updates our review\2 of FEMA's actions on its financial management problems addressed in audits of the fund that were prepared by FEMA's Office of Inspector General.

\1 An actuarial rate is risk-based because it considers the financial risk to the insurer in issuing an insurance policy. For the entire program to be actuarially sound, the overall revenues from insurance premiums would need to be sufficient to cover expected claims losses and program expenses.

\2 We discussed both the actuarial soundness and financial management issues in our testimony before the Subcommittee on Housing and Urban Affairs, Senate Committee on Banking, Housing, and Urban Affairs. Flood Insurance: Information on Various Aspects of the National Flood Insurance Program (GAO/T-RCED-93-70, Sept. 14, 1993).

RESULTS IN BRIEF
------------------------------------------- Letter :1

The flood insurance program is intentionally not actuarially sound because the Congress authorized subsidized insurance rates to be made available for policies covering certain structures. Because about 41 percent of policies were subsidized as of 1993, overall premium income, while sufficient to cover flood losses sustained in most recent years, is not sufficient to build reserves to meet future expected flood losses. The Insurance Administration's annual target for the program's overall premium income is the amount of loss in an average historical loss year, which is the approximate average annual loss experience under the program since 1978. Since no catastrophic loss years have occurred since 1978, collecting premiums that are based on an average historical loss year does not enable the fund to build sufficient reserves to cover a possible catastrophic loss year in the future. Thus, it is inevitable that claims losses and program expenses will exceed the program's funds in some years.

Increasing the premiums charged to subsidized policyholders (thereby decreasing the subsidy) to improve the program's financial health could have an adverse impact on other federal disaster-related relief costs. Increasing subsidized rates would be likely to cause some policyholders to cancel their flood insurance, and if flooded in the future, these people might apply for Small Business Administration loans or FEMA disaster assistance grants. On the other hand, efforts to build reserves by increasing participation in the flood insurance program would be likely to reduce the costs of other disaster
assistance programs, but these efforts could also worsen the flood insurance program's financial condition by increasing the number of subsidized policyholders in the program.

The Insurance Administration sets rates for post-FIRM construction on the basis of actuarial principles that consider the actual flood risk of an insured structure, such as whether a structure is inside a special flood hazard area. The policies with these rates are not subsidized by the federal government. For structures covered by subsidized rates, which include flood-prone pre-FIRM structures, the Insurance Administration sets subsidized rates to generate sufficient premium income so that overall program premiums from both actuarial and subsidized policies approximate the amount of an average historical loss year. Despite subsidized premiums, the Insurance Administration expects the average premium for a subsidized policy to be about $401 in 1994 and the average premium for an actuarial policy to be about $247. The higher average premium for a subsidized policy reflects the significantly greater riskiness of flood-prone pre-FIRM properties.

BACKGROUND

Over 18,000 communities have joined the flood insurance program. The FIRMs prepared for the Insurance Administration by the U.S. Army Corp of Engineers and private engineering companies for these communities identified special flood hazard areas, also known as the 100-year floodplains, which are areas subject to a 1-percent or greater chance of experiencing flooding in a given year. A key component of the program's building standards that must be followed by communities participating in the program is a requirement that the lowest floor of the structure be elevated to or above the base flood level--the elevation at which there is a 1-percent chance of flooding in a given year.

To encourage communities to join the program, thereby promoting floodplain management and widespread purchasing of flood insurance, the Congress authorized the Insurance Administration to make subsidized flood insurance rates available to owners of structures built before a community's FIRM was prepared. These pre-FIRM structures are generally more flood-prone than later-built structures because they were not built according to the program's building standards. However, owners of pre-FIRM properties that are sufficiently elevated can opt for actuarial rates.

From 1968 until the adoption of the Flood Disaster Protection Act of 1973, the purchase of flood insurance was voluntary. The 1973 act required the mandatory purchase of flood insurance to cover structures in special flood hazard areas of communities participating in the program if (1) any federal loans or grants were used to acquire or build the structures and (2) loans were secured by improved properties and the loans were made by lending institutions regulated by the federal government. Owners of properties with no mortgages or properties with mortgages held by unregulated lenders are not required to buy flood insurance, even if the properties are in special flood hazard areas.
For the program to be actuarially sound, its rate-setting process would have to include a consideration of the monetary risk exposure of the program, or the dollar value of expected flood losses over the long run. Since the magnitude of flood damage varies considerably from year to year, premium income in many years would exceed actual losses. This circumstance would enable the fund to build reserves toward a possible catastrophic year in the future.

Supplementing the program, the Small Business Administration offers low-interest loans to flood victims who are creditworthy. A flood victim who cannot obtain a Small Business Administration loan may apply for an individual and family FEMA grant of up to $11,900 or the amount of the loss, whichever is less.

THE PROGRAM IS NOT, NOR WAS IT INTENDED TO BE, ACTUARILLY SOUND
------------------------------------------------------------- Letter :3

The program is not actuarially sound by intention. The Congress authorized the Insurance Administration to subsidize a significant portion of the total policies in force, although it did not provide annual appropriations to cover the implicit subsidy.

The Congress also authorized the Insurance Administration to borrow up to $1 billion from the U.S. Treasury if necessary to pay claims losses. Also, since the inception of the program in 1968 through fiscal year 1986, the Congress appropriated about $2.1 billion (which represents about $3.3 billion in constant 1992 dollars) to the program; about half of the appropriation was to repay past loans from the U.S. Treasury, and the other half was to pay for administrative expenses. However, no appropriations have been made to the program since fiscal year 1986.

SUBSIDIZED RATES RESTRICT THE PROGRAM'S INCOME AND COVER STRUCTURES THAT INCUR GREATER FLOOD DAMAGE
--------------------------------------------------------------------------- Letter :3.1

The program is not actuarially sound because about 41 percent of the 2.7 million policies in force are subsidized. For a single-family pre-FIRM property, subsidized rates are available for the first $35,000 of coverage, although any insurance coverage above that amount must be purchased at actuarial rates. The Insurance Administration computed that total premiums paid by subsidized policyholders in fiscal year 1991 were about $780 million less than if these rates had been actuarially based and participation had remained the same. While the Insurance Administration only estimated the dollar value of the subsidy for this one year, the fund would currently have a significant reserve if rates had never been subsidized and participation in the program had not been affected by higher rates.
Pre-FIRM structures that are within an identified 100-year floodplain and are covered by subsidized policies are, on average, not as elevated as the post-FIRM structures in comparison with the base flood level. Insurance Administration officials told us that, on average, pre-FIRM structures not built to the program's standards are 4-1/2 times more likely to suffer a flood loss. When these structures suffer a loss, the damage sustained is, on average, about one-third greater than the damage to flooded post-FIRM structures. According to the Insurance Administration, when these two factors are combined, pre-FIRM structures suffer, on average, about 6 times more damage than post-FIRM structures.

THE PROGRAM'S RATE-SETTING PROCEDURES

Insurance rate-setting for national flood insurance differs, depending on whether a structure is covered by actuarial or by subsidized insurance rates. Subsidized insurance rates are available for pre-FIRM structures. However, post-FIRM structures, and certain pre-FIRM structures that qualify, are assessed actuarial rates.

Flood insurance can cover a structure and/or its contents. The maximum limits differ, depending on the structure; for example, the limits for a single-family structure are $185,000 for the structure and $60,000 for its contents.

ACTUARIAL RATES ARE BASED ON ACTUAL RISK EXPOSURES

Rates for post-FIRM construction are actuarial and are not subsidized by the federal government. The Insurance Administration's method for establishing these rates for post-FIRM structures lying within the 100-year floodplain follows a hydrologic method that is based on studies performed by the U.S. Army Corps of Engineers and private engineering companies. These rates are based on available hydrologic data, flood insurance claims, and simulations, as well as on engineering and actuarial judgment. According to the Insurance Administration, the basic data elements it needs to predict expected flood loss include (1) probability estimates of the frequency with which floods of different severity will occur and (2) estimates of structural property damage caused by different types of floods. The Insurance Administration accounts for several program expense items, such as agents' commissions and the program's administrative costs, in the actuarial rates. (See app. II for more details on the actuarial rate-setting process.)

Actuarial rates are based on actual risk exposures and generally vary according to several risk-related factors. The following are the most important of these factors:

The flood-risk zone. Owners of structures in zones subject to greater flooding risk pay higher rates than owners of structures in zones that have less severe flood risk.
The elevation of the structure relative to the base flood level. Even within a given flood-risk zone, the higher a structure is elevated relative to the base flood level, the lower the rates charged, because buildings at a higher elevation face a lower risk of flooding.

The amount of insurance purchased. Rates vary depending on how much insurance is being purchased. The Insurance Administration sets rates for the "first layer" (the first $45,000 of insurance purchased on a single-family dwelling) at a higher rate than for coverage above that amount. This feature of the program's rate structure reflects differential risks, since claims are more likely to be made against the first several thousand dollars of coverage than against much higher levels of coverage.

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\7 We have not independently reviewed the studies on which the Insurance Administration's data for actuarial rate-setting are based.

SUBSIDIZED RATES ARE SET BY ADMINISTRATIVE AND LEGISLATIVE PROCEDURES

Owners of buildings constructed before the completion of a community's FIRM or before January 1, 1975, whichever is later, can purchase subsidized insurance. In 1993, about 41 percent of the program's policies were subsidized, but this percentage will decline over time as newer properties join the program and are charged actuarial rates. Subsidized rates on pre-FIRM properties have never been set by an analysis of the underlying flood risk. Instead, they are set by an administrative and legislative process. Insurance Administration officials stated that the use of the average historical loss year as an overall financial goal for the program helps to provide a more objective standard for the setting of subsidized rates than was true in the past.

To encourage greater participation in the program, rates for subsidized policies were decreased during the 1970s. By contrast, in the 1980s subsidized rates were raised, and coverage became more limited as the Insurance Administration attempted to meet its financial goal of collecting revenues sufficient to at least meet an average historical loss year. Insurance Administration officials said that they would keep taking steps to make subsidized rates more reflective of their actual risk exposure by decreasing policy coverage and increasing policy deductibles.

For setting rates on subsidized policies, the Insurance Administration's current method is to first determine the revenue needed to cover non-loss-related costs, such as that for program administration, as well as to collect sufficient premiums to at least meet an average historical loss year, on the basis of the current policies in force and the current price level. Next, the Insurance Administration determines the revenue it will receive from policies
with actuarially based rates. The Insurance Administration then subtracts the expected revenue from actuarially based policies from the average historical loss year level to determine the minimum premium income needed from policies with subsidized rates. Finally, the Insurance Administration computes the subsidized rates on the basis of the minimum revenue needed and the expected number of subsidized policies. The proposed subsidized rates are published in the Federal Register for public comment and submitted for congressional approval as part of the Insurance Administration's budget and authorization proceeding.

For single-family pre-FIRM properties, subsidized rates are available only on the first $35,000 of insurance coverage; rates for any additional insurance coverage are actuarially based. Although subsidized, rates for the first $35,000 of coverage for single-family pre-FIRM properties are generally significantly higher than actuarial rates for the first $35,000 of coverage on single-family post-FIRM structures that were built in compliance with the program's building standards. For example, the actuarial rate on the first layer of coverage for a one-story single-family post-FIRM structure with no basement in an AE zone (an Insurance Administration-designated flood zone lying within the 100-year floodplain) that is built at the elevation of the base flood level is 33 cents per $100 of insured value. On the other hand, the subsidized rate on a similarly located pre-FIRM structure that does not meet the program's building standards is 55 cents per $100 of insured value. Subsidized rates are generally higher than actuarial rates because of the substantially greater flood risk posed by pre-FIRM properties when they are compared to well-situated post-FIRM properties.

Because of the lower rates for actuarially based policies, owners of pre-FIRM construction often apply for actuarial rates if they can qualify to do so. In order for a pre-FIRM structure lying within the 100-year floodplain to qualify for actuarial rates, the owner must obtain an elevation certificate that specifies that the lowest floor of the structure is at least at the base flood level. Approximately 29 percent of all of the program's policies are for pre-FIRM structures that have qualified for actuarial rates.

ACTUARIAL RATE-SETTING FOR POST-FIRM STRUCTURES

This appendix discusses the methodology used by the Federal Insurance Administration (FIA) for setting actuarial rates for structures that were built after flood insurance rate maps (FIRM) were prepared (referred to as post-FIRM construction). As discussed in the letter of this report, actuarial rates are charged on post-FIRM construction and on pre-FIRM construction that have been certified as meeting the National Flood Insurance Program's elevation standards. This appendix (1) describes actuarial rate-setting, (2) discusses key characteristics used to classify post-FIRM properties according to flood risk, (3) describes data elements necessary and the methodology used in the application of the hydrologic model for actuarial rate-setting, (4) discusses other components of actuarial rates, and (5) provides examples of post-FIRM actuarial rates for properties.
Insurance is a mechanism through which policyholders can pay a specific price in order to transfer a risk that they face to some other entity. For example, homeowners face the risk that their houses will burn down. By purchasing insurance at a predetermined price, a homeowner can effectively transfer, to an insurance company, most of the financial risk associated with losing a house to fire.

For a private-sector insurance firm to offer such risk transfer through the provision of insurance and remain profitable, it must set insurance rates high enough to cover expected claims losses, as well as non-loss-related expenses. To do this, a firm needs to set insurance rates in accordance with risk exposure or, in other words, the expected financial loss that the firm takes on by providing insurance on the current set of policies in force. Insurance rates that are set by taking into consideration estimated risk exposure are known as actuarial rates.

In the case of flood insurance, FIA uses a class-rating rather than an individual-rating system. That is, FIA classifies properties according to key characteristics of flood risk. All owners of properties in the same group are then charged the same rates. Even though individual risks may vary among properties within each risk group classification, these rates are actuarial in the sense that risk exposure for each classification of like properties is taken into consideration when setting the group's rates.

In order to set actuarial rates for national flood insurance, information about the risk of flooding is essential. One of the primary objectives of the National Flood Insurance Act was to identify flood-prone areas. In doing so, flood insurance rate maps, which have been completed for nearly all communities that were considered to be flood-prone, provide information that is crucial for classifying properties according to flood risk. The key characteristics that are used to classify properties according to flood risk include the flood zone and the elevation of a structure relative to the base flood elevation (BFE). Information about both the zone and the BFE are obtained from FIRMs.

Knowledge of the flooding risk zone is important for actuarial rate-setting because areas of differential flood risk should be
charged different rates. Each FIRM outlines the flood zones throughout the community. The zones with a first letter of either A or V, are classified as "special flood-hazard areas" (SFHA). These areas are believed to face a 1-percent or greater chance of being flooded in a given year and are also known as the 100-year floodplain. V zones include coastal areas that incur wind velocities and associated wave heights that pose additional risks to properties during flooding events.

The other major zone is zone X, which includes areas outside the identified 100-year floodplain.

\1 The majority of policies under the flood insurance program are for structures in an A zone or the X zone. Relatively few structures are in the V zones, accounting for less than 2 percent of all post-FIRM properties.

BASE FLOOD ELEVATION

The maps, in most cases, also delineate the BFE for areas that lie within the identified 100-year floodplain. The BFE is the elevation relative to mean sea level at which there is a 1-percent chance of flood waters rising to 1 foot or more in a given year. The level of the BFE within a community can change throughout the floodplain, and those changes are delineated on FIRMs. The establishment of the BFE in V zones also takes into account the elevation of storm surges and the expected height of wave crests above storm surges. Thus, they are called BFEWH--"base flood elevation with wave height."

Knowledge of the BFE is important for a couple of reasons. First, the program's building standards require that the bottom level of structures be built at least to the elevation of the BFE to ensure that structures are not subject to a greater than 1-percent chance of flooding in a year. Second, in terms of classifying properties according to flood risk, knowledge of the BFE is important, because flood risks vary with the elevation of a structure relative to the BFE: The more elevated a structure is, the less likely flood waters will reach it. Thus, rates are set so that structures with the lowest floor elevated above the BFE are charged lower rates than those elevated only to the BFE or below the BFE.

\2 Although post-FIRM properties are supposed to be elevated at least to the BFE, some properties may not meet this code. FIA provides rates for properties out of compliance on rate sheets as long as they are not more than 1 foot below the BFE. Rates for properties with the lowest floor elevated below the BFE are considerably higher. If a post-FIRM structure is more than 1 foot below the BFE, rates can be obtained by submitting to FIA directly.

THE HYDROLOGIC MODEL

\3
The basic method for establishing actuarial rates on post-FIRM construction lying within the 100-year floodplain follows the hydrologic model described in a 1966 report by the Department of Housing and Urban Development entitled Insurance and Other Programs for Financial Assistance to Flood Victims. The basic logic of the hydrologic model is to set flood insurance rates for a property according to its risk of being flooded. Thus, a major portion of flood insurance rates is based on the per annum expected dollar flood loss for a property of a given classification.

In the previous section, we noted that the key characteristics of the zone and the elevation of a structure relative to the BFE, which are available from FIRMs, are important for categorizing post-FIRM properties according to flood risk. Certain characteristics of the property, such as whether it has a basement, are also used for classifying properties according to risk. However, once a property is thus classified, all properties within the same group are charged the same flood insurance rates.

In the remainder of this section, we discuss the primary data sources necessary to apply the hydrologic model of rate-setting. These data provide information on the risk of flood for a given type of property within a given zone and of a particular relative elevation. We also discuss the hydrologic rate-setting model.

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\3 The method discussed in this section is used to determine actuarial rates for both the building structure as well as the insured's personal belongings, or the "contents" contained within the structure. Rates differ for these types of coverage, and buyers specifically purchase each type of coverage in order to be covered for both. Most of this discussion, however, focuses on coverage for the structure.

\4 Rates for post-FIRM properties in zone X, which are outside the 100-year floodplain, are set primarily through an analysis of previous years' claims.

ELEVATION-FREQUENCY RELATIONSHIP--"PELV" VALUES
------------------------------------------------------ Appendix II:3.1

A very important data element needed for the application of the hydrologic model is an estimate of the probabilities that floods of different severities, relative to the BFE, will occur in a given year. FIA calls these data probability of elevation (PELV) values. Within any zone, there is a 1-percent chance that flood waters will reach the BFE. However, across zones the likelihood that flood waters will reach 1-foot above or below that level will vary. For example, FIA notes that in zone A10 (currently part of zone AE), the probability of water rising to or above 1 foot below the BFE is 1.6 percent per year, and the probability of water reaching or exceeding 1 foot above the BFE is 0.6 percent per year.

PELV tables provide detailed information, by zone, about the
frequency with which we can expect floods of all possible water surface elevations to occur. These data were generated on the basis of detailed engineering studies, available flood insurance data, simulations, and professional judgments and were established for each flood-hazard zone to meet generally accepted scientific parameters and legal considerations. One of the problems in establishing PELV tables, however, was that the flood histories on which these studies were based were generally not very long. Statistical literature has shown that when the history of these events is too short, the number of occurrences is generally small which causes a bias toward establishing frequency probabilities that are too low. Consequently, the original PELV values were modified to account for this statistical bias.

DEPTH-DAMAGE RELATIONSHIP--"DELV" VALUES

A second necessary data element for the hydrologic model are estimates of the structural damage that will be suffered when a flood occurs. For a variety of depths of floods, and the associated depth of water in a structure, FIA has data, which it calls the depth-percent-damage relationship, or damage by elevation (DELV) values, that provide estimates of the percent of the value of a structure that is expected to be damaged. Information is presented by 1-foot increments of flood level within the structure and expressed as the average percentage of the property's value that will be damaged due to a flood of that elevation. For example, in 1987 DELV information, it was predicted that if water reached a depth of 2 feet within a one-story, no-basement structure located in the AE zone, 21 percent of the property's value would be damaged, and a depth of 4 feet of water within the same structure would cause a 29-percent value damage rate.

In A zones, it is assumed that damage will not begin to occur to a structure until water reaches the bottom of its lowest floor. However, depth damage tables for the VE zone include damage estimates before water actually reaches the lowest floor of the structure. In estimating expected damage to a structure in the V zones, it is assumed that damage—because of erosion, for example—begins to occur before water or wave action rises to the level of the structure.

As with the PELV data, information used in establishing DELV values was obtained primarily from engineering studies. In 1973, data for DELVs were selected on the basis of studies done by the U.S. Army Corp of Engineers and available flood claims at that time. Currently, DELV values in the AE zone are updated on the basis of claims data available from flood insurance policies since 1978.

\5 These additional risks of damage below the lowest floor of a structure are included in rate-setting by adding expected damage due to 20-year events and successively more serious events, each measured by an additional foot of flood waters, up to the point that water actually reaches the structure. Those additional damage estimates
are then factored into the DELVs used in the actuarial rate formula, which assumes the damage does not begin until water reaches the lowest floor of the structure.

FIA determines whether it has sufficient data on floods of different severities since 1978 to actually replace the original DELV values. If data are sufficient, then there is "full credibility," and the original DELVs are replaced with DELVs based on experience under the program since 1978. If not enough claims data exist for full credibility, DELVs are based on a weighted average of the original base table values and the experience data since 1978, where the weight of the latter is the ratio of actual experience claims to the number of experience claims necessary for full credibility. This would mean that, over time, the original, theoretical DELV values will have less weight in determining actual DELV values used for rate-setting, although this will happen much faster in the case of shallow-depth floods for which data (that is, claims from flood losses) will accumulate much more rapidly to allow credibility analysis.

EXPECTED DAMAGE ESTIMATES

Knowledge of the elevation-frequency relationship and the depth-damage relationship allows a summing up of the range of flood probabilities and their associated damage to property and contents. That is, each possible flood is multiplied by the expected damage should such a flood occur, and each of these multiplications is then added together. This summing up of each possible flood's damage provides an expected per annum percent of the value of property damage due to flooding. This expected damage can then be converted to an expected loss per $100 of property value covered by insurance. This per annum expected loss provides the fundamental component of rating-setting.

