

Flood Insurance Seminar

Introduction

The Federal Emergency Management Agency (FEMA) estimates that there are between six and eight million buildings in the United States with a flood exposure, and that approximately six million of these buildings are uninsured for this hazard. These numbers are constantly growing as the population shifts from landlocked to coastal areas. The National Flood Insurance Program (NFIP) was put into place to provide flood insurance to eligible insureds. The water damage exclusion in standard property forms, both personal and commercial, applies to flood damage and, therefore, includes no coverage for this peril in these policies.

What is a Flood?

A flood is “A general and temporary condition of partial or complete inundation of two or more acres of normally dry land area or of two or more properties from:

- Overflow of inland or tidal waters;
- Unusual and rapid accumulation or runoff of surface waters from any source;
- Mudflow*; or
- Collapse or subsidence of land along the shore of a lake or similar body of water as a result of erosion or undermining caused by waves or currents of water exceeding anticipated cyclical levels that result in a flood as defined above.”

*Mudflow is defined as “A river of liquid and flowing mud on the surfaces of normally dry land areas, as when earth is carried by a current of water. Other earth movements, such as landslide, slope failure, or a saturated soil mass moving by liquidity down a slope, are not mudflows.”

Increased Need for Flood Insurance

The end of the past century has seen the population of the United States continue to shift from the interior to the coast. Not only has this resulted in an increased need for flood insurance, but it has also resulted in the fact that buildings that are consistently flooded are the subject of special focus. The federal government has had to step in to encourage those homeowners who repeatedly file claims to relocate. In the contiguous United States, the coastal land area accounts for about one-fifth of the total land area, yet contains over half of the population. The United States contains approximately 675 counties designated as coastal, which means that at least 15% of their land area is in a coastal watershed. Two hundred eighty-five are Atlantic, 142 are Gulf, 88 are Pacific (Hawaii is completely coastal), 158 are Great Lakes. This does not include the interior areas that are subject to stream and river flooding.

Background of the National Flood Insurance Program

Flood insurance, while not generally written on a direct basis by private insurers, is widely available through the National Flood Insurance Program (NFIP). The original program, created by the National Flood Insurance Act of 1968, was amended by the Flood Disaster Protection Act of 1973, which introduced a mandatory element into the program and broadened the amount of coverage available to eligible insureds.

The program was amended again by the National Flood Insurance Reform Act of 1994, which required, among other things, that federally insured or regulated lenders must notify borrowers or lessees that the property is located in a special flood hazard area and that flood insurance is required.

Coverage can be purchased through any licensed property and casualty insurance agent and also through some private insurance companies cooperating in the NFIP's "Write-Your-Own" program. As of the end of December 2007 there were in excess of 5.6 million policies in force.

The NFIP is a federal program administered by the Federal Insurance and Mitigation Administration (changed from the Federal Insurance Administration), which is part of FEMA (Federal Emergency Management Agency). This program enables property owners to purchase flood insurance. This insurance is designed to provide an insurance alternative to disaster assistance to meet the escalating costs of repairing damage to buildings and their contents caused by floods.

It should be noted that disaster assistance is not automatically available. For one thing, more than 90% of all disasters are not presidentially declared, and therefore no federal assistance is available. Of those that are declared, over 90% include flooding. The president must declare a major disaster before most forms of assistance are offered - FEMA's Individual and Family Grant Program, for personal property, and Temporary Housing Program, for home repair and rental assistance. Further, to qualify for home repair assistance, the damaged home must have such relatively minor damage that it can be quickly repaired; rental assistance is available only if the home has been destroyed or significantly damaged.

The NFIP is based on an agreement between local communities and the federal government that states that if a community will implement measures to reduce future flood risks to new construction in special flood hazard areas (SFHAs), the federal government will make flood insurance available within the community as a financial protection against flood losses that do occur.

The NFIP is also charged with mapping the nation's floodplains. The resulting rate maps are referred to as FIRMS (flood insurance rate maps). The 1968 Act allowed rates of buildings built or substantially improved prior to the effective date of a community's initial FIRM or December 31, 1974, whichever was earlier, to be subsidized by the federal government. These buildings are referred to as pre-FIRM. The rates for those buildings built or substantially improved after the effective date of a FIRM or December 31, 1974, whichever is later, are post-FIRM and are not subsidized.

Flood insurance can be written only in those communities that have been designated as eligible by the Federal Emergency Management Agency. An eligible community is one that has been notified by FEMA that it contains flood prone areas. While unincorporated areas in an approved county are

eligible, incorporated communities in that county may not be. Incorporated villages or towns must obtain their eligibility independently of the county.

