



FEMA

W-10029

March 29, 2010

MEMORANDUM FOR: Write Your Own (WYO) Company Principal Coordinators and the National Flood Insurance Program (NFIP) Servicing Agent

A handwritten signature in black ink, appearing to read "Dennis L. Kuhns".

FROM: Dennis L. Kuhns
Division Director
Risk Insurance

SUBJECT: Lapse in NFIP Authority

While we await legislative action to reauthorize the NFIP, the attached Frequently Asked Questions may be useful to you. Two versions are provided: (a) a consumer-oriented version, and, (b) a more technical version.

We will inform you when the NFIP is again authorized to sell new policies, issue increased coverage on existing policies, or issue renewal policies.

Attachments

cc: Vendors, IBHS, FIPNC, Government Technical Representative

Suggested Routing: All Departments

Frequently Asked Questions (FAQ) Concerning NFIP Re-Authorization

FAQ – Consumers

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

Your insurance company issues flood policies as part of the National Flood Insurance Program (NFIP) under an arrangement with the Federal Government. The NFIP operates under authority from Congress that has to be renewed periodically. That authority to issue new policies expired at midnight on March 28, 2010, and is awaiting Congressional renewal. Thus the NFIP will experience a hiatus – a period without authority to issue new policies, issue increased coverage on existing policies, or issue renewal policies – until Congress reauthorizes it.

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

Most of the 5.6 million flood insurance policyholders nationwide will not be affected. Policies that are in force will remain in force, and claims under those policies can continue to be paid after March 29, 2010. However, during the hiatus we will not be able to issue new policies, issue increased coverage on existing policies, or issue renewal policies. Therefore, the limited interruption is of concern to property owners who need to renew policies, homebuyers who must purchase flood insurance as a condition for obtaining mortgages from federally regulated lenders, and property owners refinancing existing mortgages who must purchase or renew coverage.

The hiatus is expected to be brief. We are doing everything we can to communicate with our insurance and lending industry partners to see that this issue is resolved with as little disruption of insurance operations as possible.

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

Yes, there have been several lapses in authority for the NFIP in the past. In most of those cases, Congress reauthorized the NFIP retroactively.

4. If I purchased flood insurance coverage, as required by my federally regulated lender, for a loan closing on or before March 28, 2010, will my policy be issued?

If the premium payment was part of the loan closing and made from the escrow account (lender's check), title company, or settlement attorney, and is received by the insurance company within 30 days from the closing, the policy will be issued.

If the premium was not part of the closing, meaning the borrower wrote his/her check at or before closing, both the application and premium must be received within 10 days of the closing date, in order for the policy to be issued.

5. If I purchased flood insurance coverage on or before March 28, 2010, but was not required to do so by my lender, will my policy be issued?

If the application and premium payment were made prior to March 29, 2010, and are received within 10 days from the application date, the policy will be issued.

6. My flood insurance policy is set to expire on April 1, 2010. I received my renewal notice on March 1, 2010, but did not send my payment to my insurance company until March 28, 2010. Will my insurance policy be renewed?

Yes. As long as the renewal notice was issued prior to April 1, 2010, and the payment is received before the end of the 30-day renewal grace period, the company is authorized to renew the policy.

NOTE: Effective March 29, 2010, insurance companies are no longer authorized to issue renewal notices until Congress reauthorizes the program.

7. I have a loan closing on April 1, 2010, and have been told by my lender to purchase flood insurance before settlement. Will I be able to purchase a new flood insurance policy?

Insurance companies cannot issue new flood insurance policies for loans closing on or after March 29, 2010, until the NFIP is reauthorized. However, it has been recommended that the companies hold new applications and premium payments for processing until the reauthorization is received. If Congress retroactively reauthorizes the program, then these policies may be issued with effective dates as early as March 29, 2010. If Congress does not retroactively reauthorize the program, the earliest effective date for these policies will be the date the NFIP is reauthorized.

8. If I suffer a loss during this hiatus, will my claim be paid?

Claims for existing policies and new policies issued based on premiums received prior to the hiatus are not affected, and the claims will be processed. Claims for new policies where the premiums were received and held by the company during the hiatus will not be paid until Congress reauthorizes the NFIP. However, your insurance company can proceed with investigating your claim under a “non-waiver” agreement, up to the point of payment. Under the “non-waiver” agreement, the company would reserve the right not to pay the claim if Congress does not reauthorize the NFIP.