Expressing this mathematically, where i is measured in increments of 1-foot or less, the fundamental concept of rate-setting is:

$$P_{ELV_i} \times D_{ELV_i} \times \frac{1}{100}$$

Where:

- $P_{ELV_i}$ is the probability, in a given year, of water surface reaching or exceeding elevation i, relative to the BFE.
- $D_{ELV_i}$ is the percentage of property value damage to a structure due to a flood of elevation i.

m is the elevation at which flood waters reach the lowest floor of a structure.

M is the elevation at which the maximum amount of value damage to the structure is incurred--floods of a higher elevation are extremely rare.

The equation indicates that, for the set of structures of a given
type, in a given zone, and of a given elevation relative to the BFE, expected damage through flooding is estimated by summing the damage that could occur to such a structure through a set of possible flooding events, beginning with a flood that brings waters high enough to reach the lowest floor of the structure, at elevation $m$.\8 Increments of 1 foot for successively worse (and less likely) flood possibilities are then added until the point at which the maximum probable amount of damage is incurred--elevation $M$; at that point, worse floods are extremely unlikely to occur. Since the damage that will occur with different types of flooding are multiplied (that is, weighted) by the probability of a flood of that type occurring, the summation equals a per annum expected damage (as a percent of value) due to all possible flooding events.

Each zone is characterized by different probabilities of floods occurring (that is, different PELVs), and some have different damage consequences when a flood of a given elevation does occur (that is, different DELVs). Therefore, the formula provides different expected damage estimates across zones. Additionally, within a zone, the estimation is repeated for all different elevations of structures, relative to the BFE. Thus, the formula will generate lower rates for structures elevated above the BFE than for structures elevated to the BFE because it will take a storm of a greater severity to bring flood waters to elevation "$m$" for the more elevated structure. Finally, within a zone and for a given elevation of structure relative to the BFE, the calculation is repeated for several categories of structures. For example, structures with basements generally pay more than those without them, and structures with more than one floor above basement level generally pay less than those with only one floor above the basement level.

The formula shown above will provide a rate per $100 of purchased insurance. The rate is then multiplied by how many hundreds of dollars of insurance coverage are being purchased to determine the premium for an individual policy. Several other considerations about the per $100 rate, as well as policy fees, need to be considered, however. The next section discusses these additional issues.

\7 The method of summation approximates calculating the area under a curve through integration. The estimation approximates the area defined by a function that expresses expected damage due to floods that occur with different probabilities.

\8 In the AE zone, the elevation of a structure is measured at the top of the finished flooring of the lowest floor, while in the VE zone, it is measured at the bottom of the floor beam below the lowest floor.
Here, additional variables are included to take into consideration several issues or effects that are important for modifying expected losses or for building additional expense items into the rates. The rest of this section describes each of these additional variables.

THE LOSS ADJUSTMENT FACTOR--LADJ

Rates are "loaded," or adjusted upwards, by approximately 4.2 percent to account for costs associated with claims and loss adjustment. This is called the loss adjustment factor, or LADJ, in the actuarial formula. Data on previous years' costs for these tasks are used to develop the LADJ factor, which can change from the 1993 level of 4.2 over time.

THE DEDUCTIBLE OFFSET--DED

Currently, the deductible is $500 for most actuarial policies. This means that the first $500 of any claim that is filed is not covered under the program's policies. The fact that some portion of each claim will not be covered needs to be taken into account so that rates can be adjusted downward to reflect a lower risk to the program in insuring properties for flood loss. To do this, FIA uses a formula that converts the dollar level of the deductible, which was $500 in 1993, into a factor for the rating formula. This formula is based on experience data on the degree to which losses have been reduced due to the deductible, with any adjustments necessary to account for the current policies in force and inflation.

Currently, the deductible factor is approximately .95 for structures that accommodate one to four families, meaning that rates, per $100 of insured value, are reduced by about 5 percent due to the existence of the $500 deductible.

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\(\text{\footnotesize Lower flood insurance rates are available if the policyholder agrees to have a significantly larger deductible. This type of policy is not very common, however.}\)

\(\text{\footnotesize If the level of the deductible does not change, the rise in the general price level will cause the percent of damage that the deductible represents to decline. That is, a constant deductible will represent a smaller percentage of expected claims damage over time. Therefore, the formula underlying the DED factor takes into account the effect of inflation.}\)
The basic (PELV*DELV) relationship implicitly assumes that all policies are for full insurance, meaning that each policy covers the full value of the insured property. However, this may not be the case. The fact that people often underinsure causes the risk, per $100 of insurance premium, to be greater, since claims are more likely to be made against the first few thousand dollars of insurance coverage. Therefore, with underinsurance, the per $100 rate of insurance needs to be higher than in the full insurance case. The UINS factor adjusts rates for the degree to which people, on average, underinsure. FIA uses experience data on underinsurance factors and claims data since 1978 to develop the UINS factor for different zones and types of structures. More recent experience is given a greater weight in determining UINS factors. According to FIA officials, rates are currently adjusted upwards by about 20 percent due to underinsurance.

EXPESE ITEMS--EXLOSS

EXLOSS is a factor that loads rates for certain expenses, such as agents' commissions, certain costs of policy sales, as well as for contingency costs due, for example, to risk of unknown hazards. The factor was equal to .74 in 1992 for the AE zone, so that rates are increased by over 30 percent due to estimated EXLOSS costs.\11 The costs accounted for in EXLOSS are those that are related in part to the amounts of insurance that people are buying and the price (that is, the rate) for that insurance.\12

\11 For V-rated zones, EXLOSS was only .69 in 1992 because FIA builds in higher contingency costs for these zones.

\12 Two additional fees are added into premiums. These fees are not part of the rate per $100, but rather are added into each policy as flat fees no matter how much insurance a particular policyholder is buying. These fees cover certain expenses spread equally over all policies, as opposed to risk-related costs. The "expense constant," a $45 per policy charge, recaptures certain costs that are incurred in writing flood insurance policies. In addition, the "federal policy fee," a $25 per policy charge, supports flood insurance studies, floodplain management activities, and the administration of the program by the federal government.

EXAMPLES OF FLOOD INSURANCE RATES

This section contains examples of flood insurance rates to show how risk factors considered in the application of the hydrologic model result in differences in actual flood insurance rates. As noted throughout this appendix, rates are set for several categories of properties defined by the key characteristics of flood risk,
including the zone within which the property lies; the elevation of a structure relative to the BFE; and the type of structure. Another issue, however, has not been previously discussed—rate differences between rates for "basic" limits coverage and rates for "additional" limits coverage.

Basic limits rates apply to the first $45,000 dollars of insurance that is purchased by a policyholder for a single-family structure. If the buyer purchases more than $45,000 of coverage, the additional limits rates apply on any coverage over that amount.\13 The reason that rates differ depending on the amount of insurance that is purchased is that claims are more likely to be made against the first several thousand dollars of coverage; therefore, rates for basic limits coverage need to be considerably higher than rates for additional limits. The formula discussed earlier, with several important differences in the treatment of underinsurance considerations, is used to determine rates on both basic limits and additional limits. Since the probability values for floods creating very high levels of damage are lower, the formula generates rates for additional limits that are considerably less than basic limits rates.\14

\13 Over time, FIA has adjusted the level of insurance sold at basic limits rates. FIA uses experience data to determine the appropriate level at which rates per $100 of insured value should decline. In setting the $45,000 level, FIA examines available data on past claims and looks for a natural break in the relationship between premiums and losses. The rise in the price level over time will cause that break to rise.

\14 It would actually be more accurate to have several rate levels that decline as a higher level of insurance is purchased. FIA officials told us, however, that they use only two rate levels for simplicity, so as not to complicate the work of insurance agents in pricing insurance for the potential insured.

ZONES A1-A30, AE

The majority of post-FIRM structures lying within the 100-year floodplain are in what is currently called the AE zone. At one time, there were 30 numbered A zones, each of which was charged different rates. Because rate differences across these zones were very slight for post-FIRM properties, FIA now rates all numbered A zones together and has renamed the zone AE. Zone AE has many different post-FIRM rates, depending on the certain characteristics of the structure. In table II.1, we show rates for a one-floor, no-basement, single-family structures in the AE zone. In addition, the table shows rates for building coverage, as opposed to rates for contents coverage (which are generally higher). The table shows rates for both basic limits coverage—coverage up to $45,000—and additional limits, which is the rate for coverage over $45,000.
Table II.1

AE Zone Premium Rates for Certain Structures per $100 of Insured Value

<table>
<thead>
<tr>
<th>Elevation of lowest floor above or below BFE</th>
<th>Rate for basic limits</th>
<th>Rate for additional limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>+3 or more</td>
<td>$0.14</td>
<td>$0.06</td>
</tr>
<tr>
<td>+2</td>
<td>0.16</td>
<td>0.06</td>
</tr>
<tr>
<td>+1</td>
<td>0.21</td>
<td>0.06</td>
</tr>
<tr>
<td>-1</td>
<td>0.33</td>
<td>0.06</td>
</tr>
</tbody>
</table>

Note: These are the rates for a one-floor, single-family building without a basement.

ZONES V1-V30, VE

As with the numbered A zones, the original 30 numbered V zones have been combined and renamed zone VE. Less than 2 percent of post-FIRM structures are in the VE zone, which includes coastal areas subject to wind and wave action. In table II.2, we show rates for a structure in the V zone that is in compliance with the program's current building standards for the V zone. In the V zone, rather than having basic limits and additional limits rates, there are three sets of rates; the rates depend on the degree of underinsurance, relative to the replacement cost of the structure, that the policyholder has purchased. FIA uses this rate structure for the V zone because rates are high, and people have a greater tendency to underinsure. The rate structure in V zones gives people an incentive to insure more fully, since rates per $100 of insured value are lower the greater the coverage one buys. The table shows that rates in the V zone are substantially higher than in the A zone.

Table II.2

VE Zone Premium Rates for Certain Structures per $100 of Insured Value

<table>
<thead>
<tr>
<th>Elevation of lowest floor above or below BFE</th>
<th>75 percent or more of replacement cost</th>
<th>50 to 74 percent of replacement cost</th>
<th>Under 50 percent of replacement cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>+4 or more</td>
<td>$0.36</td>
<td>$0.48</td>
<td>$0.71</td>
</tr>
<tr>
<td>+3</td>
<td>0.41</td>
<td>0.56</td>
<td>0.83</td>
</tr>
<tr>
<td>+2</td>
<td>0.53</td>
<td>0.71</td>
<td>1.06</td>
</tr>
<tr>
<td>+1</td>
<td>0.71</td>
<td>0.96</td>
<td>1.35</td>
</tr>
<tr>
<td>&lt;mt:225gt;0</td>
<td>0.93</td>
<td>$1.25</td>
<td>1.69</td>
</tr>
</tbody>
</table>
Note: These rates are for a one-floor, single-family building without a basement.

OUTSIDE THE IDENTIFIED 100-YEAR FLOODPLAIN

Most properties not in the identified 100-year floodplain are in zone X, which includes properties outside of a special flood hazard area, or the 100-year floodplain.\15 One of the most important differences in rates in the X zone is that they are not set using the hydrologic model. Rates are the same across the entire zone for a given type of building, since BFEs are not defined within the zone. Table II.3 gives examples of building rates in the X zone for single-family structures with no basement.

Table II.3

<table>
<thead>
<tr>
<th>Zone X Premium Rates for Certain Structures per $100 of Insured Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic limits</td>
</tr>
<tr>
<td>$0.25</td>
</tr>
</tbody>
</table>

Note: These rates are for a one-floor, single-family structure without a basement.

\15 Zone X includes areas that used to be classified as either zone B or C.
Cost Information

The average cost for an annual flood insurance policy, as of April 30, 2000, is $353. This average was derived from the number of policies in force by the amount of written premium. The average amount of flood insurance coverage purchased, as of April 30, 2000, is $124,089.

Depending on where you live and the coverage you choose, flood insurance can cost just a little over $100 a year through the Preferred Risk Policy.

There are a number of factors are considered in determining the premium for flood insurance coverage. They include:

- amount of coverage purchased
- location
- age of the building
- building occupancy
- design of the building
- for buildings in Special Flood Hazard Areas, elevation of the building.
- buildings eligible for special low-cost coverage at a pre-determined, reduced premium rate are single-family and 1-4 family dwellings located in zones B, C, & X. Ask your insurance agent if you're eligible for a Preferred Risk Policy.

Cost & Coverage
Cost Comparison for $50,000 coverage
Premium Examples for a $100,000 home
Preferred Risk Policy Premiums

Updated: July 24, 2000
Cost and Coverage Data as of May 1, 2000

<table>
<thead>
<tr>
<th>Occupancy Type</th>
<th>Regular Program</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coverage</td>
</tr>
<tr>
<td>Single family</td>
<td>$124,300</td>
</tr>
<tr>
<td>Two to four family</td>
<td>$101,700</td>
</tr>
<tr>
<td>Other residential</td>
<td>$85,900</td>
</tr>
<tr>
<td>Non-residential</td>
<td>$218,600</td>
</tr>
</tbody>
</table>

*Premium values are based on Pre-FIRM Special Flood Hazard Area rates and includes Federal Policy Fee & Expense Constant. Premium does not include ICC premium.

Updated: July 24, 2000
Premium Examples For A $100,000 Single Family Home

If you own a home in a community that participates in the National Flood Insurance Program, you are eligible for flood insurance. More than 19,000 communities participate, so it's likely that your community does participate.

There are many factors that affect the price you'll pay for flood insurance. The higher your flood risk, the higher the premium. If you purchase $100,000 in building coverage for your home, your annual premium will vary depending on the area in which you live.

- If the property is located near the ocean and therefore subject to storm surge and hurricane damage, your building is most likely in a V Zone. Premiums in V zones can be more than $1,000 annually because your home is in the highest risk area.
- If the property is located near a river, lake or stream, your building is probably in an A zone. Premiums in A zones can be about $595 annually because of the high potential for flooding.
- If the property is located in a low-risk area, referred to as B, C, X or A99 zones, your premium could be as low as $306 annually using standard rates. You may also be able to get the Preferred Risk Policy. Click here for premium rates for the PRP.

Below are annual premiums for $100,000 of flood insurance coverage for a residential single family home:
Preferred Risk Policy Premiums

If your single family home is located in a low-risk area, which is a B, C, or X zone on the current flood insurance rate map for your area, you may be eligible for the Preferred Risk Policy. This policy covers both your home and contents with one premium, which can be as little as $106 a year.

Preferred Risk Policy Premiums

<table>
<thead>
<tr>
<th>Building with a Basement</th>
<th>Building without a Basement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Coverage Amount</strong></td>
<td><strong>Contents</strong></td>
</tr>
<tr>
<td>$ 20,000</td>
<td>$ 5,000</td>
</tr>
<tr>
<td>$ 30,000</td>
<td>$ 8,000</td>
</tr>
<tr>
<td>$ 50,000</td>
<td>$12,000</td>
</tr>
<tr>
<td>$ 75,000</td>
<td>$18,000</td>
</tr>
<tr>
<td>$100,000</td>
<td>$25,000</td>
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<tr>
<td>$125,000</td>
<td>$30,000</td>
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<tr>
<td>$150,000</td>
<td>$38,000</td>
</tr>
<tr>
<td>$200,000</td>
<td>$50,000</td>
</tr>
<tr>
<td>$250,000</td>
<td>$60,000</td>
</tr>
</tbody>
</table>

*Building deductible $500 and Contents deductible $500 applied separately. Premium includes Federal Policy Fee and Increased Cost of Compliance premium. Effective date: June 1, 1998*

Preferred Risk Policies (PRP) are only available for owners of 1-4 family residential buildings. Additionally should any of the following conditions apply to your home, based on its flood history regardless of ownership, a PRP cannot be written: *

- 2 loss payments, each more than $1,000
- 3 or more loss payments, regardless of amount
- 2 Federal Disaster Relief payments, each more than $1,000
- 3 Federal Disaster Relief payments, regardless of amount
- 1 flood insurance claim payment and 1 flood disaster relief payment (including loans and grants), each more than $1,000

If your home is in a low-risk area, and one or more of the above conditions apply or you own a building other than a 1-4 family home that is located in a B, C, or X zone, you can still purchase flood insurance.
insurance at the low-risk Standard Rates. [Premium examples for $100,000 of coverage for a single-family home.]

*Contact your insurance agent for all the eligibility requirements for a PRP.

*Updated: July 24, 2000*

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Federal Emergency Management Agency
<table>
<thead>
<tr>
<th>Pre or Post-FIRM</th>
<th>Zone</th>
<th>Other Rating Factors</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-FIRM***</td>
<td>Zone V1-30, VE</td>
<td>No Enclosure</td>
<td>$845.00****</td>
</tr>
<tr>
<td></td>
<td></td>
<td>With Enclosure</td>
<td>$1,090.00</td>
</tr>
<tr>
<td>Post-FIRM***</td>
<td>Zone V1-30, VE</td>
<td>At BFE*</td>
<td>$850.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Built between 1975-1981</td>
<td>1 Foot below BFE</td>
</tr>
<tr>
<td>Pre-FIRM</td>
<td>Zone A1-30, AE, AO, AH</td>
<td>No Basement</td>
<td>$595.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>With Basement</td>
<td>$700.00</td>
</tr>
<tr>
<td>Post-FIRM</td>
<td>Zone A1-30, AE</td>
<td>At BFE</td>
<td>$431.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1 Foot above BFE</td>
<td>$301.00</td>
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<tr>
<td></td>
<td></td>
<td>1 Foot below BFE</td>
<td>$1,251.00</td>
</tr>
<tr>
<td>Post-FIRM</td>
<td>Zone AO, AH</td>
<td>With Certification**</td>
<td>$201.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Without Certification</td>
<td>$585.00</td>
</tr>
<tr>
<td>Pre/Post-FIRM</td>
<td>Zone B, C, X, A99</td>
<td>No Basement</td>
<td>$351.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td>With Basement</td>
<td>$441.00</td>
</tr>
</tbody>
</table>

*BFE-Base Flood Elevation found on Flood Insurance Rate Map

**Certification is determined by an Elevation Certificate completed by a licensed engineer, surveyor or architect

***Pre/Post FIRM is determined by the date of the initial Flood Insurance Rate Map

****Premium values are based on total written premium plus Expense Constant, Federal Policy Fee and Increased Cost of Compliance premium. Effective date: May 1, 2000

**Updated: November 28, 2000**
The McKay Bay Nature Park was initially proposed to be the mitigation site, but EPA and FDEP determined that it was unacceptable since the portions of the bay were found to be contaminated.

EPA decided to designate Mobbly Bay as the location for the wetlands mitigation and formalized this substitution with the March 1997 Explanation of Significant Differences.

In a Consent Decree (CD) signed with EPA, Gulf Coast Recycling (GCR) agreed to perform the Remedial Design/Remedial Action (RD/RA) as well as reimburse EPA for past costs and the cost for wetlands mitigation. Under the CD with EPA, GCR established a trust fund to ensure that the Site would have sufficient funds to conduct the Remedial Action, including the wetlands mitigation project.

To date, all construction outlined in the OU1 ROD has been completed. The requirements of the OU2 ROD have also been completed. Annual groundwater and surface water monitoring will continue to confirm that groundwater levels remain below cleanup standards. The remedies selected for the OU1 and OU2 at the Kassouf-Kimerling Site are still effective and continue to protect human health, welfare and the environment.

EPA conducted a five-year review on June 18, 1999 and concluded that the Remedial Action Objectives have been achieved, the remedy is effective and functioning as designed, and continues to remain protective of human health and the environment. EPA, has consulted with the Florida Department of Environmental Protection in evaluating the Site for deletion, and has determined that all appropriate actions at the Kassouf-Kimerling Superfund Site have been completed in accordance with the site Records of Decision, and that no further remedial action is necessary. Therefore, EPA is proposing deletion of the site from the NPL.

Dated: July 26, 1999.

A. Stanley Meiburg,
Acting Regional Administrator, Region 4.
[FR Doc. 99–20039 Filed 8–4–99; 8:45 am]

FEDERAL EMERGENCY MANAGEMENT AGENCY

44 CFR Part 61
RIN 3067–AD02

National Flood Insurance Program (NFIP); Insurance Coverage and Rates

AGENCY: Federal Emergency Management Agency (FEMA).

ACTION: Proposed rule.

SUMMARY: We, FEMA, are proposing to apply full-risk premium rates under the National Flood Insurance Program to structures that have suffered multiple flood losses and whose owners decline an offer of funding to eliminate or reduce future flood damage.

DATES: Please send your comments on the proposal on or before September 7, 1999.


SUPPLEMENTARY INFORMATION:

Definition

One of our (FEMA’s) highest priorities is to correct the problem of multiple flood losses to older structures insured under the National Flood Insurance Program (NFIP). For the purpose of this proposal, we call a sub-category of these structures “target repetitive loss” buildings and define a “target repetitive loss building” as a “building with four or more losses, or with two or more flood losses cumulatively greater than the building’s value.” This definition is more specific than the broader category of buildings with multiple flood losses which many stakeholders of the NFIP may be more familiar with and which we have used frequently in the past to describe this national problem.

Scope of the Problem

The broader definition of a building with multiple losses, which we commonly use in the NFIP, is a building that has suffered within a ten-year period two or more losses, each resulting in at least a $1,000 claim payment. We know that there are about 87,000 such buildings in the country, and the total amount of claims paid by the NFIP since its inception for multiple loss buildings is $3.5 billion. Multiple loss buildings have accounted for 36 percent of all claims dollars paid under the program.

About half of those buildings, however, are no longer in the NFIP’s book of business for a variety of reasons. Some property owners have dropped their policies because we have imposed limitations on flood insurance coverage, such as not insuring personal property in basements. FEMA’s mitigation projects have reduced the flood risk of a number of properties with repetitive losses through elevation or flood-proofing. In addition, some of these properties are now protected by flood control projects and storm water management projects. Also, the enforcement by State and local governments of the NFIP’s flood plain management standards for elevating or flood-proofing substantially damaged properties has had a positive effect in reducing the exposure to flood loss of a number of these properties.