Once notified, a community must make prompt application to join the program and indicate a willingness to set up and enforce floodplain management standards aimed at avoiding and reducing future flood damage. Only communities with flood problems that have not as yet been notified may also join the program by making application to FEMA and expressing a willingness to institute the required floodplain management measures.

In the event a community with a potential flood hazard does not enter the program, it will eventually be notified by FEMA that it is flood prone, nevertheless. This notification takes the form of a Flood Hazard Boundary Map (FHBM) published by FEMA that shows the areas subject to severe flooding within the community. Upon receipt of such notification, the community has one year in which to enter the program. Once the community expresses its willingness to institute floodplain management measures, members of the community become eligible for insurance. If a community chooses not to participate, there are ramifications. Grants, loans, or guarantees made by federal agencies such as the FHA are prohibited for acquisition or construction of property. Lending institutions insured or regulated by a federal agency may make conventional loans, but generally will avoid doing so because of the risk involved should their accounts be audited. Further, no federal assistance for acquisition or construction will be provided if a flood occurs, nor will assistance for housing and personal property be available. No one can purchase flood insurance in a nonparticipating community.

Currently, of particular concern are regular losses to the same properties. These are the repetitive loss properties that have been eligible for reduced premiums and have been flooded on more than one occasion. These properties have accounted for several billion dollars in claims over the years. Some of the buildings have sustained two or more losses where the total amount paid equaled or exceeded the property value. Rather than continuing to pay these claims, FEMA is focusing on loss prevention. Property owners are being offered financial assistance to elevate or, in some cases, move. In some instances, communities are buying and demolishing the at-risk properties. Those policy holders refusing help are being asked to pay full premium, which for a repetitive loss property could be substantial.

“Write Your Own” Program

In 1983 the federal government began the "Write Your Own" (WYO) program to encourage private insurers to participate in the NFIP. Prior to that time, flood policy sales did not achieve the hoped-for amount. By using private carriers, particularly their marketing and customer data bases, policy count and geographic distribution increased. Under the "Write Your Own" program, a participating company sells flood policies under its own name, collects premiums, keeps a stipulated percentage of the premium to cover operating expenses and commissions, and invests the remainder. The insurer is then responsible for servicing the policies and adjusting losses and paying claims.

The federal government retains responsibility for any underwriting losses. There are currently approximately 90 companies participating in the WYO program.

Forms

The NFIP program consists of three forms. There is the dwelling form, used with one-to four-family dwellings and eligible manufactured housing. It is also used to insure a unit within a residential condo building. The residential condominium building association policy (RCBAP) is used to insure residential condos (and commonly-owned contents) not in the Emergency Program. Finally, the general property form is used for commercial establishments, residential condos in the Emergency Program, timeshare buildings not in the condo style of ownership, and cooperative buildings.

The chief difference among the forms is that the dwelling form and RCBAP allow replacement cost, while the general property form settles loss strictly on an actual cash value basis.

Dwelling Form

The dwelling form is used for insuring one to four family dwelling buildings and their contents. This form may also be used for a manufactured home, mobile home, a travel trailer meeting certain criteria, or a dwelling under construction. The NFIP rules permit a condominium unit owner to insure his or her unit under the dwelling form as though it were a single family dwelling. Such policies may be written in the name of the individual unit owner and the condominium association, as their interests may appear, or may be purchased by the association in the name of the owner of the unit. If the condominium association owns the unit, the dwelling form may still be used to insure the unit. When flood insurance is to be written on the entire building in the name of the condominium association alone, the residential condominium building association form or the general property form is used.

Row or townhouses may be insured using the dwelling form, provided that the living unit is titled as a single family dwelling, has a separate legal description, and is regarded as a separate property for other real estate purposes (such as being capable of being deeded or conveyed).

The dwelling flood policy is subject to a standard deductible of \$500 (or higher at the insured's choice) that applies separately to building and contents losses, including related debris removal expense. A deductible of \$1,000 applies to losses occurring to property in an emergency program community or to property located in pre-FIRM special flood areas. Different deductibles may be written for building and contents.

General Property Form

The general property form may be used to insure residential or non-residential buildings and/or contents. Cooperative buildings where the entire building is in the name of the cooperative, time sharing buildings not in the condominium form of ownership, and condominiums that do not meet the Residential Condominium Building Association Policy requirements, may be written on the general property form. Condominiums eligible for the general property form include those buildings in emergency program communities and those without at least 75% floor area used for residential purposes. The general property form may also be used for commercial condominiums and their commonly owned contents, and for commercial condominiums unit owners.