9. How will I know when the NFIP has been reauthorized?

FEMA will notify NFIP stakeholders so they can pass the information on to their customers.

Frequently Asked Questions (FAQ) Concerning NFIP Re-Authorization

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

Your insurance company issues flood policies as part of the National Flood Insurance Program (NFIP) under an arrangement with the Federal Government. The NFIP operates under authority from Congress that has to be renewed periodically. That authority to issue new policies expired at midnight on March 28, 2010 and is awaiting Congressional renewal. Thus the NFIP is experiencing a "hiatus" – a period without authority to issue new policies, issue increased coverage on existing policies, or issue renewal policies until Congress reauthorizes it.

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

Most of the 5.6 million flood insurance policyholders nationwide will not be affected. Policies that are in force will remain in force, and claims under those policies can continue to be paid after March 28, 2010. However, during the hiatus we will not be able to issue new policies, issue increased coverage on existing policies, or issue renewal policies. Therefore, the limited interruption is of concern to property owners who need to renew policies in March-April, home-buyers who must purchase flood insurance as a condition for obtaining mortgages from federally regulated lenders, and property owners refinancing existing mortgages, who must purchase or renew such coverage. That said, the hiatus is expected to be brief and we are doing everything we can to resolve the issue with as little disruption of insurance operations as possible. The NFIP is also working with our insurance and lending industry partners during this situation.

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

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

4. If I get my premium payment and application for a new policy in to my insurance company on or before March 28, 2010, when will I have flood insurance protection?

The starting date of such coverage depends on the applicable flood insurance waiting period. (Check with your insurance agent for the exact date when the 30-day waiting period starts. Also see Question 15 for details about the 30-day waiting period.) Even with the lapse in authority, new policies for which premium payment is received by the insurance company on or before March 28, 2010, will still be issued for coverage and will become effective after March 28, 2010. Claims for existing policies and policies issued based on premiums received prior to the hiatus, will be processed without delay.

5. What happens if my premium for a new policy or an endorsement for added coverage is received by the company after March 28, 2010 and I suffer a flood loss before Congress reauthorizes the Program?

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

6. I have a mortgage loan closing end of March, early April, and the lender has told me I have to have flood insurance at closing. What will happen if my premium and application aren't received by my insurance company by March 28, 2010?

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

7. Can my premium be in the mail, with a postmark before March 28, 2010 in order to beat the deadline?

The controlling factor is receipt of the premium by the insurance company, not the postmark. However, if your renewal premium payment is mailed by certified mail or third-party delivery services such as Federal Express (FedEx), United Parcel Service (UPS), and courier services and the like that provide proof of mailing, the premium receipt date is the postmark date or the third-party receipt date.

8. If I suffer a loss during the hiatus, even though I beat the March 28, 2010 deadline, will I be covered for the loss?

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

9. My policy was up for renewal in late March. Was my policy renewed?

If your renewal premium payment was received by your insurance company on or before March 28, 2010, or received within the 30-day renewal grace period, your policy was renewed. You should check with your insurance agent to make certain your policy was renewed.

10. What happens if my premium payment for a policy renewal was received by the company on or before March 28, 2010 and I suffer a flood loss before Congress reauthorizes the NFIP? Will I be covered?

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

11. What happens if my premium payment for a policy renewal was received by the company after March 28, 2010 and I suffer a flood loss before Congress reauthorizes the NFIP? Will I be covered?

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

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

The NFIP will announce it through the media and to all the NFIP’s stakeholders – insurance companies, insurance agents, lenders and realtors, so they can pass the information on to their customers. The NFIP will also use the FEMA website to announce the authorization.

13. What happens if Congress does not make reauthorization retroactive to March 28, 2010?

Policies without a 30-day waiting period would become effective on the date the reauthorization is effective. Policies with a 30 day waiting period would become effective when both the 30-day waiting period has ended and Congress has reauthorized the NFIP. See Question 15 for details about the 30-day waiting period.

14. What happens if the hiatus is lengthy?

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

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

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

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

In addition to the two basic exceptions, FEMA's Mitigation Directorate has issued a policy decision specifying the following four exceptions:

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