In spite of this, the NFIP still insures about 43,000 multiple loss buildings. We have already paid $2 billion in flood insurance claims on these currently insured buildings, and we estimate that the continuing cost to the NFIP for these properties insured under the NFIP will average $200 million each year.

Target Buildings

Of the 43,000 multiple loss buildings insured under the NFIP, about 8,800 have had four or more losses. In addition to these, there are another 1,300 insured buildings that have had two or three losses that cumulatively exceed the building’s value. We have concluded from our actuarial studies that employing mitigation strategies for these roughly 10,000 buildings, such as relocating or elevating them, will be cost effective. These buildings will be the “target repetitive loss buildings” of this proposal.

Repetitive Loss Strategy: Objectives

We are aware that there are some multiple loss properties that demand immediate attention where the residents are at a high personal risk because of their exposure to flooding. There are other properties—often celebrated in the media—where we have made claims payments under the NFIP that exceed the value of the building, and where it makes good business sense to reduce their exposure to loss. We cannot merely shift the costs of the NFIP to other programs. So we must adopt a comprehensive approach under the NFIP that uses both mitigation, such as
relocating buildings out of harm’s way or elevating above estimated flood elevations, and insurance such as an adjustment of premium rates.

Insurance for Pre-FIRM Properties

The National Flood Insurance Act of 1968, as amended, authorizes us to offer flood insurance at less than full-risk premiums for older structures in return for a community’s enforcement of floodplain management requirements. Congress recognized that in authorizing the flood insurance program there would be a trade-off: federally-backed flood insurance would be available for structures at a high flood risk built without the benefit of detailed flood risk information. In return, the local government would adopt and enforce flood mitigation standards that make future construction resistant to future flood loss. To make such efforts effective, we have worked with more than 19,000 communities and their state governments to develop the kind of detailed flood risk information needed for flood mitigation efforts.

Properties built before the publication of the Flood Insurance Rate Map (FIRM) have been eligible for less than full-risk premiums. (For this proposed rule, we call buildings constructed before the effective date of the FIRM “pre-FIRM” buildings.) Our actuarial studies show that the owners of repetitively flooded buildings insured under the NFIP do not pay premiums that truly reflect the risk. What that means is that property owners who have collected claims payments have been paying and continue to pay less than full-risk premiums.

Insurance Component of the Repetitive Loss Strategy

This proposed rule would apply full-risk premiums for flood insurance coverage to the “target repetitive loss buildings” whose owners declined an offer of mitigation funding authorized by FEMA. Under this proposal, if the owner of a target repetitive flood loss building declines such an offer of mitigation funding to relocate, elevate, or flood-proof the structure, then that owner would upon the next policy renewal have to pay full-risk premiums for flood insurance coverage under the NFIP. To allow us to consistently track and to minimize the burden on companies writing flood insurance under the Write Your Own program, we plan for companies to begin referring on May 1, 2000, all renewals for coverage of target repetitive loss buildings and new policy applications for such buildings to the NFIP Servicing Facility. In this way, we can centralize the processing and data collection needed to implement this strategy.

National Environmental Policy Act

Pursuant to section 102(2)(C) of the National Environmental Policy Act of 1969, 42 U.S.C. 4371 et seq., and the implementing regulations of the Council on Environmental Quality, 40 CFR parts 1500-150, FEMA is conducting an environmental assessment of this proposed rule. This assessment will be available for inspection through the Rules Docket Clerk, Federal Emergency Management Agency, room 940, 500 C St. SW., Washington, DC 20472.

Executive Order 12866, Regulatory Planning and Review

This proposed rule is not a significant regulatory action within the meaning of sec. 2(f) of E.O. 12866 of September 30, 1993, 58 FR 51735, and has not been reviewed by the Office of Management and Budget. Nevertheless, this proposed rule adheres to the regulatory principles set forth in E.O. 12866.

Paperwork Reduction Act

This proposed rule does not contain a collection of information and is therefore not subject to the provisions of the Paperwork Reduction Act.

Executive Order 12612, Federalism

This proposed rule involves no policies that have federalism implications under Executive Order 12612, Federalism, dated October 26, 1987.

Executive Order 12778, Civil Justice Reform

This proposed rule meets the applicable standards of section 2(b)(2) of Executive Order 12778.

List of Subjects in 44 CFR Part 61

Claims, Flood insurance.

Accordingly, we propose to amend 44 CFR part 61 as follows:

PART 61—INSURANCE COVERAGE AND RATES

1. The authority citation for Part 61 continues to read as follows:


2. In §61.8, paragraphs (b) and (c) are redesignated as paragraphs (c) and (d), respectively, and a new paragraph (b) is added, reading as follows:

§61.8 Applicability of risk premium rates.

(b) Any target repetitive loss building whose owner has declined an offer of mitigation assistance authorized under any FEMA mitigation program. (A target repetitive loss building is one that has had within a ten-year period two or more losses, each resulting in at least a $1,000 claim payment. In addition, the building has suffered four or more insured flood losses or two insured flood losses cumulatively greater than the building’s value.)

* * * * *
Floods are not selective in their destruction. They do not respect wealth or privilege, class or creed. In their wake, they simply leave mud splattered memories, where once stood a thriving community. And they are anything but rare. Every year, floods account for over $2 billion in property damage. Worse still, they can happen anywhere. In fact, about 25% of all flood insurance claims come from areas that are not even designated high risk.

Floods are a nightmare not just experienced by “other people.” Yet, in too many cases, we don’t have flood insurance because we make the mistake of believing our homeowners’ insurance covers flood damage. It doesn’t.

There is an answer though. It’s called National Flood Insurance. It’s easy to get through your local insurance agent and is backed by the Federal Government. Plus, it could cost little more than $100 a year, depending on where you live and the coverage you choose.

Life may not be waterproof, but your insurance coverage should be.

CALL NOW 1-888-724-6375
(TDD # 1-800-427-5593) or talk to your insurance agent.
www.floodalert.fema.gov

AD# FEM-GEN-M6527-A-724-6375
TRADITIONAL HOME-OCT.’00

[Image credit: FEMA National Flood Insurance Program]
(NAPS)—Flooding is the most common and widespread natural disaster. It can occur just about anywhere, anytime. And yet, most Americans are still unprotected against flood loss. Whereas no one can prevent flooding, the National Flood Insurance Program (NFIP), a part of the Federal Emergency Management Agency (FEMA), wants to lower your risks by raising your Flood IQ.

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

What is a flood? The Standard Flood Insurance Policy defines a flood, in part, as a general and temporary condition of partial or complete inundation of normally dry land areas. Flooding is caused by overflow of inland or tidal waters or by the unusual and rapid accumulation or runoff of surface waters from any source.

What does insurance cost and what does it cover? The average premium for an NFIP flood insurance policy is less than $350 per year for more than $120,000 worth of coverage. However, for homes in lower risk areas, a flood insurance policy is available for significantly less.

National Flood Insurance is available for homes, condominiums, apartments and commercial structures, as well as for their contents. It is sold through thousands of insurance agents throughout the country. While flood insurance does not cover basement improvements or personal belongings kept in a basement, it does cover structural elements, essential equipment and other basic items normally located in a basement.

How much coverage can you purchase? Homeowners can get up to $250,000 of structural coverage and businesses up to $500,000. There is separate contents coverage, up to $100,000 for residential and $500,000 for non-residential dwellings, so renters can get flood insurance, too.

How do I file a claim? Contact your insurance agent. Claims are paid even if a disaster is not declared by the President. You can even request a partial payment immediately.

What's the difference between disaster assistance and flood insurance? Typically, federal disaster assistance is a loan that must be paid back with interest. Flood insurance pays for all covered losses and does not have to be repaid. Flood insurance claims are paid from policyholder premiums, not taxpayer dollars. The annual cost for flood insurance is about the same as the monthly payment on a disaster home loan.

For more information about the NFIP, ask your insurance agent, visit the Web site at www.floodalert.fema.gov or call the NFIP toll-free at 1-888-CALL-FLOOD, ext. 445.
Article II, Section G of the 2000-2001 Write Your Own (WYO) Financial Assistance/Subsidy Arrangement states that "the company shall market flood insurance policies in a manner consistent with the marketing guidelines established by the Federal Insurance Administration (FIA)." This document contains those guidelines.

These guidelines are not a mandated list of activities. Rather, they reflect the accepted and effective marketing practices used by successful companies throughout the property and casualty insurance industry. More importantly, they outline the activities pursued by WYO companies that have participated in and benefited from the Cover America campaigns and have met their flood insurance sales goals.

One of FIA’s contributions to its partnership with Write Your Own (WYO) companies is a comprehensive nationwide flood insurance marketing initiative, called Cover America. WYO companies have been, and will continue to be, involved in the implementation of Cover America, which first kicked off in October 1995. And now, through Cover America II, FIA is branding the NFIP to help establish it as a well-recognized, trusted organization that helps people protect against and prevent flood damage.

The ultimate success of this marketing initiative depends upon WYO company participation. By using the marketing tools, messages, and strategies of the national campaign, you can make sure people know that they can get reliable information about flood insurance, as well as buy a policy, from you and your agents.

Why not benefit from the experiences of others who have followed these guidelines? Whether you participate in the NFIP Co-op Advertising Program, enlist your agents in the Lead Referral Program, create customer communications about flood insurance, or conduct seminars for your local business and community organizations, FIA recommends that you develop an appropriate mix of marketing activities to help you accomplish your goals for increasing and retaining flood insurance policies. FIA’s interest, as is yours, is to see that the funds are available from paid flood insurance premiums to help people recover from flood damage and to reduce the number of uninsured flood losses that burden taxpayers - that includes all of us individually.
FIA Marketing Guidelines For WYO Companies

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In short, the WYO Marketing Guidelines consist of the following recommendations:

1. Write down your goals for the year and check progress at least quarterly.
2. Provide your agents with the tools necessary to write flood insurance.
3. Tie in with Cover America and become an advertising partner.
4. Use promotions, public relations, and grassroots activities to benefit you and your agents.

Guideline Number 1: Write down your goals for the year and check progress at least quarterly.

Creating a well-thought-out marketing plan with a few key strategies and tactics, then writing it down, is the best way to achieve your annual flood insurance sales goals. During your annual budget-planning period, FIA recommends that you set aside specific funds for flood advertising and marketing activities. Then decide how much you wish to allocate to retaining policyholders, acquiring new flood insurance customers, and pursuing other initiatives.

Here are some of the questions you may want to ask yourself when developing an action plan to achieve your sales goals.

For specific areas

- What local areas should you target for your marketing and advertising efforts? Which areas provide the most sales potential?
- When is the best season, by county or town, to promote flood insurance?
- What past local flood events may remind homeowners of their risk? How can you trigger those memories to generate interest?
- What local flood statistics can be used to convince people in those areas of their risk?
- Where are most of your voluntary-versus-required policies, and how can you reach both most effectively?
- What local community groups would welcome a "talk" about floods and flood protection?
- What medium typically produces the best return on advertising dollars for your agents and/or company - television, newspaper, Yellow Pages, direct mail, magazines?

About your current customers

- How many of your current homeowner policyholders don’t have flood insurance?
- How many other policyholders (e.g., life, health, disability, auto) live in medium- to high-risk areas? To whom can you offer
Preferred Risk Policies?
- Which of your current customers can you target for cross-selling opportunities?
- How many of your existing flood insurance policyholders with standard flood insurance policies located in B, C, or X zones qualify for the Preferred Risk Policy?
- What percentage of flood insurance customers renew each year? What percentage are required to renew? How will you keep these customers?
- What percentage of your flood insurance sales goal will come from customers who have other types of policies with your company?

About your agents
- Which agents sell the most flood insurance? What territories do they service?
- What methods do they use to sell flood insurance?
- Which agents have the greatest flood sales potential (based on flood risk, population, and penetration of the agent’s prospecting territory)?
- Where is training needed?
- What marketing support do agents say they need to sell flood insurance?
- Do your agents participate in the NFIP Co-op Advertising Program?
- Do you have your own co-op advertising program? How much could you afford to cost-share with your agents?
- Are your agents part of the NFIP Lead Referral Program?

About your systems
- What systems/procedures are in place to help agents track response to advertising and the sales it generates?
- Are agents advised of flood insurance policy lapses so they can follow up with and renew customers?
- What procedures are in place to follow up properly and close leads generated from advertising activity?
- How can you make it easier for your agents to sell and write flood insurance, such as free zone determinations or flood insurance rating software?
- What services do you provide to your agents?

Guideline Number 2: Provide your agents with the tools necessary to write flood insurance.

People trust their insurance agents to provide them with the most accurate information about flood insurance. Are your agents ready to provide that information? Are they ready to close the sale? You can
make sure your agents are ready in a number of different ways:

- **Provide flood insurance training.** Conduct your own training or provide information about the NFIP’s agent workshops that are held throughout the country. You can even hold a sponsored seminar for your agents. For more information about agent workshops and sponsored seminars, call your NFIP regional office or your WYO Program Coordinator. You can also get information about the workshops and locations at www.floodalert.fema.gov. Click on Information for Insurance Companies then click on the link for [Workshops, Seminars & Training](http://www.floodalert.fema.gov).

- **FIA accepts credit card payments for flood insurance premiums.** If your company takes advantage of this payment method, inform your agents. Using a credit card may make paying for flood insurance more manageable for potential policyholders and gives your agents another selling point to help close the sale.

- **Offer a special Help Desk for agents with questions about flood insurance.** You probably already have a toll free number your agents can call if they need help with other lines of insurance your company offers. Make sure to have flood insurance information here as well, so your agents have a source to call if they have any questions.

- **Tell your agents about the wide variety of free materials that are available from the NFIP.** Some of these target insurance agents, and many are designed to be used by agents to provide information to current and potential customers about flood insurance. To order, call 1-800-480-2520, or go to the NFIP website at www.floodalert.fema.gov and see what is available.

- **Include information about flood insurance in your regular agent communications.** How do you currently provide information to your agents? It could be as simple as including a brochure, stuffer, or fact sheet about flood insurance with commission checks. You can use an article from FIA’s newsletter, Watermark, or other flood insurance materials to write a piece about flood insurance in your newsletter or e-mail messages to agents. Also, explore other ways to provide flood insurance information your agents can use.

- **Place your agents’ names on the Watermark mailing list.** Even if you have regular communications of your own with agents, encourage your agents to place their names on this mailing list. To ensure your agents benefit from this newsletter, simply give your agent file to your WYO Program Coordinator, who will add it to the subscription list. Watermark supplies you and your agents with all the latest information about flood insurance in interesting and
informative articles.

- **Advise your agents of the value of flood maps.** Provide them to your agents for their customer base, or encourage them to order flood maps themselves. Help your agents locate their local special flood hazard areas. Use the local flood maps in training sessions and for target marketing. You can order flood maps from the FEMA Map Distribution Center by calling 1-800-358-9616. Information about flood maps is also available on the website. Go to www.floodalert.fema.gov, click on Information for Insurance Companies, then click on Flood Risk and Map Information. Specific information and prices can also be found in the Flood Insurance Manual in the Flood Maps section. By ordering flood maps and setting up an account, you will receive map revisions automatically.

- **Make sure your agents know about the Preferred Risk Policy.** Instead of turning down a flood insurance sale when someone calls, make sure your agents are ready to tell them about the Preferred Risk Policy (PRP), which is easy to write and inexpensive. More and more people are calling to purchase flood insurance voluntarily. Arm your agents with information to help them provide the best customer service to these people. Review your existing book of Standard Flood Insurance Policy (SFIP) customers in B, C, and X zones who may qualify for the PRP. Offer them the opportunity to switch at renewal and save on premiums.

- **Encourage your agents to get connected!** By going to the NFIP website at www.floodalert.fema.gov, they (and you) can get a wealth of free information:
  - Flood Insurance Manual
  - Community Status Book
  - Flood insurance bulletins
  - NFIP training and workshops
  - NFIP logo and graphic standards for use
  - Text from many NFIP publications
  - Watermark and the annual Stakeholder’s Report
  - Flood policy and claim information by state
  - Flood map information

A subscription service on the NFIP website will be available soon to provide an e-mail notification when new or updated information is on the site.

- **Make flood insurance a priority.** When you do, your agents will take it seriously. By taking the steps in this document and developing ideas of your own, your agents will know that flood
insurance is important to your company, and they can rely on you to provide them with the assistance they may need to sell and service these policies.

Many insurance agents have successfully built entire businesses writing flood insurance. Some have earned the "Agency of the Year Award" at our National Flood Conferences. Many of their sales techniques are included in these guidelines. We urge you and your agents to implement them. By providing the support and communication your agents need to write more flood insurance policies, you can make sure that potential customers turn to your agents when they are ready to buy flood insurance.

**Guideline Number 3: Tie-in to Cover America and become an advertising partner.**

**The New Campaign**

In 1999, FIA initiated the Cover America II campaign. The foundation for the Cover America II campaign is an effort to brand the NFIP. By branding the NFIP, awareness and attitudes about the Program and about flood insurance will improve, which will lead to increased flood insurance sales. The components of the campaign - paid advertising, public relations, and co-op advertising - all support the effort to brand the NFIP and make it easier for WYO companies and agents to sell flood insurance.

Here’s how you can use the campaign most effectively.

**NFIP Leads Program**

Make sure your agents are signed up for the NFIP Leads Program. Through this program, people who call the NFIP and need an insurance agent to write flood insurance are referred to one of the Leads Program agents. When agents sign up for the NFIP Leads Program, they also will get leads from those who respond in writing (through reply cards and reader service cards), which means even more flood insurance leads for your insurance agents!

*Between October 1995 and August 2000, more than 105,000 people - close to 20 percent of all callers - were referred to an insurance agent to get a policy. In follow up calls with these people, close to 30 percent said they bought a policy.***

Here’s how it works:

- Prospects who call are asked if they currently have an insurance company or agent. If they do, FIA—through the Telephone Response Center (TRC)—refers them back to their own agent. If
they don’t, they are asked if they would like the name of an agent to contact.

- If they want the name of an agent, the TRC service representative reviews the list of all the agents who wish to receive flood insurance leads and selects an agent based on the prospect’s location.
- If several agents cover a specific territory, once an agent is selected, his or her name is flagged and the next caller in that area will be referred to the next agent on the list.

It’s easy to sign up . . . just have your agents fill out the Lead Referral Program sign-up form, and they will be included in the database of agents who have committed to following up on flood insurance leads. FIA encourages you to provide sign-up forms to your best "flood" agents. For a sign-up form, call the FEMA fax at (202) 646-FEMA and request document 23017. Information is also available on the NFIP website at www.floodalert.fema.gov. From the homepage, select Information for Insurance Companies, then click on Marketing and Advertising Campaign.

NFIP Logo, Flood Photos, and Collateral Materials

The new NFIP logo is the foundation of FIA’s effort to brand the NFIP. The more people see the logo, the more they will start to recognize it and know what it means. WYO companies and insurance agents should include the logo on their own NFIP and flood insurance materials. It is easy to download from the NFIP website at www.floodalert.fema.gov. From there, click on Information for Insurance Companies, then select Marketing and Advertising Campaign.

FIA also makes photos of floods available for WYO companies and agents to use on their own materials. This Flood Photo Library is being expanded, making even more compelling photos of floods and the damage they cause available for use.

Information about the benefits of flood insurance, myths and facts about the NFIP, comparisons between flood insurance and disaster assistance, and other collateral materials is available free of charge to WYO companies and insurance agents. For a listing of available materials, to find out about new brochures that are available, and to get a materials order form, call the FEMA fax at (202) 646-FEMA and request document 23024. If you want just the text, go to the NFIP website at www.floodalert.fema.gov and click on About the NFIP, then go to the Publications area and simply copy the text into your own brochure, fact sheet, or advertisement.

The NFIP Co-op Advertising Program

Insurance companies and agents can save up to 50 percent of their flood
insurance advertising costs when they participate in the [NFIP Co-op Advertising Program](http://www.fema.gov/nfip/mrkguide.htm). Additionally, flood insurance ads that mention other insurance products can qualify for 25 percent cost-sharing with the NFIP. However, you must apply and be approved for funding before you advertise because support is available on a first-come, first-served basis. Companies are notified in advance if changes are made to the NFIP Co-op Advertising Program.

To participate, you can either create your own flood insurance ad or use one of the professionally designed ads that have the same message and images as the national campaign. These are available for free and are designed to be customized to include company or agent information. Make sure to send your flood insurance ad or commercial to the NFIP Co-op Advertising Manager for pre-approval before it runs to be sure it qualifies for reimbursement. For more information about the NFIP Co-op Advertising Program, call 1-800-564-8236. You may also check out the NFIP website at [www.floodalert.fema.gov](http://www.floodalert.fema.gov) and select Information for Insurance Companies. Then select [Marketing and Advertising Campaign](http://www.fema.gov/nfip/mrkguide.htm).

*From January 1996, when the co-op program was first offered, through July 2000, nearly 1,800 insurance companies and agents have participated in the program, running close to 9,000 flood insurance ads in newspapers, Yellow Pages directories, magazines, television, radio, and even billboards!*

**Supplement the NFIP Co-op advertising program with one of your own.**

Supplement the NFIP Co-op Advertising Program with your own cost-sharing program to encourage more agents to advertise flood insurance more frequently. So while FIA contributes 50 percent to the cost of the media, you could contribute another 25 percent to make it even more appealing and affordable for your agents to generate flood insurance leads.

With your buying power and organizational strengths, you can help your agents and sales staff in several ways.

Here are some ideas…

- Offer to share costs for print and broadcast advertising if your agents meet certain criteria that you establish.