This form can also be used to insure such property as silos and grain storage buildings, cisterns, and buildings built entirely over water, if constructed prior to October 1, 1982. (These must be

submitted for a rate.) Boathouses built partially over water (the portions of the building not used for boathouse purposes) may be insured, so long as the building is partially over land and also used for residential, commercial, or municipal purposes, and is eligible for flood coverage.

The form can also be used to insure stock, machinery, furniture and fixtures, and other property used in an insured's business. This is not to say all stock is covered. Autos and motorcycles, notably, cannot be insured on the general property form.

The general property form is subject to a standard deductible of \$500. The deductible applies separately to building and contents. Different deductibles may be written for building and personal property. The minimum deductible is \$1,000 for any property located in an emergency program community or in certain flood hazard zones. Higher deductibles may be selected for the appropriate reduction in premium.

Residential Condominium Building Association Policy

The residential condominium building association policy, as the name indicates, is intended for all residential condominium buildings meeting the eligibility criteria outlined in the flood insurance manual. The form may be used for townhouse, rowhouse, or detached single family condos. The governing criterion is that the property has a condo form of ownership. Cooperative apartment buildings are therefore not eligible. Timeshare buildings having condo type ownership (the units are individually owned) are eligible, provided other criteria are met.

The residential condominium building association policy meshes with the dwelling form in that commonly owned property and improvements within the units are covered on a primary basis. In event of a loss, coverage applies first to building common elements, and then to individually owned building elements.

The standard deductible is \$1,000 for a residential condominium building located in a regular program community in special hazard areas. For those policies rated post-FIRM and those in non-special hazard areas, the standard deductible is \$500. Deductibles apply separately to building and contents losses and different deductibles may be chosen to apply to building and contents. Increased deductibles are optional. Buildings under construction, alteration or repair without at least two rigid exterior walls and a fully secured roof in place are subject to twice the deductible that would otherwise apply.

The residential condominium building association policy is the only flood form that contains a separate coinsurance section, which provides examples of how coinsurance works. The dwelling form describes a coinsurance provision in conjunction with loss settlement, but it is located among the other loss settlement provisions. The coinsurance provision applies to building coverage only.

All the NFIP flood forms contain the following sections:

- Insuring Agreement
- Definitions
- Covered Building Property
- Covered Personal Property
- Other Coverages

- Increased Cost of Compliance
- Property not Covered
- Exclusions
- Deductibles
- General Conditions
- Loss Settlement Conditions
- Liberalization Clause
- What Law Governs

Property Eligibility

Eligibility rules, as well as all other policy writing rules and rating information, are contained in the flood insurance manual. The manual, application forms, maps, and other supplies, can be obtained from FEMA. Flood insurance may be written on most types of residential or nonresidential buildings located in an eligible community, provided they:

- Have two or more exterior rigid walls;
- Have been roofed; and
- Are principally above ground (meaning at least 51% of its actual cash value, including machinery and equipment is above ground level).

Contents of eligible buildings are also eligible for coverage. However, if contents are located in eligible buildings that do not have rigid walls on all sides, the contents must be secured to prevent flotation out of the building during flooding. The only appurtenant structure eligible for coverage is a garage under the dwelling form; other appurtenant structures must be written on separate policies. Blanket insurance is not allowed, although from two to ten buildings may be scheduled on the general property form so long as they have the same ownership and the same location, or are located on contiguous properties.

A mobile home (referred to in the manual and in the coverage forms as manufactured housing) is eligible for flood insurance only if it is (1) on a permanent foundation and (2) anchored to a permanent site if located in a Special Flood Hazard Area. Anchoring entails over-the-top or frame ties to ground anchors, or in accordance with the manufacturer's specifications, or in accordance with the community floodplain management requirements. Mobile homes insured continuously since September 30, 1982, can be renewed under previously existing requirements if affixed to a permanent foundation. Travel trailers are now eligible as mobile homes if they have been anchored to a foundation and their wheels removed. Residential one-to four-family buildings and individual residential condo units written on the dwelling form are eligible for up to \$250,000 in building coverage and \$100,000 personal property coverage.

Residential condominium buildings and contents are likewise eligible, with the special provision that if a condominium unit owners association does not have adequate flood insurance, a unit owner may (often at the insistence of a mortgagee) purchase insurance for the contents and the unit. A residential condominium building not in the emergency program may be insured on the Residential Condominium Building Association Program form, or RCBAP, as noted above. The limit of coverage for the building is the replacement cost or number of units times \$250,000, whichever is less; for commonly-owned contents, the limit is a maximum of \$100,000. A residential condo

building in the emergency program must be insured on the general property form, with a limit of \$100,000 on the building and \$10,000 on the commonly-owned contents.