- Create a Yellow Pages program that simplifies ad creation and placement for your agents with their full participation. You can use the NFIP Yellow Pages ad slick for display advertising, or suggest Trademark listings to your agents. This is an ideal way to make sure that your campaign theme is consistent throughout your
target marketing area.

- Prepare brochures and other print materials that your agents can customize and imprint with their own addresses and phone numbers. Suggest that agents order free materials from the NFIP.

- Buy specialty advertising items in bulk and offer them to your agents at your low cost if they agree to participate in a comprehensive program.

- Develop a winning national sales promotion that can also work on a regional or local basis, and invite agents to participate. Example: a nationwide tie-in with a hardware or builder’s supply chain or franchise organization. Encourage your agents to partner with the representatives of the chain or franchise in their regions.

- Create an ad that appears with a coupon to clip or a separate reply card. Coupons and response cards are a call-to-action that triggers people to pick up the phone and call, or to fill out the coupon or reply card and send it in.

- Radio can be used cost-effectively to "swamp" a market. You can purchase several announcer-read spots on your local station and avoid budget-breaking production charges. Radio does produce leads, especially if your phone number is easy to remember and mentioned more than twice in the commercial.

- Cable television typically reaches a more upscale viewer because people must pay to subscribe to the service. Cable has also been proven to be the best type of television advertising to produce phone calls from interested prospects (versus local television or even network television).

**How you can benefit from Cover America advertising.**

After almost five years of experience, FIA can provide you with some tips that may work for you when you decide on your own flood insurance advertising and marketing activities:

- Weekly newspapers in local communities are very popular among agents who advertise with our NFIP Co-op Advertising Program. While daily papers are a fine way to get your name in front of community leaders as well as new prospects, weeklies have a longer shelf-life. People save them and often refer to them later.

- Consumer magazines have special inserting capabilities and can, therefore, regionalize their advertising. WYO companies that serve only parts of the nation should seriously consider placing ads in regional editions of well-read magazines such as *Time*, *U.S.*
Use consumer magazines as a "locator" vehicle. List all the agents that sell flood insurance in an entire region in one ad, so prospects can locate and call the one nearest them. Share the cost of the ad with the agents who are listed.

Many Yellow Pages directories not only have the usual "Insurance" heading, but will create a subheading for "Flood Insurance" under the insurance heading. When you list your company, agents, or agency name and phone number, be sure to request that it appear under "Flood Insurance," so prospects call you when they are specifically interested in purchasing flood insurance. Remember internet directories, such as www.bigyellow.com, where you will find the NFIP toll-free number listed.

Advertise the fact that you sell flood insurance in all of your materials even when you are prospecting for life, health, or other property and casualty business. Add "flood" to your letter head, business cards, and other frequently distributed material. Letting people know that you also sell flood insurance only enhances your potential for gaining new business.

Guideline Number 4: Use promotions, public relations and grassroots activity to benefit you and your agents.

There are many ways beyond traditional advertising to establish yourself as the source for flood insurance. People rely on their agents for education and advice about flood insurance. Here are some tried and true suggestions for getting the word out:

- Community newsletters and newspapers are always looking for interesting and educational articles to share with their readers. Why not write one about flood insurance, and position your company and agents as expert sources for flood insurance information and sales?

- Human interest articles about your customers who were happy that their agent suggested flood insurance (like a testimonial) or about agents/producers who helped to protect families from the
devastation of floods reinforce the company’s commitment to its responsibilities.

- Professional and neighborhood organizations are always looking for guest speakers and public awareness information to share with their members. Organizations such as the Kiwanis Club, the PTA, Boy Scouts of America, and Lions Club are all networking opportunities for you. Plan to present some local information that will grab the audiences attention immediately. Bring along handouts (free brochures, as mentioned earlier, are available from the NFIP) and set up a table with a variety of materials for interested prospects to take home.

- Take advantage of flood insurance prospecting opportunities by having a booth or table at local home shows (you can borrow the NFIP booth by calling your WYO Program Coordinator). Be sure you are able to reference local flood events and the number of residents who never expected flood damage but were paid claims. Poster-sized photos of recognizable areas lend a dramatic touch to your display. Our research indicates that the more you can tailor your flood insurance message to local hazards and events, the easier it is to overcome the perception that "it can never happen to me."

- Encourage your agents to conduct direct mail initiatives to new prospects and/or to their existing customer base. Whether you include flood insurance stuffers with policy premium statements or use free NFIP brochures as the centerpiece of a prospect mailing to homeowners and business owners located in areas adjacent to high-risk zones, you may generate flood insurance leads and bring more business your way. Sending postcards to your homeowner insurance customers reminding them that they aren’t covered for floods is a successful cross-selling tool.

- Establish sales incentives for agents around key flood seasons, remembering that there is a 30-day waiting period before policies become effective. Whether a "snow melt" or a "hurricane" theme, set achievable sales goals to build excitement for the product. Bring your winners to the annual National Flood Conference as a reward.

- Sponsorships of local youth sports teams, community events, school programs, and the like create a special kind of goodwill that provides a payoff beyond dollars and cents.

- Flood insurance policy retention programs pay off in a big way. It costs much more to gain a new customer than to keep one already on the books. Be sure to contact flood insurance customers before it’s time to renew, whether by phone or mail, to reinforce the
value of their policy.

- Get your community involved in the Community Rating System, a program that can earn communities flood insurance premium discounts between 5 percent and 45 percent if they implement measures beyond those required for NFIP participation. You can help educate officials in your community about the benefits of participation, which include reducing flood damage and saving your policyholders money. For details, visit www.floodalert.fema.gov. Click on Information for Insurance Companies then scroll down to the link to Community Rating System.

- Support FEMA’s initiative, Project Impact: Building Disaster-Resistant Communities. You can help your community get involved with Project Impact and offer to be their resource for information about floods and other natural disasters and how individuals and communities can prepare for, prevent, and protect against damage from local hazards. For more information, visit www.fema.gov/impact.

And In Conclusion

These marketing guidelines are just that: guidelines. Many WYO companies are already doing a number of these things for the bulk of their business and just need to adapt and slant them to fit the special needs of flood insurance prospects.

FIA is not attempting to define, steer, or mandate the kind and style of marketing that WYO companies do. FIA wants to work together with you – as partners – to protect more people with flood insurance. To help keep you up-to-date with FIA’s marketing activities, the monthly Cover America II Update is mailed to all WYO companies. You can also get the current and past updates from the NFIP website at www.floodalert.fema.gov.

Appendix

Cover America Research and Analysis Results You Can Use

Since 1995, FIA has conducted consumer research, including surveys and focus groups, and performed a return on investment analysis of the campaign using information from 1994 through 1999. Findings from this research and analysis can help you determine the most effective messages, media outlets, and timing for your advertising. Details and tips are listed below.

Highlights of Quantitative Research with Consumers
Surveys are conducted with consumers two or more times a year to assess their attitudes about flood insurance, the NFIP, FEMA, insurance companies and agents; their knowledge about floods and flood insurance; their recall of flood insurance advertising; and why they do or do not have flood insurance. Below are some highlights from this research and tips on how to use the information.

Of those who recall seeing flood insurance advertising, 65 percent report that they saw it on television.

**TIP:** Use television advertising to let people know that your company and agents sell flood insurance. Save 50 percent of your advertising costs through the NFIP Co-op Advertising Program.

Thirty-five percent of consumers say they don’t have flood insurance because they cannot get it in a high-risk area; 49 percent of consumers believe flood insurance is too expensive.

**TIP:** Promote the Preferred Risk Policy, available for homes in low-risk areas, which starts at just a little more than $100 a year.

Seventy percent of consumers have a favorable opinion of their insurance company; 82 percent of consumers have a favorable opinion of their insurance agents and view their agents as reliable sources of information.

**TIP:** Provide your agents with accurate information about flood insurance to share with existing clients, and with interested consumers who call for information or are referred to your agents through the NFIP Lead Referral Program.

Seventy-five percent of consumers expect their insurance company to pay for losses caused by natural disasters such as floods; only 2 percent believe that the federal government would pay for their recovery.

**TIP:** Educate your current clients about flood insurance and disaster assistance to show why flood insurance provides the best way to recover after a disaster. Use information from the publication: Here’s What to Tell Your Clients about the Benefits of Flood Insurance.

Thirty-seven percent of all consumers surveyed believe their homeowners policies would cover flood damage if they were flooded; 77 percent of consumers who report that they have insurance coverage for flood damage believe that it is included in their homeowners policy.

**TIP:** Tell your existing clients that homeowners insurance doesn’t cover damage, but you can help them protect their homes and belongings from flood damage with National Flood Insurance.
Highlights of Qualitative Research with Consumers

Focus group research was conducted with consumers in September 1999 to determine the effectiveness of the new print and television advertising. Information from this research may be helpful in providing more insight about the kind of information to present to consumers about flood insurance.

- Information provided should address the following three core items:
  - Risk—what am I risking by not having flood insurance?
  - Cost—what does flood insurance cost?
  - Benefits—what are the benefits of flood insurance?

- Include testimonials or personally relevant pictures to help people make a connection to the risk of flooding

  **TIP:** Get testimonials from your flood insurance policyholders who were flooded and were able to recover using their flood insurance claim and use those in your advertising and public relations efforts.

Summary of Return on Investment Analysis

Using information from 1994 and 1999, a return on investment analysis was conducted to understand what drives new flood insurance policy sales, which media generate the most new sales, and more. This information can be helpful as you plan your own flood insurance marketing efforts.

- Factors that drive new policy sales:
  - Nearly 21 percent of all new policy sales can be directly attributed to NFIP advertising
  - Flood events account for 11.9 percent of new policy sales
  - The remaining 67 percent is a number of different elements that could not be accounted for directly such as lender compliance or other marketing efforts. FIA is working to more clearly define the factors that comprise this 67 percent.

- Every $1,000 invested in advertising generated 13 new flood insurance policies, with direct mail generating the most policies per $1,000 invested (61.9 new policies).
• Advertising has the greatest impact on increasing flood insurance policy sales in low- and medium-risk areas.

_TIP_: Target your advertising efforts in low- to moderate-risk areas.

• The impact of television advertising peaks 16 to 18 months after the ads run, contributing to brand equity.

• The impact of print advertising peaks at 4 to 5 months after they run, acting more as sales triggers.

• Nationally publicized floods generate more policy sales than local floods

• Floods work synergistically to increase the impact of advertising:
  -- Ads placed 12 months before a flood have a 10 percent greater effect on new policy sales
  -- Ads placed 8 months after a flood have a 20 percent greater effect on new policy sales

_TIP_: After a flood, begin developing a marketing plan to target that area 8 months after the flood to encourage people to buy and renew their policies.

Updated: January 5, 2001
Purpose:
To assist the company in underwriting flood insurance using the Standard Flood Insurance Policy

Accounting Data:
Pursuant to Section 1310 of the Act, a Letter of Credit shall be issued for payment as provided for herein from the National Flood Insurance Fund

Effective Date:
October 1, 2000

Issued By:
Federal Emergency Management Agency
Federal Insurance Administration
500 C Street, S.W. • Washington, D.C. 20472
ARTICLE I— FINDINGS, PURPOSE, AND AUTHORITY

Whereas, the Congress in its “Finding and Declaration of Purpose” in the National Flood Insurance Act of 1968, as amended, (“the Act”) recognized the benefit of having the National Flood Insurance Program (the “Program” or “NFIP”) “carried out to the maximum extent practicable by the private insurance industry”; and

Whereas, the Federal Insurance Administration (FIA) recognizes this Arrangement as coming under the provisions of Section 1345 of the Act; and

Whereas, the goal of the FIA is to develop a program with the insurance industry where, over time, some risk-bearing role for the industry will evolve as intended by the Congress (Section 1304 of the Act); and

Whereas, the insurer (hereinafter the “Company”) under this Arrangement shall charge rates established by the FIA; and

Whereas, this Arrangement will subsidize all flood policy losses by the Company; and

Whereas, this Financial Assistance/Subsidy Arrangement has been developed to enable any interested qualified insurer to write flood insurance under its own name; and

Whereas, one of the primary objectives of the Program is to provide coverage to the maximum number of structures at risk and because the insurance industry has marketing access through its existing facilities not directly available to the FIA, it has been concluded that coverage will be extended to those who would not otherwise be insured under the Program; and

Whereas, flood insurance policies issued subject to this Arrangement shall be only that insurance written by the Company in its own name under prescribed policy conditions and pursuant to this Arrangement and the Act; and

Whereas, over time, the Program is designed to increase industry participation, and, accordingly, reduce or eliminate Government as the principal vehicle for delivering flood insurance to the public; and

Whereas, the direct beneficiaries of this Arrangement will be those Company policyholders and applicants for flood insurance who otherwise would not be covered against the peril of flood.

Now, therefore, the parties hereto mutually undertake the following:

ARTICLE II— UNDERTAKINGS OF THE COMPANY

A. Eligibility Requirements for Participation in the NFIP:

1. Policy Administration. All fund receipt, recording, control, timely deposit requirements, and disbursement in connection with all Policy Administration and any other related activities or correspondences, must meet all requirements of the Financial Control Plan. The Company shall be responsible for:

a. Compliance with the Community Eligibility/Rating Criteria

b. Making Policyholder Eligibility Determinations

c. Policy Issuance

d. Policy Endorsements
e. Policy Cancellations

f. Policy Correspondence

g. Payment of Agents’ Commissions

2. Claims Processing. All claims processing must be processed in accordance with the processing of all the companies’ insurance policies and with the Financial Control Plan. Companies will also be required to comply with FIA Policy Issuances and other guidance authorized by FIA or the Federal Emergency Management Agency (“FEMA”).

3. Reports

a. Monthly Financial Reporting and Statistical Transaction reporting requirements. All monthly financial reporting and statistical transaction reporting shall be in accordance with the requirements of the NFIP Transaction Record Reporting and Processing Plan for the Company Program and the Financial Control Plan for business written under the WYO (Write Your Own) Program. 44 C.F.R. Part 62, App. (B). These data shall be validated/edited/audited in detail and shall be compared and balanced against Company reports.

b. Monthly financial reporting procedure shall be in accordance with the WYO Accounting Procedures.

B. Time Standards. Time will be measured from the date of receipt through the date mailed out. All dates referenced are working days, not calendar days. In addition to the standards set forth below, all functions performed by the company shall be in accordance with the highest reasonably attainable quality standards generally utilized in the insurance and data processing field.

Continual failure to meet these requirements may result in limitations on the company’s authority to write new business or the removal of the Company from the program. Applicable time standards are:

1. Application Processing— 15 days (note: if the policy cannot be mailed due to insufficient or erroneous information or insufficient funds, a request for correction or added moneys shall be mailed within 10 days);

2. Renewal Processing— 7 days

3. Endorsement Processing— 15 days

4. Cancellation Processing— 15 days

5. Claims Draft Processing— 7 days from completion of file examination

6. Claims Adjustment— 45 days average from the receipt of Notice of Loss (or equivalent) through completion of examination.

C. Single Adjuster Program. To ensure the maximum responsiveness to the NFIP policy holders following a catastrophic event, e.g., a hurricane, involving insured wind and flood damage to policyholders, the Company shall agree to the adjustment of the combined flood and wind losses utilizing one adjuster under an NFIP-approved Single Adjuster Program using procedures issued by the Administrator. The Single Adjuster procedure shall be followed in the following cases:

1. Where the flood and wind coverage is provided by the Company;

2. Where the flood coverage is provided by the Company and the wind coverage is provided...
by a participating State Property Insurance Plan, Windpool Association, Beach Plan, Joint Underwriting Association, FAIR Plan, or similar property insurance mechanism; and

3. Where the flood coverage is provided by the Company and the wind coverage is provided by another property insurer and the State Insurance Regulator has determined that such property insurer shall, in the interest of consumers, facilitate the adjustment of its wind loss by the adjuster engaged to adjust the flood loss of the Company.

D. Policy Issuance.

1. The flood insurance subject to this Arrangement shall be only that insurance written by the Company in its own name pursuant to the Act.

2. The Company shall issue policies under the regulations prescribed by the Administrator in accordance with the Act.

3. All such policies of insurance shall conform to the regulations prescribed by the Administrator pursuant to the Act, and be issued on a form approved by the Administrator.

4. All policies shall be issued in consideration of such premiums and upon such terms and conditions and in such States or areas or subdivisions thereof as may be designated by the Administrator and only where the Company is licensed by State law to engage in the property insurance business.

5. The Administrator may require the Company to discontinue issuing policies subject to this Arrangement immediately in the event Congressional authorization or appropriation for the National Flood Insurance Program is withdrawn.

E. The Company shall separate Federal flood insurance funds from all other Company accounts, at a bank or banks of its choosing for the collection, retention and disbursement of Federal funds relating to its obligation under this Arrangement, less the Company’s expenses as set forth in Article III, and the operation of the Letter of Credit established pursuant to Article IV. All funds not required to meet current expenditures shall be remitted to the United States Treasury, in accordance with the provisions of the WYO Accounting Procedures Manual.

F. The Company shall investigate, adjust, settle and defend all claims or losses arising from policies issued under this Arrangement. Payment of flood insurance claims by the Company shall be binding upon the FIA.

G. The Company shall market flood insurance policies in a manner consistent with the marketing guidelines established by the Federal Insurance Administration.

ARTICLE III—LOSS COSTS, EXPENSES, EXPENSE REIMBURSEMENT, AND PREMIUM REFUNDS

A. The Company shall be liable for operating, administrative and production expenses, including any State premium taxes, dividends, agents’ commissions or any other expense of whatever nature incurred by the Company in the performance of its obligations under this Arrangement but excluding other taxes or fees, such as surcharges on flood insurance premium and guaranty fund assessments.

B. The Company may withhold, as operating and administrative expenses, other than agents’ or brokers’ commissions, an amount from the Company’s written premium on the policies
POLICY RENEWALS

I. GENERAL INFORMATION

The Standard Flood Insurance Policy is not a continuous policy. Each policy contract expires at 12:01 a.m. on the last day of the policy term. Renewal of an expiring policy establishes a new policy term and new contractual agreement between the policyholder and the Federal Emergency Management Agency. The NFIP must issue a notice of expiration not less than 45 days before the expiration of the flood insurance policy by first class mail to the owner of the property, the servicer of any loan secured by the property, and (if known) the owner of the loan.

All policies, including Submit-for-Rate, must be renewed using the rates in effect on the renewal date.

Policy renewal documentation and premium should be submitted to the NFIP in advance of the policy expiration date to ensure there is no lapse in coverage. There are two ways to renew a policy written directly with the National Flood Insurance Program or WYO Company:

1. The producer should complete the entire Flood Insurance Application when recertifying or changing policy information, and mail it with the appropriate premium to the NFIP.

   The 30-day waiting period applies when an additional amount of insurance requested at renewal time is higher than the amount listed on the renewal bill provided by the insurer. The beginning of the waiting period is determined by the standard rules.

   OR

2. The payor should respond to a Renewal Invoice by selecting an option shown on the direct mail notice and returning it with the appropriate premium to the NFIP.

II. RENEWAL INVOICE

All parties listed on the policy (insured, agent, mortgagees) are mailed a Renewal Invoice 45 days prior to the policy expiration date. The party designated on the policy record as the payor receives the payor’s copy of the bill; all other parties receive a copy that states “THIS IS NOT A

A. Renewing for the Same Coverage – Option A

Option A of the Renewal Invoice shows current amounts of insurance and deductibles at the time the renewal notice is printed.

B. Inflation Factor - Option B

Option B shows premium for amounts of insurance increased by an inflation factor of 10 percent for building coverage and 5 percent for contents coverage. The current deductible is used. For Preferred Risk Policies, Option B is the next higher coverage package available. There is no waiting period if Option B is chosen.

C. No Renewal Invoice Generated

Renewal Invoices will not be generated for the following situations:

1. Building under construction
2. Tentatively rated policy
3. Suspended community
4. Provisional rating
5. Group Flood Insurance policy
6. PRP ineligibility

III. PREMIUM PAYMENT DUE

To ensure that the policy is renewed without a lapse in coverage, the premium must be received by the NFIP within 30 days of the expiration date. As an alternative, the premium can be mailed by certified mail prior to the expiration date.

Renewal payments may also be paid by either VISA or MasterCard credit cards utilizing the Credit Card Payment Form located at the end of this section. The form should be attached to the Renewal Invoice or Renewal Application and mailed to the NFIP for processing. If the charge is declined, you will be notified by return mail.

IV. EXPIRATION INVOICE

If the Renewal Invoice and premium are not received by the NFIP by the date of expiration, an Expiration Invoice is produced. This notice is mailed to the producer, insured, and mortgagee. The expired policy will be reissued with a new effective date if the appropriate form and premium payment are received by the NFIP within 90 days following the policy expiration date.
The Expiration Invoice advises the mortgagee that protection under the policy shall continue in force after the expiration of the policy for 30 days from the mailing date.

V. RENEWAL EFFECTIVE DATE DETERMINATION

Renewal dates are calculated as follows:

- If the Expiration Invoice and the premium are received by the NFIP within 30 days following the expiration, the policy will be issued under the same policy number as the previous term, with no lapse in coverage.

- If the Expiration Invoice and the premium payment are received by the NFIP after the 30-day period, but within 90 days following the expiration, the policy will be placed in force 30 days following receipt by the NFIP.

- If the Expiration Invoice and the premium payment are received after 90 days following the expiration date, the agent must submit a new application with the full annual premium. The standard 30 day wait rules will apply.

VI. INSUFFICIENT RENEWAL INFORMATION

To generate Renewal Invoices and Expiration Invoices, the NFIP must have received acceptable application data. A Renewal Invoice will not be generated in cases where a policy application has not been corrected prior to the start of a renewal cycle. Therefore, it is important that producers respond immediately to the requests for additional information.

VII. ENDORSEMENTS DURING RENEWAL CYCLE

Endorsements received at the NFIP within 75 days of the policy expiration date will not be reflected on the renewal bill. The producer should, therefore, ensure that the new policy is properly endorsed after renewal.

The producer should use a renewal application to ensure that all changes are reflected on the renewal.

VIII. REPETITIVE LOSS TARGET GROUP PROPERTIES

These must be processed by the NFIP Special Direct Facility. See the Repetitive Loss section of this manual for information.
has been completely removed from the described location. The effective date of the cancellation is the date the insured ceased to have an insurable interest in the property at the described location, or the date the property was removed from the described location. A pro rata refund of the premium less Expense Constant, Federal Policy Fee, and Probation Surcharge, is provided. (TRRP reason 02)

### 3. Policy Cancelled and Rewritten To Establish a Common Expiration Date with Other Insurance Coverage.
The new policy must be rewritten within the same company for the same or higher amounts of coverage. However, if it is rewritten for higher amounts of coverage, the waiting period rule will apply. The producer must submit a new Application and premium. Upon receipt of the new policy Declarations Page, the producer should request cancellation of the prior policy. The effective date of the cancellation will be the same as the effective date of the new policy. (TRRP reason 03)

### 4. Duplicate NFIP Policies.
When a duplicate NFIP policy has been issued, only one policy can remain in effect. The insured can choose which policy is to remain in effect and which policy is to be cancelled. This does not apply when there has been a deliberate creation of duplicate policies. If this event does occur, the policy with the later effective date must be cancelled. Losses occurring under such circumstances will be adjusted according to the terms and conditions of the first policy. A pro rata refund or a full return of the premium (including Expense Constant, Federal Policy Fee, and Probation Surcharge) shall be made for the policy being cancelled, backdated to the inception of duplicate coverage subject to the 6-year statute of limitations. (TRRP reason 04)

### 5. Non-Payment.
When a producer accepts a premium payment from a client and then submits an agency check to the NFIP with the application, the policy may be nullified if the client's check is returned because of insufficient funds or any other reason the check is not made good to the producer. The bank's notice must be attached to the form when this situation occurs. If the producer can document this, a full premium refund is provided to the producer. If a WYO company has covered the premium for a prospective insured and then does not receive payment, the policy can be nullified.

This reason cannot be used if the producer advanced agency funds and the client simply refused to pay the agency. (TRRP reason 05)

### 6. Risk Not Eligible for Coverage.
This reason is used to nullify a policy when an application was submitted and a policy issued on a property not eligible for coverage. A clear and precise explanation must be included when submitting this type of cancellation request. Examples include:

- Property not located in a community participating in the NFIP. (The use of an incorrect community number allowed the policy to be issued.)
- Contents located in an open building.
- Property is a camping trailer and not a manufactured (mobile) home.

A full return of premium shall be made back to the inception of the policy. (TRRP reason 06)

### 7. Property Closing Did Not Occur.
This reason is used to nullify a policy when a policy is issued for a closing at the time of settlement on a property and the transfer of the property does not take place. The client does not actually acquire an insurable interest in the property. A full refund of premium, including Expense Constant, Federal Policy Fee, and Probation Surcharge, is provided. (TRRP reason 08)

### 8. Policy Not Required by Mortgagee.
This provides a means to cancel a policy flat when it was requested for a closing and, at or before closing, it was determined that the property was not located in a Special Flood Hazard Area (SFHA). As a result, coverage was not required by the mortgagee. After the closing, if the determination is found to be incorrect, the policy cannot be cancelled with refund. (However, the policy may be endorsed with return premium to correct the flood zone effective the beginning of the policy term.) The mortgagee's statement to this effect must be attached to the Cancel-
## Processing Outcomes for Cancellation/Nullification of a Flood Insurance Policy

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**21 (10)** NO REFUND ALLOWED
## FEDERAL EMERGENCY MANAGEMENT AGENCY

National Flood Insurance Program

### FLOOD INSURANCE CANCELLATION/NULLIFICATION REQUEST FORM

**IMPORTANT - PLEASE PRINT OR TYPE**

If this policy is cancelled by the insurer through his authorized representative, it shall remain in force for the benefit of the mortgagee or trustee for 30 days after written notice to the mortgagee (or trustee) of such cancellation and then cease. See reverse side for privacy statement.

### Policy Terms From / To / Cancellation Effective Date /

<table>
<thead>
<tr>
<th>Mailing Address, Phone No., and Fax No. of Licensed Property or Casualty Insurance Agent/Broker whose Policy is being Terminated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name, Address, and Phone No. of Insured for Mailing Refund</td>
</tr>
<tr>
<td>Name, Address, Phone No., and Fax No. of First Mortgagee Including Loan Number</td>
</tr>
</tbody>
</table>

### Insured Property Location

This policy may only be cancelled upon termination of the insured's ownership in the property covered at the location described on the declaration page of the policy for reasons number (1) and (2) below. Cancellation Reason Number

1. Building Sold or Removed for Other Use. (1)
2. Contents Sold or Removed to Another Location (for contents only policy). (3)
3. Rerated Under Policy Effective to Obtain Common Expiration Dates with Other Insurance Coverage. (3)
4. Duplicate NFIP Policies Issued in Error. The other policy number is ______. (4)
5. Non-Payment (Attach Documentation from Bank). (5)
6. Risk Not Eligible for Coverage. (6)
7. No Insurable Interest; Property Closing Did Not Occur. (7)
8. Policy is Not Required by Mortgagee Since Property Is Not in an Area of Special Flood Hazard, Determined for Property Closing. Statement from Mortgagee Must Be Attached. (9)
9. Insurance is No Longer Required by the Mortgagee. Property No Longer in SFHA. (9)
10. Condominium Policy (Unit or Association) Converting to RCRAP. (16)

### Cancellation Reason

- FEMA Reason Code for Reporting Purposes Only

### Insurer Refund Payable To

<table>
<thead>
<tr>
<th>Insured</th>
<th>Payee</th>
<th>Agent</th>
<th>(Reason 5 Above Only)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name Refund Payable To:</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mail Refund To:</th>
<th>Insured</th>
<th>Payee</th>
<th>Agent</th>
<th>(Reason 1 or Request of Insured)</th>
</tr>
</thead>
</table>

### Signature of Insured

<table>
<thead>
<tr>
<th>MM DD YY</th>
</tr>
</thead>
</table>

### Signature of Agent/Broker

<table>
<thead>
<tr>
<th>MM DD YY</th>
</tr>
</thead>
</table>

(Not required for reason 1 or 4)

Agent Broker Tax ID: ______

SSN: ______

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Please attach all required documents to NFIP copy of cancellation/nullification form.

PMA Form B1-17, PEB-00

Previous editions are obsolete.

F 052 (2/2000)

Special Note to Insurance Agent: Send original to NFIP; keep second copy for your records, give third copy to the insured, and fourth copy to mortgagee.
RATING

This section contains information, including rate tables, required to accurately rate a flood insurance policy. Information and rates for the Preferred Risk Policy (PRP) and Residential Condominium Building Association Policy (RCBAP) are found in their respective sections.

The detailed drawings, and accompanying text and tables, in the Lowest Floor Guide section are to be used as a guide for identifying the lowest floor for rating buildings. That will assist in developing the proper rate for the building.

I. AMOUNT OF INSURANCE AVAILABLE

<table>
<thead>
<tr>
<th>BUILDING COVERAGE</th>
<th>REGULAR PROGRAM</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EMERGENCY PROGRAM</td>
<td>Basic Insurance Limits</td>
<td>Additional Insurance Limits</td>
<td>Total Insurance Limits</td>
</tr>
<tr>
<td>Single Family Dwelling</td>
<td>$35,000 *</td>
<td>$50,000</td>
<td>$200,000</td>
<td>$250,000</td>
</tr>
<tr>
<td>2-4 Family Dwelling</td>
<td>$35,000 *</td>
<td>$50,000</td>
<td>$200,000</td>
<td>$250,000</td>
</tr>
<tr>
<td>Other Residential</td>
<td>$100,000 **</td>
<td>$150,000</td>
<td>$100,000</td>
<td>$250,000</td>
</tr>
<tr>
<td>Non-Residential</td>
<td>$100,000 **</td>
<td>$150,000</td>
<td>$350,000</td>
<td>$500,000</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>CONTENTS COVERAGE</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>$20,000</td>
<td>$80,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Non-Residential</td>
<td>$130,000</td>
<td>$370,000</td>
<td>$500,000</td>
</tr>
</tbody>
</table>

* In Alaska, Guam, Hawaii, and U.S. Virgin Islands, the amount available is $50,000.  
** In Alaska, Guam, Hawaii, and U.S. Virgin Islands, the amount available is $150,000.

NOTE: For RCBAP, refer to CONDO Section for basic insurance limits and maximum coverage available.

II. RATE TABLES

Rate tables are provided for the Emergency Program and for the Regular Program according to Pre-FIRM, Post-FIRM, and zone classifications. Tables 1-5 show annual rates per $100 of coverage. Table 6 provides precalculated Pre-FIRM premiums for various coverage limits. See Table 7 for the Expense Constant, Federal Policy Fee, and Probation Surcharge.
V. RATING STEPS

1. Determine the exact location of the building and/or contents to be insured. IF THE MAILING ADDRESS DIFFERS FROM THE PROPERTY ADDRESS, USE THE PROPERTY ADDRESS ONLY.

2. Determine if the building is located in an eligible community.

Not all communities participate in the NFIP. There is NO COVERAGE available in non-participating communities. If you are uncertain, call the NFIP at 1-800-638-6620, your FEMA Regional Office, or a local community official for assistance.

3. Determine the NFIP program phase (Emergency or Regular) and the community in which the property is located.

Some communities may be eligible for premium discounts under the Community Rating System (CRS). See the CRS Section for a list of eligible communities, the corresponding discounts, and an example showing how to apply the CRS discount.

4. Determine the location of the contents in the building.

5. Determine the date of construction as described below.

   • Date of Construction—Buildings

   For flood insurance purposes, the date of construction for buildings under the NFIP must be determined in order to establish whether the building is Pre-FIRM or Post-FIRM construction.

   The start of construction or substantial improvement for insurance purposes means the date the building permit was issued, provided the actual start of construction, repair, reconstruction, or improvement was within 180 days of the permit date.

   For the Coastal Barrier Resources System, the start of construction or substantial improvement, for insurance purposes, must be determined in accordance with the documentation requirements set forth by the Coastal Barrier Resources Act (CBRA). (See the Coastal Barrier Resources System Section.)

   • Date of Construction—Manufactured (Mobile) Homes/Travel Trailers

   The date of construction for a manufactured (mobile) home is different from a standard building and depends upon the location of the manufactured (mobile) home.

   For manufactured (mobile) homes located in manufactured (mobile) home parks or subdivisions, the date of construction is the date facilities were constructed for servicing the manufactured (mobile) home site, or the date of the permit, provided that construction began within 180 days of the permit date. This rule applies to all manufactured (mobile) homes even if the manufactured (mobile) home is rated and classified as single family.

   For manufactured (mobile) homes not located in manufactured (mobile) home parks or subdivisions, but located on individually owned lots or tracts of land, the date of construction is the date the manufactured (mobile) home was permanently affixed to the site or the permit date if affixed to the site within 180 days of the date of permit.

   • Pre-FIRM Construction

   For the purpose of determining insurance rates, buildings for which the start of construction or substantial improvement was on or before December 31, 1974, or before the effective date of the initial FIRMs for the community, are considered Pre-FIRM construction. However, for insurance purposes, manufactured (mobile) homes that are located or placed in existing manufactured (mobile) home parks or subdivisions, or expansions to existing manufactured (mobile) home parks or subdivisions, are considered Pre-FIRM.

   All historic buildings are considered Pre-FIRM as long as the building meets the definition of a historic building. (See the Definitions Section.)
Pre-FIRM buildings that are substantially improved may continue being rated as Pre-FIRM if certain conditions are satisfied. Pre-FIRM rating is applicable ONLY when ALL of the following conditions are met:

- The building must be Pre-FIRM.
- The substantial improvement must be an ADDITION to the building. (This condition excludes substantial improvements made as interior remodeling or repair projects.)
- The ADDITION and extension must be next to and in contact with the existing building. (This condition does not apply to substantial improvements consisting of the construction of additional floors.)
- An Elevation Certificate must be submitted to the NFIP Underwriting Unit with the application or renewal. The Elevation Certificate must verify that the lowest floor elevation of the ADDITION is at or above the applicable base flood elevation in effect at the time the addition is started.

If all of the above conditions are satisfied, the entire building is eligible for Pre-FIRM rates. (Except for some V-Zone risks and some manufactured [mobile] home risks, Post-FIRM rates provide less costly coverage and, therefore, the coverage may be rated using the lower Post-FIRM rates.) If the above conditions are not satisfied, the entire building MUST be rated as Post-FIRM.

**VI. PREMIUM CALCULATION**

**A. Emergency Program**

1. Determine Occupancy Type: Residential or Non-Residential.
2. Calculate premium using appropriate rates.
3. Apply appropriate deductible factor if an Optional Deductible is selected.

**B. Regular Program**

1. Determine if the property to be insured is Pre-FIRM or Post-FIRM. A Pre-FIRM premium table for standard risk, single family property is located on page RATE 11.
2. Determine Zone.
3. Determine Occupancy: Single Family, 2-4 Family, Other Residential, Non-Residential, or Manufactured (Mobile) Home.
4. Determine Building Type (including basement or enclosure, if any): one floor, two floors, three or more floors, split level, or manufactured (mobile) home on foundation.
5. Determine if building has basement (or enclosed area below an elevated building): none, finished, or unfinished.
7. Calculate premium using the appropriate rates.
8. Apply appropriate deductible factor if an Optional Deductible is selected.
9. The ICC premium is not subject to deductible factors. First calculate the deductible amount, then add in the ICC premium, for each policy year.
10. Apply CRS discount, if applicable.

11. Add $50.00 Probation Surcharge if building is located in a community on probation.


VII. KEY POINTS FOR RATING

A. Basic Limits and Additional Limits

For rating purposes in the Regular Program, separate rates have been established for the Basic Limits and the Additional Limits.

B. Whole Dollars

NFIP accepts premium only in WHOLE DOLLARS. If the discount for an optional deductible does not result in a whole dollar premium, round up if 50¢ or more; round down if less. ALWAYS SUBMIT GROSS PREMIUM.

C. Increased Cost of Compliance (ICC) Premium

Total Calculated Premium will include ICC premium. The ICC premium is not subject to deductible factors, but the CRS discount will apply.

D. Expense Constant

The Expense Constant is charged on new and renewal policies. It is fully earned on the effective date of the policy, except as indicated in the Cancellation/Nullification Section. The Expense Constant is $50 for the Standard Flood Insurance Policy and $45 per building for the Scheduled Building Policy.

Under the Residential Condominium Building Association Policy, the Expense Constant is based on the number of units (see CONDO Section). Under the Preferred Risk Policy, there is no Expense Constant for new and renewal policies.

E. Federal Policy Fee

A Federal Policy Fee shall be charged for all new and renewal policies, including the Preferred Risk Policy. This fee is fully earned on the effective date of the policy, except as indicated in the Cancellation/Nullification Section. This fee is not subject to earned commissions and, as such, is not considered part of the Total Prepaid Premium. The Federal Policy Fee must, however, be added to the Total Prepaid Premium in order to figure the Total Prepaid Amount.

Under the Residential Condominium Building Association Policy, the Federal Policy Fee is based on the number of units (see CONDO Section).

F. Building in More Than One Zone

A building located in more than one zone must be rated using the more hazardous zone.

G. Mortgagee on Policy—Higher Deductible Requested

When a mortgagee is listed on the policy, their WRITTEN CONSENT should be secured before requesting a deductible higher than the applicable SFIP deductible.

VIII. REGULAR PROGRAM, POST-FIRM ELEVATION-RATED RISKS

A. Elevation Difference

The elevation difference is the difference between the lowest floor used for rating and the Base Flood Elevation (BFE). The elevation difference must be determined if the building is Post-FIRM located in a Special Flood Hazard Area (SFHA) and within a Regular Program community.

Refer to the Lowest Floor Guide section for a guide to determining the lowest floor. Note that, in Puerto Rico, elevations are based on meters rather than feet. Before rating the flood insurance premium, the agent must convert the meter elevations into feet.

For rating purposes, the elevation difference is the difference, measured in feet, between the lowest floor elevation of the building to be rated, and the BFE for that zone. The elevation difference can be a number of feet above (+) or below (-) the BFE.

If the BFE and/or the lowest floor elevation is shown in tenths (e.g., 10.5’), the agent must apply the rounding rule to the difference between the BFE and the lowest-floor-for-rating elevation. If the difference is negative, the final figure is rounded up from .5. If the difference is positive,
the final figure is rounded up from .5. Always round to the higher elevation. For example, -3’ is higher than -3.5’ and +4’ is higher than +3.5’.

Rounding Rule Example:

\[ \begin{align*}
\text{11’ BFE} & \\
-3’ & -2’ -1’ 0’ +1’ +2’ +3’
\end{align*} \]

10.5’ LF - 11.0’ BFE = -0.5’
Because the difference is negative, it is rounded up to 0’.

11.5’ LF - 11.0’ BFE = +0.5’
Because the difference is positive, it is rounded up to 1.0’.

B. Examples

Examples to illustrate how to determine the elevation difference are provided below.


   Lowest Floor Elevation - Base Flood Elevation (BFE) = Elevation Difference

   Examples:
   a. Lowest Floor Elevation (+10’) - BFE (+6’) = (+4’); use With Certification rates.
   b. Lowest Floor Elevation (+8.3’) - BFE (+6.0’) = (+2.3’); use Without Certification rates.
   c. Lowest Floor Elevation (+12.4’) - BFE (+8.8’) = (+3.6’); use With Certification rates.
   d. Lowest Floor Elevation (+9.5’) - BFE (+12.0’) = (-2.5’); use Without Certification rates.

2. Zone AH

   Lowest Floor Elevation - Base Flood Elevation (BFE) = Elevation Difference

   Examples:
   a. Lowest Floor Elevation (+4’) - BFE (+2’) = (+2’); use With Certification rates.
   b. Lowest Floor Elevation (+6’) - BFE (+8’) = (-2’); use Without Certification rates.
   c. Lowest Floor Elevation (+4’) - BFE (+4’) = (0’); use With Certification rates. This is an AH Zone which qualifies for an AHB rate.

3. Zone AO

In AO zones, the difference between the top of the bottom floor and the highest adjacent grade is the lowest floor elevation used for rating. If the lowest floor elevation is equal to or greater than the Base Flood Depth printed on the FIRM, use With Certification rate (AOB). If the elevation difference is less than the Base Flood Depth, use Without Certification rates. When no Base Flood Depth is printed on the FIRM, a depth of 2 feet must be used for rating purposes.

Examples:
   a. Lowest Floor Elevation (0’) - Base Flood Depth (+1’) = (-1’); use Without Certification rates.
   b. Lowest Floor Elevation (0’) - Base Flood Depth (3’) = (+3’); use No Estimated BFE rate table.

4. Zone A (With No Estimated BFE)

In Zone A where there is no established BFE, the difference between the top of the bottom floor and the highest adjacent grade is the lowest floor elevation used for rating.

Examples:
   a. Lowest Floor Elevation (distance between the top of the bottom floor and the highest adjacent grade) (+3’) = (+3’); use No Estimated BFE rate table. The top of the bottom floor is 3’ above the highest adjacent grade.
b. Lowest Floor Elevation (-2') = (-2') for rating purposes. The top of the bottom floor is below the highest adjacent grade by 2'.

5. Zones V1-V30, VE Post-FIRM 1975-81

Lowest Floor Elevation - Base Flood Elevation (BFE) = Elevation Difference

C. Optional Elevation Rating

Pre-FIRM construction, at the option of the applicant, may be rated using Pre- or Post-FIRM rating. Once it is determined which rating will provide a lower premium, a policy may be endorsed to obtain a lower rate.

IX. PRE-FIRM ELEVATED BUILDING RATED AT PRE-FIRM RATES

Pre-FIRM elevated buildings with no enclosures beneath the lowest elevated floor are to be rated using the No Basement rates.

Pre-FIRM elevated buildings with enclosures beneath the lowest elevated floor are to be rated using the With Enclosure rates.

X. AR ZONE AND AR DUAL ZONE RATING


For Pre-FIRM construction and Post-FIRM non-elevation rated risks, use the rates provided in Table 4.

Structures in AR and AR Dual Zones with an Elevation Certificate may be rated using the rates provided in Table 5.

XI. POST-FIRM AO ZONE RATING

In Zone AO, when the base flood depth number is not printed on the FIRM, a base flood depth of 2 feet is an acceptable standard unless modified by community ordinance or state law. The difference from the top of the lowest floor to the highest adjacent ground (grade) must be greater than or equal to 2 feet in order to use the more favorable With Certification (AOB) rates. If the difference is less than 2 feet, the Without Certification rates are to be used.

XII. POST-FIRM RATING OF ELEVATED BUILDINGS IN ZONES B, C, X, A99, AND D

Post-FIRM elevated buildings in the above zones with no enclosures beneath the lowest elevated floor are to be rated using the No Basement/Enclosure rates.

Post-FIRM elevated buildings in the above zones with enclosures beneath the lowest elevated floor are to be rated using the With Enclosure rates.

XIII. REGULAR PROGRAM V ZONE POST-FIRM CONSTRUCTION

A. Rating All V Zone Buildings

For an elevated building (building on posts, piles, or piers only) rated without an enclosure or obstruction, the Zone V, V1-V30, and VE rates do not take into consideration the flood risk associated with any addition of a habitable area (finished or used as living or work area) below the lowest elevated floor. Further, rates do not allow for any flood risk to the machinery or equipment used to service the building located below the lowest elevated floor.

NOTE: A 1975-81 risk with an unfinished enclosure under 300 square feet, with breakaway walls, and without machinery or equipment, can be rated without taking into account the enclosure, but a 1981 Post-FIRM risk cannot.

B. Zones VE and V1-V30—Enclosure Containing Machinery or Equipment Below BFE

Follow these steps when determining the lowest floor for rating in Zones VE and V1-V30 where there is an enclosure containing machinery or equipment located below the BFE:

- The bottom of the enclosure slab is the correct floor for rating. Determine whether the figure in Item C3.c (bottom of lowest horizontal structural member) of the Elevation Certificate reflects the top or the bottom of the slab.

- If Item C3.c is equal to or higher than Item C3.f (lowest adjacent grade), deduct (for 1-4 family residences) 12 inches from the
GENERAL RULES

I. COMMUNITY ELIGIBILITY

A. Participating (Eligible) Communities

Flood insurance may be written only in those communities that have been designated as participating in the National Flood Insurance Program (NFIP) by the Federal Emergency Management Agency’s (FEMA’s) Federal Insurance Administration (FIA).

B. Emergency Program

The Emergency Program is the initial phase of a community’s participation in the NFIP. Limited amounts of coverage are available.

C. Regular Program

The Regular Program is the final phase of a community’s participation in the NFIP. In this phase, a Flood Insurance Rate Map is in effect and full limits of coverage are available.

D. Maps

Maps of participating communities indicate the degree of flood hazard so that actuarial premium rates can be assigned for insurance coverage on properties at risk.

1. Flood Hazard Boundary Map (FHBMs) - Usually the initial map of a community. Some communities entering the Regular Program will continue to use FHBMs renamed a Flood Insurance Rate Map (FIRM), if there is a minimum flood hazard.

2. Flood Insurance Rate Map (FIRM) - The official map of the community containing detailed actuarial risk premium zones.


E. Probation

Probation, imposed by the FEMA Regional Director, occurs as a result of noncompliance with NFIP floodplain management criteria. A community is placed on probation for 1 year (may be extended) during which time a $50 surcharge is applied to all NFIP policies, including the Preferred Risk Policy, issued on or after the Probation Surcharge effective date. Probation is terminated if deficiencies are corrected. However, if a community does not take remedial or corrective measures while on probation, it can be suspended.

F. Suspension

Flood insurance may not be sold or renewed in communities that are suspended from the NFIP. When a community is suspended, coverage remains in effect until expiration. These policies cannot be renewed. Coverage on 3-year policies remains in effect until the next anniversary date.

G. Non-Participating (Ineligible) Communities

A community is notified that it has flood-prone areas when FIA publishes a map showing the areas subject to severe flooding.

H. Coastal Barrier Resources Act

Flood insurance may not be available for buildings and/or contents located in coastal barriers or otherwise protected areas. See the Coastal Barrier Resources System section for additional information.

I. Federal Land

Buildings and/or contents located on land owned by the federal government are eligible for flood insurance if the federal agency having control of the land has met floodplain management requirements. All federal land is recorded under the local community number even if that local community does not have jurisdiction.

II. POLICIES AND PRODUCTS AVAILABLE

A. Standard Flood Insurance Policy

The Standard Flood Insurance Policy (SFIP) consists of a Dwelling Form, a General Property Form, and a Residential Condominium Building Association Policy (RCBAP) Form.
B. Preferred Risk Policy

The Preferred Risk Policy is available for owners of single family and 2-4 family dwellings in B, C, and X Zones.

C. Residential Condominium Building Association Policy (RCBAP)

The RCBAP is a condominium association policy that covers the common elements and all structural items of the units within a building. It also covers contents owned in common.

D. Mortgage Portfolio Protection Program (MPPP)

The Mortgage Portfolio Protection Program (MPPP) offers a force-placed policy available only through a Write Your Own Company.

E. Scheduled Building Policy

The Scheduled Building Policy is available to cover 2 to 10 buildings. The policy requires a specific amount of insurance to be designated for each building. To qualify, all buildings must have the same ownership and the same location. The properties on which the buildings are located must be contiguous.

F. Group Flood Insurance

Group Flood Insurance is issued by the NFIP Direct Program in response to a Presidential disaster declaration. Disaster assistance applicants, in exchange for a modest premium, receive a minimum amount of building and/or contents coverage for a 3-year policy period. An applicant may cancel the group policy at any time and secure a regular Standard Flood Insurance Policy through the NFIP.

III. BUILDING PROPERTY ELIGIBILITY

A. Eligible Buildings

Insurance may be written only on a structure with two or more outside rigid walls and a fully secured roof that is affixed to a permanent site. Buildings must resist flotation, collapse, and lateral movement. At least 51 percent of the actual cash value of buildings, including machinery and equipment, which are a part of the buildings, must be above ground level, unless the lowest level is at or above the Base Flood Elevation (BFE) and is below ground by reason of earth having been used as insulation material in conjunction with energy-efficient building techniques.

1. Appurtenant Structures

The only appurtenant structure covered by the SFIP is a detached garage at the described location, which is covered under the Dwelling Form. Coverage is limited to no more than 10 percent of the limit of liability on the dwelling. Use of this insurance is at the policyholder’s option but reduces the building limit of liability. The SFIP does not cover any detached garage used or held for use for residential (i.e., dwelling), business, or farming purposes.

2. Manufactured (Mobile) Homes/Travel Trailers

Eligible buildings also include:

- A manufactured home (a “manufactured home,” also known as a mobile home, is a structure built on a permanent chassis, transported to its site in one or more sections, and affixed to a permanent foundation); or
- A travel trailer without wheels, built on a chassis and affixed to a permanent foundation, that is regulated under the community’s floodplain management and building ordinances or laws.

NOTE: All references in this manual to manufactured (mobile) homes include travel trailers.

a. Manufactured (Mobile) Homes - New Policies Effective on or After October 1, 1982

To be insurable under the NFIP, a mobile home:

- Must be affixed to a permanent foundation. A permanent foundation for a manufactured (mobile) home may be poured masonry slab or foundation walls, or may be piers or block supports, either of which support the mobile home so that no weight is supported by the wheels and axles of the mobile home.
- Must be anchored if located in a Special Flood Hazard area. For flood insurance coverage, all new

GR 2 December 31, 2000
policies and subsequent renewals of those policies must be based upon the specific anchoring requirements identified below:

A manufactured (mobile) home located within a Special Flood Hazard Area must be anchored to a permanent foundation to resist flotation, collapse, or lateral movement by providing over-the-top or frame ties to ground anchors; or in accordance with manufacturer’s specifications; or in compliance with the community’s floodplain management requirements.

b. Manufactured (Mobile) Homes - Continuously Insured Since September 30, 1982

All manufactured (mobile) homes on a foundation continuously insured since September 30, 1982, can be renewed under the previously existing requirements if affixed to a permanent foundation.

Manufactured (mobile) homes in compliance with the foundation and anchoring requirements at the time of placement may continue to be renewed under these requirements even though the requirements are more stringent at a later date.

To be adequately anchored, the manufactured (mobile) home is attached to the foundation support system, which in turn is established (stabilized) into the ground, sufficiently to resist flotation, collapse, and lateral movement caused by flood forces, including wind forces in coastal areas.

3. Silos and Grain Storage Buildings

4. Cisterns

5. Buildings Entirely Over Water - Constructed or Substantially Improved Before October 1, 1982

Follow "submit for rate" instructions in the Rating section for insurance on Post-FIRM buildings located entirely in, on, or over water or seaward of mean high tide for these buildings. Pre-FIRM buildings constructed before October 1, 1982, are eligible for normal Pre-FIRM rates.

If the building's start of construction occurred on or after October 1, 1982, the building is ineligible for coverage.

6. Buildings Partially Over Water

Follow "submit for rate" instructions in the Rating section for buildings partially over water. However, Pre-FIRM buildings are eligible for normal Pre-FIRM rates.

7. Boathouses Located Partially Over Water

The non-boathouse parts of a building into which boats are floated are eligible for coverage if the building is partly over land and also used for residential, commercial, or municipal purposes and is eligible for flood coverage. The area above the boathouse used for purposes unrelated to the boathouse use (e.g., residential occupancy) is insurable from the floor joists to the roof including walls. A common wall between the boathouse area and the other part of the building is insurable. The following items are not covered:

a. The ceiling and roof over the boathouse portions of the building into which boats are floated.

b. Floors, walkways, decking, etc., within the boathouse area, or outside the area, but pertaining to boathouse use.

c. Exterior walls and doors of the boathouse area not common to the rest of the building.

d. Interior walls and coverings within the boathouse area.

e. Contents located within the boathouse area, including furnishings and equipment, relating to the operation and storage of boats and other boathouse uses.

The Flood Insurance Application form with photographs, but without premium, must be submitted to the NFIP for premium determination. No coverage becomes effective until the NFIP approves the insurance application, determines the rate, and receives the premium. However, buildings in existence prior to October 1, 1982, may continue to be rated using the published rate.
8. Buildings in the Course of Construction

Buildings in the course of construction that have yet to be walled and roofed are eligible for coverage except when construction has been halted for more than 90 days and/or if the lowest floor used for rating purposes is below the Base Flood Elevation (BFE). Materials or supplies intended for use in such construction, alteration, or repair are not insurable unless they are contained within an enclosed building on the premises or adjacent to the premises.

9. Rowhouses and Townhouses

Flood insurance for a residential unit of a multiple unit complex may be written on a Dwelling Form as a single building, provided that: it is self-contained; it is a separately titled single family dwelling unit contiguous to the ground; it has a separate legal description; and it is regarded as a separate property for other real estate purposes, meaning that it has most of its own utilities and may be deeded, conveyed, and taxed separately.

10. Repetitive Loss Target Group Properties

These must be processed by the NFIP Special Direct Facility. See the Repetitive Loss section of this manual for information.

B. Single Building

To qualify as a single building structure and be subject to the single building limits of coverage, a building must be separated from other buildings by intervening clear space or solid, vertical, load-bearing division walls.

A building separated into divisions by solid, vertical, load-bearing walls from its lowest level to its highest ceiling may have each division insured as a separate building.

Additions and Extensions

The NFIP insures additions and extensions attached to and in contact with the dwelling by means of a rigid exterior wall, a solid load-bearing interior wall, a stairway, an elevated walkway, or a roof. At the insured’s option, additions and extensions connected by any of these methods may be separately insured. Additions and extensions attached to and in contact with the building by means of a common interior wall that is not a solid load-bearing wall are always considered part of the dwelling and cannot be separately insured.

A policyholder who insured a building and an eligible addition or extension under separate policies effective before December 31, 2000, may not combine coverages under a single policy until the renewal date.

C. Walls

1. Breakaway Walls

For an enclosure’s wall to qualify as breakaway, it must meet all of the following criteria:

a. Above ground level; and
b. Below the elevated floor of an elevated structure; and
c. Non-structurally supporting (non-load-bearing walls); and
d. Designed to fail under certain wave force conditions; and
e. Designed so that, as a result of failure, it causes no damage to the elevated portions of the elevated building and/or its supporting foundation system.

2. Shear Walls

Shear walls are walls used for structural support, but are not structurally joined or enclosed at the ends (except by breakaway walls). Shear walls are parallel (or nearly parallel) to the flow of the water and can be used in any zone.

3. Solid Foundation Perimeter Walls

Solid foundation perimeter walls are walls used as a means of elevating the building in A Zones and must contain sufficient openings to allow for the unimpeded flow of floodwaters more than 1 foot deep.

D. Determination of Building Occupancy

The following terms should be used to determine the appropriate occupancy classification:

1. Single Family Dwellings

These are non-condominium residential buildings designed for principal use as a...
dwelling place for one family, or a single-family dwelling unit in a condominium building. Residential single family dwellings are permitted incidental occupancies, including structures with office, professional, private school, or studio occupancies, including a small service operation, if such occupancies are limited to less than 50 percent of the building's total floor area.

2. 2-4 Family Dwellings

These are non-condominium residential buildings designed for principal use as a dwelling place of two to four families. Residential buildings, excluding hotels and motels with normal room rentals for less than 6 months' duration and containing no more than 4 dwelling units, are permitted incidental occupancies (see D.1 above). The total area of incidental occupancy is limited to less than 25 percent of the total floor area within the building.

3. Other Residential Buildings

These include hotels or motels where the normal occupancy of a guest is 6 months or more, or a tourist home or rooming house which has more than four roomers. This also includes residential buildings, excluding hotels and motels with normal room rentals for less than 6 months' duration and containing more than four dwelling units. These buildings are permitted incidental occupancies (see D.1 above). The total area of incidental occupancy is limited to less than 25 percent of the total floor area within the building.

4. Non-Residential Buildings

This category includes all other eligible occupancies (e.g., garages, poolhouses, recreational buildings, agricultural buildings, licensed bed and breakfasts, nursing homes, etc.).

IV. CONTENTS ELIGIBILITY

A. Eligible Contents

Contents must be located in a fully enclosed building or secured to prevent flotation out of the building.

B. Vehicles and Equipment

The NFIP covers self-propelled vehicles or machines, provided they are not licensed for use on public roads and are:

1. Used mainly to service the described location; or

2. Designed and used to assist handicapped persons;

while the vehicles or machines are inside a building at the described location.

C. Silos, Grain Storage Buildings, and Cisterns

Contents located in silos, grain storage buildings, and cisterns are insurable.

D. Commercial Contents Coverage

Commercial contents in a residential property must be insured on the General Property Form.

V. EXAMPLES OF ELIGIBLE RISKS

Since the question of coverage eligibility has frequently been raised, examples of eligible risks are provided below.

A. Building Coverage

1. Cooperative Building--Entire Building in Name of Cooperative (General Property Form)

Cooperative buildings where at least 75 percent of the area of the building is used for residential purposes are considered as residential occupancies, and can be insured for a maximum building coverage of $250,000 in a Regular Program community under the General Property Form. Since they are not in the condominium form of ownership, they cannot be insured under the RCBAP.

2. Time Sharing Building--Entire Building in Name of Corporation (General Property Form)

Timeshare buildings not in the condominium form of ownership where at least 75 percent of the area of the building is used for residential purposes are considered as residential occupancies under the NFIP, and can be insured for a maximum building coverage of $250,000 under the General Property Form.
Timeshare buildings in the condominium form of ownership are eligible for coverage and must be insured under the RCBAP. These buildings are subject to the same eligibility, rating, and coverage requirements as other condominiums, including the requirement that 75 percent of the area of the building be used for residential purposes.

B. Contents Coverage

Parts and equipment as open stock—not part of specific vehicle or motorized equipment—are eligible for coverage.

C. Condominiums

Refer to pages CONDO 3 and 4.

VI. INELIGIBLE PROPERTY

A. Buildings

Coverage may not be available for buildings that are constructed or altered in such a way as to place them in violation of state or local floodplain management laws, regulations, or ordinances. Contents and personal property contained in these buildings are ineligible for coverage.

For example, section 1316 of the National Flood Insurance Act of 1968 allows the states to declare a structure to be in violation of a law, regulation, or ordinance. Flood insurance is not available for properties that are placed on the 1316 Property List. Insurance availability is restored once the violation is corrected and the 1316 Declaration has been rescinded.

B. Container-Type Buildings

Gas and liquid tanks, chemical or reactor container tanks or enclosures, brick kilns, and similar units, and their contents are ineligible for coverage.

C. Buildings Entirely Over Water

Buildings newly constructed or substantially improved on or after October 1, 1982, and located entirely in, on, or over water or seaward of mean high tide are ineligible for coverage.

D. Buildings Partially Underground

If 50 percent or more of the building’s actual cash value, including the machinery and equipment, which are part of the building, is below ground level, the building or units and their contents are ineligible for coverage unless the lowest level is at or above the BFE and is below ground by reason of earth having been used as insulation material in conjunction with energy efficient building techniques.

E. Basement/Elevated Building Enclosures

Certain specific property in basements and under elevated floors of buildings is excluded from coverage. See the policy contract for specific information.

VII. EXAMPLES OF INELIGIBLE RISKS

Some specific examples of ineligible risks are provided below. See the policy for a definitive listing of property not covered.

A. Building Coverage

1. Boat Repair Dock
2. Boat Storage Over Water
3. Boathouses (exceptions on page GR 3)
4. Camper
5. Cooperative Unit Within Cooperative Building
6. Drive-In Bank Teller Unit (located outside walls of building)
7. Fuel Pump
8. Gazebo (unless it qualifies as a building)
9. Greenhouse (unless it qualifies as a building)
10. Open Stadium
11. Pavilion (unless it qualifies as a building)
12. Pole Barn (unless it qualifies as a building)
13. Pumping Station (unless it qualifies as a building)
14. Storage Tank--Gasoline, Water, Chemicals, Sugar, etc.
15. Swimming Pool Bubble
16. Swimming Pool (indoor and outdoor), hot tubs, spas
17. Tennis Bubble
18. Tent
19. Time Sharing Unit Within Multi-Unit Building
20. Travel Trailer (unless converted to a permanent onsite building meeting the community's floodplain management permit requirements)
21. Water Treatment Plant (unless 51 percent of its actual cash value is above ground)

B. Contents Coverage
1. Automobiles--Including Dealer's Stock (assembled or not)
2. Bailee's Customer Goods--Including garment contractors, cleaners, shoe repair shops, processors of goods belonging to others, and similar risks
3. Contents Located in a Structure Not Eligible for Building Coverage
4. Contents Located in a Building Not Fully Walled and/or Contents Not Secured Against Flotation
5. Motorcycles--Including Dealer's Stock (assembled or not)
6. Motorized Equipment--Including Dealer's Stock (assembled or not)

C. Non-Residential Condominium Unit
The owner of a non-residential condominium unit cannot purchase a unit owner's policy. The association can purchase a condominium association policy to cover the entire building. Contents coverage only may be purchased by the unit owner.

VII. POLICY EFFECTIVE DATE

A. Binders
No oral binder or contract is permitted. No written binder shall be effective unless issued with the express written authorization of the Federal Insurance Administrator.

B. Start of Waiting Period
There is a standard 30-day waiting period for new applications and for endorsements to increase coverage. For NFIP Direct business only:

1. If the application or endorsement form and the premium payment are received at the NFIP within 10 days from the date of application or endorsement request, or if mailed by Certified Mail within 4 days from the date of application or endorsement request, then the waiting period will be calculated from the application or endorsement date.
2. If the application or endorsement form and the premium payment are received at the NFIP after 10 days from the date of application or endorsement request, or are not mailed by Certified Mail within 4 days from the date of application or endorsement request, then the waiting period will be calculated from the date the NFIP receives the application or endorsement.

C. Effective Date
1. New Policy (other than 2, 3, or 4 below)--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. (Example: a policy applied for on May 3 will become effective 12:01 a.m., local time, on June 2.) The effective date of coverage is subject to the waiting period rule listed under B.1 or B.2 above.
2. New Policy (in connection with making, increasing, extending, or renewing a loan, whether conventional or otherwise)--Flood insurance, which is initially purchased in connection with the making, increasing, extending, or renewal of a loan, shall be effective at the time of loan closing, provided that the policy is applied for and the presentment of premium is made at or prior to the loan closing. (Example: presentment of premium and application date--April 3, refinancing--April 3 at 3:00 p.m., policy effective date--April 3 at 3:00 p.m.) This rule applies to all buildings regardless of flood zone. The waiting period rule listed under B.1 or B.2 above does not apply.
3. New Policy (in connection with mortgage portfolio reviews)--The 30-day waiting period does not apply when flood insurance is required as a result of a lender determining that a loan on a building in a Special Flood Hazard Area (SFHA) that
alternative methods for obtaining necessary risk and elevation information to rate flood insurance policies. The goal of the forum is to foster the development of a desktop system that supports the actuarial rating of a flood insurance policy and the floodplain management requirements of the National Flood Insurance Program. We seek a solution that makes the risk, base flood elevation and lowest floor elevation data necessary to rate a flood insurance policy available to agents at their desks.

**DATES:** We will hold the forum on December 13, 2000.

Please send written responses to the ideas and questions that we pose by November 27, 2000.

**ADDRESSES:** We will hold the forum in the Horizon Ballroom of the International Trade Center, Ronald Reagan Building, 1300 Pennsylvania Avenue, N.W., Washington, DC 20004.

Please send written responses to Edward Pasterick at the address immediately below.

**FOR FURTHER INFORMATION CONTACT:**

Edward Pasterick, Federal Insurance Administration, Federal Emergency Management Agency, 500 C Street, S.W., Washington DC 20472, (202) 466–3443, or (email) edward.pasterick@fema.gov.

**SUPPLEMENTARY INFORMATION:**

Background

The National Flood Insurance Program (NFIP) provides coverage against flood damage to property owners in communities that agree to adopt and enforce regulations designed to ensure safer future construction of buildings in high-risk flood zones. The provision of insurance, the regulation of the floodplain and the enforcement of the mandatory purchase requirements depend on three things:

- **Flood risk information** or certain key information about the nature and extent of the flood risk in a given area.
- **Elevation of the structure,** and
- **Structural characteristics,** such as the number of floors and occupancy type.

**Flood Risk Information.** The Federal Emergency Management Agency (FEMA) provides flood-zone information in the form of a Flood Insurance Study and Flood Insurance Rate Map (FIRM). The FIRM outlines the degree and extent of the flood risk in a given jurisdiction and serves as the guiding document for communities in the regulation of floodplain construction and for lenders in enforcing the mandatory purchase requirements. It also serves insurance companies and agents as the source of needed risk information for writing and rating applications for flood insurance under the NFIP. The primary flood risk characteristics shown on the FIRMs are the areas inundated by the one percent annual probability flood and the elevation relative to the mean sea level to which the floodwaters will rise. The latter is the Base Flood Elevation (BFE).

**Elevation of the Structure.** Individual property owners, through licensed surveyors and engineers, provide the elevation information needed to guide floodplain construction and to rate insurance applications. The elevation certificate contains this information, which shows the elevation relative to the mean sea level of the lowest floor of a structure or lowest floor elevation (LFE). The community must ensure that the LFE of a new structure built in the Special Flood Hazard Area (SFHA) after the effective date of a FIRM is at or above the BFE shown on the FIRM. The insurance agent writing an application for flood insurance on the structure must calculate the difference between the BFE and the LFE to determine the proper rate for coverage.

As a condition of its participation in the NFIP, the community must maintain this elevation information in its records.

**Structural Characteristics.** The insurance agent obtains the relevant structural characteristics from the insured. For example, the property owner can supply information about the number of floors, occupancy type, date of construction, etc. to the agent.

Several factors currently affect the ease of writing flood insurance:

- Access to flood risk information is more difficult for insurance agents than the risk information other lines of property insurance need. Since the flood zone and BFE needed for rating are on the community’s FIRM, agents must maintain a paper copy of every effective FIRM for the communities in which they write policies. Locating a property on the paper copy of the FIRM has been a problem for agents from the outset of the NFIP, a problem that we have not diminished substantially over the years. Flood Zone Determination (FZD) companies and some Write Your Own (WYO) companies digitize much of the information on the FIRMs and now provide this information to some agents. However, zone information is far from 

1 The Special Flood Hazard Area is an area of land that would be inundated by a flood having a one percent chance of occurring in any given year (also referred to as the base or 100-year flood). Flood insurance is required for insurable structures within the SFHA to protect Federal financial investments and assistance used for acquisition and/or construction purposes within communities participating in the NFIP.
current use, so long as we are sure that the information will stand up to actuarial analysis and support sound floodplain management.

Our goal is to foster the development of a desktop system that supports the actuarial rating of a flood insurance policy and the floodplain management requirements of the NFIP. We have identified two possible strategies to develop a desktop rating system for flood insurance policies that we do not intend to be exclusive or preemptive. However, we welcome creative alternative approaches.

**Strategy A**—Continue the current approach for identifying the flood risk and rating a flood insurance policy, but develop a means to provide elevation information in a more easily accessible manner at the point of sale. The current method uses FEMA flood hazard zones, FEMA base flood elevations and the difference between a structure’s lowest floor and the base flood elevation to determine risk. This strategy requires elevation information for each individual structure and a means to efficiently gather into a single, accessible database all available elevation certificates for structures in the floodplain and continually to update this database as new structure elevation information becomes available. Alternatively, this strategy would result in an efficient, cost-effective way of collecting LFE en masse.

**Strategy B**—Continue the current approach for identifying the flood risk and rating a flood insurance policy, but relax the requirement for elevation certificates for individual structures. Explore ways to use new mapping technologies and approaches, combined with other property data, to gather elevation data. For example, Light Detection and Ranging (LIDAR) and Interferometric Synthetic Aperture Radar (IFSAR) can provide information on the lowest adjacent grade near a structure from which it is possible to determine the ground elevation and estimate the structure’s lowest floor elevation, measured from that ground elevation.

**Approach**

We will hold a forum for parties interested in developing a desktop rating system for flood insurance policies. The purpose of the meeting is to exchange ideas on the best strategy to achieve our goals for a desktop rating system and to discuss alternatives for overcoming the difficulties and high cost of implementing such a system. The government currently has a desktop rating system; we are simply seeking industry input on the best strategy to develop such a system. Our vision is that the forum will attract entrepreneurial energies and disparate skills and communities of interest that were perhaps previously unaware of the difficulties associated with rating a flood insurance policy.

We will hold the forum on Wednesday, December 13 from 9:00 a.m. to 3:00 p.m. in the Horizon Ballroom of the International Trade Center, Ronald Reagan Building, 1300 Pennsylvania Avenue, NW., Washington, DC 20004. We invite all interested parties to present their ideas for developing a desktop system that supports the actuarial rating of a flood insurance policy and the floodplain management requirements of the NFIP. We have several key questions that we invite the attendees to address. The list is not exhaustive and we welcome additional questions for consideration.

- What is the degree of accuracy of current building elevation information?
- What existing databases can we apply to the flood rating process?
- Is there an easy way to translate highest adjacent grade and lowest adjacent grade data into lowest floor elevation?
- How well will elevation data collected using LIDAR or similar technologies meet the needs of local floodplain managers in enforcing NFIP regulations?
- Is there a market beyond the NFIP for data that would be part of a desktop rating system?
- What technologies for collecting and disseminating data are available for application to this problem?
- What are practical alternatives for distributing a desktop rating system?

We must receive the text of your statement no later than November 27, 2000, so that we can make copies available to all participants and we may ask you to discuss portions of your statement at the forum. With your permission, we may post your statement on our website for other persons who may be interested in this challenge but who would like more information.

If you wish to participate in the Desktop Rating of Flood Insurance Policies Forum, please reply by e-mail to edward.pasterick@fema.gov. You may attend without submitting a written response. Please let us know who from your organization will attend and the questions that they will address. If you have any questions, please email or call Edward Pasterick at 202-646-3443. We look forward to your involvement in
this effort and encourage your participation.

Jo Ann Howard,
Administrator, Federal Insurance Administration.

[FR Doc. 00–27638 Filed 10–26–00; 8:45 am]
BILLING CODE 6718–03–P

FEDERAL RESERVE SYSTEM

Agency Information Collection Activities: Proposed Collection; Comment Request

AGENCY: Board of Governors of the Federal Reserve System.

SUMMARY:

Background

On June 13, 1984, the Office of Management and Budget (OMB) delegated to the Board of Governors of the Federal Reserve System (Board) its approval authority under the Paperwork Reduction Act, as per 5 CFR 1320.16, to approve of and assign OMB control numbers to collection of information requests and requirements conducted or sponsored by the Board under conditions set forth in 5 CFR part 1320 Appendix A.1. Board-approved collections of information are incorporated into the official OMB inventory of currently approved collections of information. Copies of the OMB 83–Is and supporting statements and approved collection of information instruments are placed into OMB’s public docket files. The Federal Reserve may not conduct or sponsor, and the respondent is not required to respond to, an information collection that has been extended, revised, or implemented on or after October 1, 1995, unless it displays a currently valid OMB control number.

Request for Comment on Information Collection Proposals

The following information collections, which are being handled under this delegated authority, have received initial Board approval and are hereby published for comment. At the end of the comment period, the proposed information collections, along with an analysis of comments and recommendations received, will be submitted to the Board for final approval under OMB delegated authority. Comments are invited on the following:

a. whether the proposed collection of information is necessary for the proper performance of the Federal Reserve’s functions; including whether the information has practical utility;

b. the accuracy of the Federal Reserve’s estimate of the burden of the proposed information collection, including the validity of the methodology and assumptions used;

c. ways to enhance the quality, utility, and clarity of the information to be collected; and

d. ways to minimize the burden of information collection on respondents, including through the use of automated collection techniques or other forms of information technology.

DATES: Comments must be submitted on or before December 26, 2000.

ADDRESSES: Comments, which should refer to the OMB control number or agency form number, should be addressed to Jennifer J. Johnson, Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW., Washington, DC 20551, or mailed electronically to regs.comments@federalreserve.gov. Comments addressed to Ms. Johnson also may be delivered to the Board’s mail room between 8:45 a.m. and 5:15 p.m., and to the security control room outside of those hours. Both the mail room and the security control room are accessible from the courtyard entrance on 20th Street between Constitution Avenue and C Street, NW. Comments received may be inspected in room M–P–500 between 9:00 a.m. and 5:00 p.m., except as provided in section 261.14 of the Board’s Rules Regarding Availability of Information, 12 CFR 261.14(a).

A copy of the comments may also be submitted to the OMB desk officer for the Board: Alexander T. Hunt, Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Room 3208, Washington, DC 20503.

FOR FURTHER INFORMATION CONTACT: A copy of the proposed form and instructions, the Paperwork Reduction Act Submission (OMB 83–I), supporting statement, and other documents that will be placed into OMB’s public docket files once approved may be requested from the agency clearance officer, whose name appears below. Mary M. West, Chief, Financial Reports Section (202–452–3829), Division of Research and Statistics, Board of Governors of the Federal Reserve System, Washington, DC 20551, Telecommunications Device for the Deaf (TDD) users may contact Diane Jenkins, (202–452–3544), Board of Governors of the Federal Reserve System, Washington, DC 20551.

Proposal to approve under OMB delegated authority the extension for three years, without revision of the following reports:


Agency form number: FR 4001.

OMB control number: 7100–0097.

Frequency: On occasion.

Reporters: State member banks.

Annual reporting hours: 156 hours.

Estimated average hours per response: 30 minutes for expedited notifications; 1 hour for nonexpedited notifications.

Number of respondents: 169 expedited; 71 nonexpedited. Small businesses are affected.

General description of report: This information collection is mandatory (12 U.S.C. 321) and is not given confidential treatment.

Abstract: The Federal Reserve System requires a state member bank to file a notification whenever it proposes to establish a domestic branch. There is no formal reporting form; banks notify the Federal Reserve by letter prior to making the proposed investment. The Federal Reserve uses the information to fulfill its statutory obligation to supervise state member banks.


Agency form number: FR 4014.

OMB control number: 7100–0139.

Frequency: On occasion.

Reporters: State member banks.

Annual reporting hours: 3 hours.

Estimated average hours per response: 30 minutes.

Number of respondents: 5. Small businesses are affected.

General description of report: This information collection is mandatory (12 U.S.C. 371d) and is not given confidential treatment.

Abstract: The Federal Reserve System requires a state member bank to file a notification whenever it proposes to make an investment in bank premises that results in its total bank premises investment exceeding its capital stock and surplus or, if the bank is well capitalized and in good condition, exceeding 15 percent of its capital stock and surplus. There is no formal reporting form; banks notify the Federal Reserve by letter fifteen days prior to making the proposed investment. The Federal Reserve uses the information to fulfill its statutory obligation to supervise state member banks.


Agency form number: FR 2004WI.

OMB control number: 7100–0003.

Frequency: Daily.

Reporters: Primary dealers in the U.S. government securities market.

Annual reporting hours: 4,640 hours.

Estimated average hours per response: 1 hour.

Number of respondents: 29 dealers.
The NFIP will notify all SAP Liaisons of the Claims Coordinating Office’s (CCO) location, telephone number, fax number, and address, if the CCO does not co-locate with the State Coastal Plans.

When the CCO is operational, the WYO companies will be notified of all assigned claims. Notice of losses reflecting the assigned adjusting firms will be faxed each day. Once the assignment is made and communicated to each company, the WYO Company will manage its own loss adjustment. However, the Catastrophe CCO will ensure that the adjuster receives a copy of the loss assignments, the name of the WYO Company, and the SAP Liaison telephone number.

B. Training

The NFIP Bureau and Statistical Agent Claims Coordinator and FIA will annually conduct coordination training sessions, both pre- and post-event, in conjunction with the State Coastal Plans, adjusters, state and local officials, and insurers to train all participants. These training sessions will include regional issues, the State Coastal Plans’ procedures, confirmation of coverages for SAP losses, closed without payment (CWOP) procedures, adjuster resources, and duplicate assignments, etc.

The NFIP Bureau and Statistical Agent will continue to provide training for specific problems and situations that may arise during a catastrophe event. The FIA suggests that within the first 48 hours, or whenever applicable, an adjuster briefing should be conducted for all SAP adjusters and adjusting firms to ensure that they understand program procedures.

C. Producer Responsibilities

1. When directed by the Administrator, the producer will have no authority to assign any losses involving a flood policy when there is a reasonable belief that there is flood and wind damage, and will report the losses on the combined Wind/Flood loss notice to the Stationary CCO, with wind coverage information.

2. NFIP/WYO insurers insuring both the flood and the wind loss should not report the combined loss to the CCO, but will assign their own single adjuster.

3. The producers will report their flood losses via fax to the established CCO, along with wind coverage information in every instance except those mentioned above. In all cases the producer should send a copy of the loss notice to the insurer.

4. All separate wind losses insured by a WYO company where a flood policy exists will be reported to the CCO for assignment to qualified adjusting firms at the CCO.

5. Upon loss assignment, the insurer will be advised of the assigned adjusting firm by modem transfer, fax, or mail.

6. These procedures relate to assignment of claims only. Insurers may perform other procedures in accordance with their standard business practices.

IV. INCREASED COST OF COMPLIANCE (ICC) CLAIMS

The producer should become familiar with the ICC aspects of the flood program. He/she can do this by attending an NFIP ICC workshop or reading the NFIP literature distributed by FEMA/FIA. Information concerning ICC claims may be obtained from your WYO company or NFIP Direct.
We invite you to attend and participate in one of our 2001 NFIP Claims Presentations.

Who?
NFIP Certified Adjusters
Independent Adjusters
WYO Company Staff Adjusters
WYO Company Personnel
Insurance Agents
Community Officials

The NFIP Adjuster Certification and Re-certification
The NFIP Bureau & Statistical Agent is required to maintain a database of adjusters who are qualified to handle flood claims under the policies issued by the NFIP Servicing Agent and the Write Your Own Companies who utilize the services of the independent adjusting Community. Because of the SFIP rewrite which became effective December 31, 2000 all NFIP certified adjusters must re-certify by July 1, 2001. There will be no NFIP certification issued from June 30, through December 31, 2001.

The NFIP is re-certifying all NFIP flood adjusters. There are new qualifications for individuals who wish to become flood certified. The workshops will explore the new certification guidelines. You must attend one of the following 2001 NFIP Claims Presentation Workshops, complete an application, and return it to the NFIP Bureau & Statistical Agent before July 1, 2001 to be re-certified for the 2001 hurricane season.

The SFIP new policy workshop
The Federal Insurance Administration has revised the Standard Flood Insurance Policies. The Policy format has been changed, language has been simplified, and some coverages have been changed. During the 2001 Claims Presentation Workshops, you will focus on key SFIP changes, concepts, and coverage information. You will explore additional subjects such as loss settlement adjustments, new policy...
definitions, as well as new policy language and exclusions.

**How do I register?**

To register, return the registration form along with your check for $10.00 made payable to the National Flood Insurance Program.

The registration form and check must be received by the registration deadline date for the session you are attending.

No space will be reserved until payment has been received. There will be no on-site registrations or payments accepted. There also will be no refunds. We will send a letter acknowledging receipt of your registration to the address you list on the registration form. Please bring that letter with you to the seminar. If you are unable to attend the session for which you register, call (301) 731-5300, extension 746 and we will do our best to reschedule you to another session.

**Why You Should Attend**

1. Continuing Education Credit where offered
2. Learn about the new SFIP policy
3. Obtain re-certification information
4. Obtain your Adjuster Claims Manual

To provide you with important updated coverage information concerning the Dwelling Form, General Property Form, and Residential Condominium Building Association Policy. We will also be reviewing elevated buildings, substantial damage, and repetitive loss handling of claims as it relates to the Increased Cost of Compliance (ICC) coverage.

The Federal Insurance Administration (FIA) has instituted new procedures for the Adjuster Preliminary Damage Assessment form. It is imperative that you understand these procedures prior to any upcoming catastrophes.

The Adjuster Claims Manual has been approved by FIA and will be issued to all participants at each 2001 Claims Presentation only. The Manual will cover adjuster qualifications, discipline, and standards. It will also outline coverages and provide a commentary section to help you better understand the SFIP.

Did you know that the NFIP Bureau & Statistical Agent has instituted a catastrophe Hot Line? This hot line is activated during all major hurricanes and flooding events. It is designed to assist you with all the information you need to know about that event.

Please note that we cannot certify adjusters at these seminars. Adjuster certification must be accomplished by mail. An application will be available at each workshop. If you wish to be flood certified and you...
meet the minimum qualifications as indicated on the form, you must complete the certification application and send it to the address that is noted on the form.

**Where and When?**
Each session will be held from 8:30 a.m. to 4:00 p.m. We ask that you sign in prior to 8:15 a.m. Please review the [schedule](http://www.fema.gov/nfip/ca1.htm) and select the session that is most convenient for you. *(Please note the Pre-registration Deadline date for your session. No registration will be accepted after that date.)*

**Sponsored By:**
Computer Sciences Corporation, the Bureau & Statistical Agent for the NFIP, will be your host. These sessions are being held in compliance with the Americans with Disabilities Act and the Hotel/Motel Fire Safety Act. Please contact us in advance if you require special assistance. If you have additional questions, call (301) 731-5300, ext. 746 or TDD at (301) 918-1409.

*Updated: December 28, 2000*
Section Two Floodplain Management Forum Themes

The Floodplain Management Forum brought together a diverse group of individuals with expertise in floodplain management. The goal of this Forum was to identify strategies to protect and restore our floodplains, improve flood hazard identification, reduce flood risks, and encourage communities to foster sustainable development.

Each participant submitted a written statement and briefly articulated suggestions on the future of floodplain management. This section of the report captures the major themes that were presented by the participants during the Forum and in the participant’s written statements. The themes presented below do not necessarily represent the views of all the participants at the Forum or the views of FEMA.

1. **Shift the focus from flood-loss reduction to the creation of sustainable communities and the protection of the natural and beneficial functions of floodplains.**

   A. Floodplain management must move beyond the narrow focus of flood-loss reduction and begin to focus on coordinated, multiobjective, watershed-based approaches that include the protection and restoration of the natural and beneficial functions of floodplains.

   B. Consider a no-adverse-impact approach to floodplain development. This means that no land use development in the watershed could adversely impact other property upstream or downstream, by increasing either flood elevations or flood velocities. The only exceptions would be based on requiring comprehensive local plans that ensure that all potential adverse impacts would be properly mitigated to avoid current and future flood damage.

2. **Continue to improve coordination among Federal agencies and create a framework for more effective Federal, State, tribal, and local coordination of floodplain management.**

   Federal agencies must improve communication and coordination so that there is a unified effort to achieve the shared goal of natural resource protection and restoration.

   A. Reinstate the Federal Interagency Floodplain Management Task Force, which could serve as a coordinating entity for developing comprehensive strategies and improved Federal policies.

   B. Update the Floodplain Management Executive Order 11988, which establishes unified Federal policy regarding the protection of floodplains, to ensure that Federal agencies’ actions do not adversely impact floodplains.

   C. Continue to develop interagency Memorandums of Understanding (MOUs) to encourage uniform implementation of policies among Federal agencies.
D. Evaluate other Federal programs to ensure these programs do not have a negative impact on floodplains and are complementary to overall floodplain management objectives.

E. Develop national standards for the design and placement of infrastructure. Infrastructure damages constitute a major portion of Public Assistance costs following disasters.

F. The Federal Government should set an example by enforcing appropriate restrictions on floodplain land it leases to private individuals.

G. FEMA should partner with the U.S. Geological Survey (USGS) to support the National Streamflow Information Program, which will improve flood forecasting, provide more timely assessment of flood characteristics, and assist in the development of new tools for improving flood inundation mapping and enhancing the flood information delivery system.

3. **Encourage and provide incentives for communities to develop master plans and hazard mitigation plans.**

   A. Support and encourage local planning processes that reduce risk and protect and restore floodplains. FEMA should accept local mapping and local plans for management actions. FEMA and other Federal agencies should officially recognize these local plans. This would provide a level of additional acceptance and credibility for local implementation.

   B. Link disaster relief to comprehensive mitigation planning. Larger shares of disaster relief should be made available only to States, tribes, and local governments that have comprehensive plans for multi-risk reduction and sound hazard management programs.

4. **Develop incentives to encourage States and communities to foster sustainable development and to accept responsibility for their land use decisions.**

   The Federal Government has assumed too much of the total responsibility for the flooding problem. Federal policies should be adjusted to foster much greater sharing of responsibility with State and local governments and individuals. Built-in subsidies and cross-subsidies in the NFIP have sent the wrong economic signals, have failed to discourage high-risk development, and have placed a financial burden on the Program.

   Disaster assistance has come to be an expectation disconnected from either a landowner’s responsibility to avoid undue risks or governmental authority to use land use regulations to prevent harm to the community and the environment. Unless bold, albeit unpopular, policy decisions are implemented, there will be no incentives for States and communities to take responsibility for their land use decisions and flood risks.

   A. Disaster relief cost-share adjustments may be the most effective mechanism to encourage communities to adopt hazard mitigation plans, foster sustainable development, and accept
responsibility for their actions. A sliding cost-share policy would encourage and reward
good State and local floodplain management programs. The non-Federal share of
disaster assistance costs should be reduced in communities where State and local efforts
are mitigating natural hazards, including the flood hazard.

B. For individuals, Federal financial assistance for flood losses should be based on the
individual’s demonstrated willingness to mitigate risk. Flood insurance is the best means
of accomplishing this. Federal monetary assistance for individuals living in identified
flood hazard areas should be based on whether they had a flood insurance policy before
the disaster. The total amount of assistance received by an individual should be reduced
(or a portion of it converted to loans) to reflect the amount of damage that would have
been covered by a flood insurance policy.

C. Mitigation grants should be made available to policyholders who take steps to mitigate
their flood risks.

D. Agricultural losses constitute more than half of the flood damage paid for by taxpayers.
Agricultural properties subject to repeated flooding should be denied subsidized
insurance and flood disaster payments if their owners refuse offers to purchase permanent
easements.

E. Public assistance should be withheld from the damaged floodplain areas of communities
not enrolled in the NFIP.

F. Mapping costs incurred by local communities could be “banked” as a cost-share payment
on future disaster assistance.

G. Land use incentives such as density tradeoff should be promoted.

5. **Develop more effective methods to communicate risk to citizens and communities so that
risk information is accurate, easy to understand, meaningful, and accessible.**

   It is widely agreed that citizens and local officials are unaware of the flood hazard risks in
their communities. Confusing terminology, inaccurate data, and complicated risk
information are cited as some of the reasons. Increased awareness of the flood hazards and
risks may increase public support for improved floodplain management and lead to an
increase in the number of flood insurance policies.

   A. Use terminology such as “1-percent chance flood” or “high-risk flood” area instead of
the confusing terminology “100-year floodplain.”

   B. Display flood hazard and risk information on the Internet.
C. Reinforce the importance of public safety issues to communities and citizens. Floodplain management is not just a land use and development issue; it is also a public health and safety issue.

6. **Better educate communities on the benefits of sustainable development, the natural and beneficial functions of floodplains, and the ramifications of unwise land use decisions.**

   A. Improve the marketing of success stories. Many States and communities across the country are implementing innovative initiatives that are successfully reducing flood risks and protecting floodplains. We must do a better job of promoting our successes and marketing a message of sustainability, livability, and the benefits of floodplain management.

   B. Educate communities to exceed minimum NFIP requirements. Although the NFIP has done an excellent job of providing minimum requirements for development in floodplains, unfortunately these general standards fall short of what is needed for the management of floodplains. FEMA should initiate a program to educate communities on the limitations of minimum NFIP requirements and encourage States and communities to develop policies and standards that would reduce or eliminate flood impacts caused by floodplain development.

   C. Better educate citizens and communities on the link between floodplain management and the economic vitality and environmental quality of a community.

   D. Educate government officials, businesses, legislators, and individual citizens about their responsibility for their land use decisions. These groups must be more accountable for their actions, begin to assume their fair share of the risk, and not rely solely on the Federal Government to bail them out following a disaster.

   E. Public involvement in floodplain management must go beyond the education of public officials and citizenry to include meaningful public involvement during the decisionmaking process so that there is local buy-in for the adopted policies.

   F. Provide outreach and education to citizens and officials in the post-disaster environment on the natural and beneficial functions of floodplains.

   G. Develop partnerships to provide educational programs in schools. An effective way to educate parents is through their children.

7. **Consider modifying the NFIP requirements to prohibit or at least discourage the placement of fill in floodplains.**

   The placement of fill in the floodplain destroys valuable riparian areas and reallocates flood storage from the fill site to other locations in the floodplain, thereby transferring the risk of flooding to other parties without compensation. Current NFIP regulations allow the placement of fill outside of the regulatory floodway until a 1-foot increase in the BFE is
reached. NFIP regulations also provide incentives to place fill in the floodplain. Through the issuance of a Letter of Map Revision Based on Fill (LOMR-F), a property can be removed from the floodplain and, thus, not be required to have flood insurance.

A. Implement a no-rise floodway with no impact on water surface and velocity so that only those areas of insignificant hydraulic conveyance could be filled.

B. FEMA should stop or severely limit the issuance of LOMR-Fs.

8. **Consider incorporating components of the Community Rating System (CRS) into the NFIP regulations.**

   A. The CRS has been very successful in providing incentives for communities to exceed minimum NFIP requirements. The CRS identifies the best floodplain management practices and provides a strong basis for improving general NFIP standards. FEMA should consider identifying certain CRS activities and phasing them in as additional standards and requirements for community participation in the NFIP.

9. **Consider modifying NFIP requirements so that 1 to 3 feet of freeboard above the base flood elevation is required for all new construction in special flood hazard areas.**

   A. Requiring freeboard would acknowledge and mitigate uncertainties in mapping, account for the 1-foot increase in floodway designations, allow for the wakes of rescue boats, account for increased runoff caused by future development, and provide a margin of safety for wind-induced wave action on wide flooded areas.

10. **Enhance the capability of State and local floodplain management programs.**

    Local and State actions are critical to the protection and restoration of our Nation’s floodplains and to the development of sustainable communities. The roles, responsibilities, and capabilities of the public, various levels of government, and the private sector should be clarified and strengthened.

   A. Continue funding *Project Impact*, which has increased local capability to create partnerships and implement activities that protect environmental resources and reduce risk.

   B. Create and encourage community partnerships. Increase funding and technical assistance for community-based partnerships to develop comprehensive watershed-based solutions that reduce flood damages and protect and restore the natural and beneficial functions of floodplains.

   C. Provide the necessary technical expertise and tools to assist communities to better incorporate floodplain protection and restoration and sustainability concepts into land use and development decisions.
D. Develop strategies to bolster State floodplain management programs. There is a wide disparity among State floodplain management programs. Some States establish floodplain regulations through local governments and provide technical assistance and oversight, whereas others lack any type of floodplain management program.

E. The “managing State” concept initiated by FEMA should be used as an incentive for State involvement in and commitment to mitigation and should be expanded to other programs beyond the Hazard Mitigation Grant Program (HMGP).

11. Develop methods to improve flood hazard identification and regulatory standards to meet the changing needs of communities.

A. Develop coastal A-zone standards. Tremendous losses have occurred in properties located in in coastal area A zones. Since flood conditions in coastal A zones closely resemble flood conditions in V zones, the mapping and regulatory requirements should reflect this similarity.

B. Accurately depict failure zones of dams, levees, and floodwalls on the flood hazard maps.

C. Map future-conditions hydrology and other applicable hazards (especially erosion).

D. Remap areas following disasters.

E. With the advent of the Map Modernization Program (MMP) and Cooperating Technical Communities (CTCs), communities and States are performing flood hazard identification studies. FEMA must continue to be committed to these programs and understand and meet the needs of local communities.

F. Strong support for FEMA’s MMP and a vigorous effort to fund the Program should continue.

12. Develop methods to improve flood insurance and eliminate subsidies.

A. Expand the flood insurance mandatory purchase requirement to areas outside of the special flood hazard area and areas behind dams, levees, and floodwalls.

B. FIA should move toward requiring that a building permit be in place prior to paying claims. Currently, there are situations where permits are not being obtained, making it difficult to enforce substantial damage criteria, thus ensuring another claim.

C. Implement a coastal erosion surcharge on flood insurance policies in areas where the erosion hazard can be accurately identified and mapped.

D. Owners of secondary homes should be required to pay actuarial rates.
E. Begin to phase out pre-FIRM subsidies (especially on nonprimary residences).

F. Provide greater incentives for insurance agents to promote flood insurance.

G. “Redline” floodways and velocity zones—no flood insurance to new and rebuilt structures in these areas.

H. Flood insurance coverage must perform like homeowner coverage.
   • Although the insurance industry has eliminated coinsurance penalties by insuring only to value (i.e., 100 percent of replacement cost), the NFIP’s insurance contract still contains a penalty for insuring for less than 80 percent of replacement cost. Unless the NFIP changes, fewer premium dollars will flow into the Flood Insurance Fund and more taxpayer dollars will flow from disaster assistance.
   • Coverage should include additional living expenses. Flood victims should not continue to look to Federal disaster assistance for temporary housing needs.

I. Provide incentives, such as rating discounts and credits, for individual property owners who employ flood mitigation techniques.
Evaluation of CRS Credited Activities During Hurricane Floyd

Contract No. EMW-95-C-4678
Task Order No. 367

TO

Federal Emergency Management Agency
500 C Street, SW
Washington, DC 20472
and
Federal Emergency Management Agency
Region IV

September 25, 2000

Prepared by

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Under Contract to

URS Greiner Woodward Clyde Federal Services
200 Orchard Ridge Drive, Suite 101
Gaithersburg, MD 20878
301/258-9780
Executive Summary

This report reviews the performance of several communities’ Community Rating System (CRS) activities during and after the flooding caused by 1999’s Hurricane Floyd in North Carolina. Using a combination of data collected in the field, data from flood insurance claims, and interviews with local officials and residents, the project team evaluated the impact of eight CRS activities on flood losses.

While some data problems are noted, the project team was able to measure the impact of the following activities and elements:

300 Series – Public Information Activities
   320 – Map Information
   330 – Outreach Projects
   360 – Flood Protection Assistance

400 Series – Mapping and Regulations
   410 – Additonal Flood Data
   420 – Open Space Preservation
   430 – Higher Regulatory Standards: Freeboard
   430 – Higher Regulatory Standards: Coastal Regulations
   430 – Higher Regulatory Standards: Enclosures

500 Series – Flood Damage Reduction
   520 – Acquisition and Relocation
   530 – Retrofitting

The findings are summarized by series:

300 Series – Public Information Activities: Residents of CRS communities: had a higher level of awareness that they were exposed to a flood hazard, had a higher level of flood insurance coverage, and had implemented more flood protection measures. However, when asked where they got the information for these things, we found no significant impact due to community-run public information programs.

400 Series – Mapping and Regulations:

   – The combination of having base flood elevations and requiring new construction to be built to a freeboard of two feet above the BFE saved nearly $100,000 in the small community of Severn.

   – The average savings from preserving floodprone areas as open space ranged from $47,500 to $111,000 per acre.
– Requiring a freeboard of one or two feet of additional protection above the base elevation can provide up to twice the savings that result from meeting the minimum NFIP requirement (as measured as a percentage of the building’s value).

– Erosion protection regulations that require buildings to be set more than 100 feet back resulted in 1/3 the damage suffered when compared to buildings that are set back only 30 feet.

– Both piling depth and enclosure size can significantly affect the value of the flood loss for structures along the shoreline.

500 Series – Flood Damage Reduction:

– Acquisition and relocation of flood-prone buildings is more effective at reducing flood losses than any other approach. Using the replacement cost of the flooded buildings, the theoretical benefit/cost ratio was 1.3:1. Using actual experience, 1996 – 1999, FEMA and the community had a payback in three years.

– The practice of elevating above the base flood elevation paid off: the higher the building, the less the damage.

– Where people had installed flood protection measures, they proved effective against Hurricane Floyd’s flooding in 75% of the cases. 60% of those who had successful retrofitting projects saved over $5,000 in flood damage prevented. The average savings for all retrofitters was $9,900.

Overall Impact of the CRS. In addition to evaluating individual activities, local officials were interviewed on the impact of the CRS in general on their flood protection programs.

– The CRS was the cause for starting or modifying some local activities. However, in many cases it was not the only cause and it was overshadowed by recent flooding and disaster assistance funds.

– The CRS had a greater impact on activities that are inexpensive or can be implemented with current staff resources (e.g., public information and flood warning).
Introduction

Background

Since 1990, the Community Rating System (CRS) of the National Flood Insurance Program (NFIP) has provided flood insurance premium discounts in recognition of local floodplain management programs that exceed the minimum requirements of the NFIP. The amount of the discount depends on the number of activities a community implements and the sum of the scores for each activity.

Because the CRS represented an entire new way to observe and measure local floodplain management activities, there were few direct experiences or proven ways to determine how many points an activity should be awarded. Accordingly, the system to score a community’s program was developed based on the combined professional judgment of contractors, FEMA staff and the CRS Task Force. A more objective way to confirm or improve the credit criteria and the scoring system could be developed from an evaluation of the effectiveness of specific CRS activities in response to actual flood events.

This report will review the performance of several communities’ CRS activities during and after the flooding caused by 1999’s Hurricane Floyd in North Carolina. It builds on the lessons learned from a previous report conducted in 1997 following Hurricanes Bertha and Fran in North Carolina.

It is assumed that the reader is familiar with both the NFIP and the CRS. Basic terms and NFIP regulations are not explained. Regulations and programs peculiar to North Carolina are explained.

Area Flood History

Before 1996. Historically, North Carolina has been subject to numerous flooding incidents. Most are of a local nature and occur almost routinely with low areas being inundated. However, the State has incurred severe flooding on numerous occasions, generally in conjunction with a hurricane.

Coastal North Carolina is one of the more vulnerable areas to hurricanes along the coastline of the United States. Since 1886, more than 50 hurricanes have directly affected North Carolina. On the average, North Carolina experiences a hurricane approximately once every two years.

Before the flooding associated with Hurricanes Fran and Floyd, the most extensive and destructive inland flood of record in the state occurred during July 1916. This flood resulted from extensive rain from a tropical storm. A record 1-day rainfall amount for the U.S. of 22.2 inches was recorded in the headwaters of the Nolichucky River at Altapass.
Policies in Force by Month as of November 30, 2000

<table>
<thead>
<tr>
<th>Month</th>
<th>PIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-99</td>
<td>4,206,914</td>
</tr>
<tr>
<td>Jan-00</td>
<td>4,210,637</td>
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<td>Mar-00</td>
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<td>Apr-00</td>
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<td>Aug-00</td>
<td>4,252,209</td>
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<td>Oct-00</td>
<td>4,274,197</td>
</tr>
<tr>
<td>Nov-00</td>
<td>4,268,920</td>
</tr>
</tbody>
</table>

Updated: March 8, 2001
### Insurance In Force

**By Month**

As of November 30, 2000

<table>
<thead>
<tr>
<th>Month</th>
<th>Insurance In Force</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-99</td>
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<td>Apr-00</td>
<td>$527,220,078,500</td>
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<td>May-00</td>
<td>$528,582,934,900</td>
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<td>Jun-00</td>
<td>$532,555,406,300</td>
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<tr>
<td>Jul-00</td>
<td>$537,719,920,600</td>
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<tr>
<td>Aug-00</td>
<td>$543,552,960,300</td>
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<tr>
<td>Sep-00</td>
<td>$548,091,056,900</td>
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<tr>
<td>Oct-00</td>
<td>$550,611,155,000</td>
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<tr>
<td>Nov-00</td>
<td>$552,007,902,900</td>
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*Updated: March 8, 2001*
### Average Claim Payments by Date of Loss

**As of November 30, 2000**

<table>
<thead>
<tr>
<th>Date of Loss</th>
<th>Average Paid on Paid Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-99</td>
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<td>Jan-00</td>
<td>$8,368</td>
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<tr>
<td>Feb-00</td>
<td>$9,706</td>
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<td>Mar-00</td>
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<td>Apr-00</td>
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<td>May-00</td>
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<tr>
<td>Jun-00</td>
<td>$14,829</td>
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<td>Jul-00</td>
<td>$13,558</td>
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<td>Aug-00</td>
<td>$14,302</td>
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<td>Sep-00</td>
<td>$9,338</td>
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<tr>
<td>Oct-00</td>
<td>$12,930</td>
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<tr>
<td>Nov-00</td>
<td>$6,666</td>
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</table>

*Updated: March 8, 2001*
Significant Flood Events
Dollars Paid as of November 30, 2000

<table>
<thead>
<tr>
<th>Event</th>
<th>Paid Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Floyd (Sep 99)</td>
<td>$433,394,179</td>
</tr>
<tr>
<td>Irene (Oct 99)</td>
<td>$116,200,127</td>
</tr>
<tr>
<td>Miami (Oct 00)</td>
<td>$80,556,113</td>
</tr>
</tbody>
</table>

Updated: March 13, 2001
Policy Retention Rates
as of November 30, 2000

<table>
<thead>
<tr>
<th>Month</th>
<th>Contracts Retained</th>
<th>Contracts Expired</th>
<th>Retention Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-99</td>
<td>187,994</td>
<td>219,021</td>
<td>85.83%</td>
</tr>
<tr>
<td>Jan-00</td>
<td>171,995</td>
<td>190,350</td>
<td>90.36%</td>
</tr>
<tr>
<td>Feb-00</td>
<td>186,330</td>
<td>206,445</td>
<td>90.26%</td>
</tr>
<tr>
<td>Mar-00</td>
<td>212,253</td>
<td>233,804</td>
<td>90.78%</td>
</tr>
<tr>
<td>Apr-00</td>
<td>223,676</td>
<td>248,683</td>
<td>89.94%</td>
</tr>
<tr>
<td>May-00</td>
<td>245,842</td>
<td>269,891</td>
<td>91.09%</td>
</tr>
<tr>
<td>Jun-00</td>
<td>277,011</td>
<td>300,088</td>
<td>92.31%</td>
</tr>
<tr>
<td>Jul-00</td>
<td>323,731</td>
<td>348,618</td>
<td>92.86%</td>
</tr>
<tr>
<td>Aug-00</td>
<td>311,424</td>
<td>329,516</td>
<td>94.51%</td>
</tr>
<tr>
<td>Sep-00</td>
<td>280,242</td>
<td>297,382</td>
<td>94.24%</td>
</tr>
<tr>
<td>Oct-00</td>
<td>260,016</td>
<td>282,443</td>
<td>92.06%</td>
</tr>
<tr>
<td>Nov-00</td>
<td>212,683</td>
<td>254,323</td>
<td>83.63%</td>
</tr>
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</table>

Updated: March 8, 2001
Policies in Force
By Coverage Type
As of November 30, 2000

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<thead>
<tr>
<th>Coverage Type</th>
<th>Policies In Force</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building Coverage Only</td>
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<tr>
<td>Contents Coverage Only</td>
<td>91,143</td>
</tr>
<tr>
<td>Both Bldg &amp; Cont Cvg</td>
<td>2,397,929</td>
</tr>
<tr>
<td>All Policies</td>
<td>4,268,920</td>
</tr>
</tbody>
</table>

Updated: March 8, 2001
### Policies in Force
#### By Occupancy Type
#### As Of November 30, 2000

<table>
<thead>
<tr>
<th>Occupancy Type</th>
<th>Policies in Force</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Family Home</td>
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<tr>
<td>2 to 4 Family Unit</td>
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<tr>
<td>Condominiums</td>
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<tr>
<td>Other Residential</td>
<td>151,633</td>
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<tr>
<td>Non-Residential</td>
<td>192,935</td>
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<tr>
<td>Unknown Occupancy</td>
<td>-</td>
</tr>
<tr>
<td><strong>All Policies</strong></td>
<td><strong>4,268,920</strong></td>
</tr>
</tbody>
</table>

*Updated: March 8, 2001*
Discussion Questions

1. In the many countries, the vast majority of insurance against property damage is provided by private firms. Did elected officials and the administrators of the federal flood insurance program offer a clear rationale for government provision of flood insurance (A1 and A3)? Are these rationales convincing? What are the major issues in the operation of the Flood Insurance Program identified in the testimony of the Director in item A2? Are these issues unique to the flood insurance or would you expect to find them in other government insurance programs?

2. Compare the language in the Act (A3) with the language in the Code (A1). Explain the differences. Why is Section 555(b) of the Act not found in the Code?

3. In 1994, a new law expanded the coverage of government flood insurance to include the cost of compliance with state and local floodplain management requirements. The Federal Emergency Management Agency drafted regulations to implement the new coverage. What major implementation issues did the Director of the program address in the proposed regulations (B1)? Did the proposed regulations deal with those issues in a manner that was consistent with the apparent intent of the new law (A1 and A3)?

4. As required by the Administrative Procedures Act for most proposed regulations, the Director invited public comment on the proposed regulations. The public offered some criticisms. In the final regulations (B2) the Director summarized those criticisms and responded to each one. Were the answers of the Director to the criticisms responsive to the issues raised? Were the answers clear and convincing? Were any changes made to the proposed regulations as a result of the public comments? Were the final regulations consistent with the new law (A1 and A3)? List the design issues identified by the Director.

5. Compare the language about the new cost of compliance coverage in the final regulation (B2) to the relevant language in the Standard Policy (B3). The differences are the result of the Agency's subsequent attempt to comply with an Executive Order to simplify regulations and use plain language. Did the Agency succeed? What additional changes, if any, would you make to improve the readability of the policy?

6. A key task in using the insurance tool is the creation of insurance policies, such as those for flood insurance (B2). What kinds of resources (e.g. staff skills and data) must a government agency have to carry out tasks such as policy writing? Is it likely that government insurers will have access to such resources? Why or why not?

7. The government agency must constantly adjust the terms of the insurance policy in response to new events and behaviors of the insured. However, as a government agency, the NFIP must follow time-consuming procedures, such as publication of rule changes for comment (B1), in making such adjustments. Do you think government insurers should be treated like other government organizations when they make changes to their policies? What are the risks of giving the government insurer exemptions from these legal processes? What are the risks of slowing down changes deemed necessary by the government insurer?

8. How was the premium set for the additional coverage for cost of compliance? (A1, A3, B1, and B2)? How was that process different from the typical process for setting premiums? Some policymakers want government insurance to pay for itself while other policymakers want the government to provide subsidies to those who purchase the insurance policies. How might this tension affect the premium setting process for the NFIP (B4)? How might this tension arise in evaluations of the insurance program or in the performance statistics of the insurance program (G2 and G3)? What are the potential costs of not setting insurance premiums to pay for expected costs of the insurance program? How should policymakers consider these costs when deciding which tool to use?
9. What policy issues are raised when the government tries to sell a product such as insurance to the public? Is advertising flood insurance products appropriate for the government (D1)? Describe activities and actions carried out by private insurers in marketing insurance that you would not find acceptable if performed by a government agency.

10. The standard objective of the insurance underwriting process is segmentation of the potential participants by risk. Potential applicants are sorted by their chance of making a claim. Individuals with higher risks would pay higher premiums. However, two of the basic objectives of many government insurance programs, including flood insurance, are to maximize participation and to offer low cost insurance to those who may not otherwise participate. Do you see evidence of the tension between these objectives in government flood insurance (E1)?

11. The efficiency and integrity of claims reviews can have a significant effect on the ability of a government insurance program to keep costs and revenues in balance and on the legitimacy of the use of the insurance tool in government programs. The flood insurance program uses private sector adjusters to review and settle claims. In the operation of the expanded coverage for costs of compliance and the other coverages provided by the program, what risks to the government are inherent in the use of non-government personnel for the important process of claims adjustment? What steps could the government take to minimize those risks (F1 and F2)?

12. According to the Director of the NFIP, 85 private insurance companies sell 94 percent of the NFIP policies (A2). What does the authorizing legislation (A1) say about the role of the private sector in the operation of this program? What difficulties would managers of the government insurance program face in managing third-party insurance firms used to carry out tasks necessary to operate the government insurance program? Written guidance and contracts offer two methods by which the government manager can meet these challenges (D3 and D4). How effective do you think training in conjunction with guidance might be for managing the activities of private sector parties (F1 and F2)?

13. What are the primary procedural issues in the evaluation of a government insurance program (G1 and G2)? The NFIP works with local governments to limit damage from floods. Are these efforts successful according to NFIP evaluations (G3)? What challenges might arise from the interaction between the federal insurer and state and local government authorities? What are the substantive issues? What do the data in G3 suggest about the success or failure of the flood insurance program? Do the data reveal anything about the success of the extended coverage for cost of compliance? What additional data or information would be needed to evaluate the cost of compliance coverage?