Cooperative residential buildings can currently be insured for a maximum building coverage of \$250,000 on the general property form. Time share buildings not in the condominium form of ownership, where at least 75% of the area is used for residential purposes, can also be insured for a maximum of \$250,000 on the general property form. Timeshare buildings in the condominium form of ownership are eligible for coverage to the maximum currently allowed in the RCBAP program (replacement cost or number of units times \$250,000). A residential building containing more than four units, other than those previously noted, may be insured on the general property form. Coverage is limited to \$250,000 on the building and \$100,000 on contents.

Newly constructed or substantially improved buildings that have floors partially over water, except for pre-FIRM buildings, must be submitted for an underwriting decision and rating, with the likelihood of very high rates. However, pre-FIRM buildings constructed or substantially improved prior to October 1, 1982, and partially over water are eligible for normal pre-FIRM rates. Boathouses located partially over water, that is the non-boathouse portions, are eligible if the building is partially over land, and also used for residential, commercial, or municipal purposes. Newly constructed or substantially improved buildings located entirely in or on water or seaward of mean high tide are not eligible. Post-FIRM buildings constructed prior to October 1, 1982 and entirely over water must be submitted for an underwriting decision and rate.

Silos, grain storage buildings, and cisterns, even if they are of container type construction, are eligible, but other container type structures are not. Examples of the excluded types of containers are gas and liquid tanks, chemical or reactor container tanks or enclosures, brick kilns, and similar units and their contents. The contents of silos, grain storage buildings, and cisterns are insurable. Commercial contents are insurable except for contents located in an ineligible structure or in a building not fully walled. Bailees' customer goods and stock consisting of automobiles, motorcycles, or motorized equipment are not eligible for coverage.

Buildings in the course of construction (builders risks) can be provided flood insurance for the benefit of the owner, builder, or mortgagee. However, there are conditions. The amount of the deductible for each loss occurrence before the building is walled and roofed is twice that selected to apply after the building is walled and roofed. There is no coverage until a building is walled and roofed where the lowest floor, including basement floor, of a non-elevated building or the lowest floor of an elevated building is below the base flood elevation in most zones, or is below the base flood elevation adjusted to include the effect of wave action in certain zones. Materials and supplies to be used in construction are not covered unless contained within an enclosed building either on the premises or adjacent to the premises.

Coastal Barrier Resources System

Certain buildings and their contents located within areas designated as coastal barriers or otherwise protected areas under the Coastal Barrier Resources Act of 1982 and the Coastal Barrier Improvement Act of 1990 may not be eligible for coverage. The laws were enacted as a means of discouraging development in high-risk areas. Only buildings constructed before the dates established by the Act remain eligible for federal flood insurance.

Buildings constructed prior to October 1, 1983, and not substantially improved or damaged after that date are eligible under the 1982 Act. Eligibility under the 1990 act requires that, for coastal barrier resource systems areas, a building's start of construction be prior to November 16, 1990, and that it not have been substantially improved or damaged after that date. For otherwise protected areas, buildings built prior to November 16, 1991 and not substantially damaged or improved after that date, or buildings used in a manner consistent with the purpose for which the area is protected, regardless of the construction date, are eligible. If a policy has been mistakenly issued to a nonqualified building any loss will be denied, the policy canceled, and the premium refunded. The flood manual contains a list of communities where coastal barriers or otherwise protected areas have been identified.

Waiting Period

There are many rules, found in the flood manual, governing the waiting period, that is, the time between the application date and the date of acceptance. There is a standard 30 day waiting period for new applications and for endorsements to increase coverage. For most new policies, the effective date will be 12:01 am local time, on the 30th calendar day after the application date and the presentment of premium, which must accompany the application. There are numerous exceptions. The first exception is new policies written in connection with making, increasing, extending, or renewing a loan. These are effective at the time of the loan closing, providing application is made and premium presented at or prior to the closing. Second are new policies in connection with mortgage portfolio reviews. (The Mortgage Portfolio Protection Program is designed to help lending institutions comply with the Flood Disaster Protection Act of 1973, as amended. Policies written through the MPPP are placed with WYO companies only.) Thirdly, new policies written when the purchase of flood insurance is in connection with the revision or updating of a flood hazard boundary map (FHBM) or flood insurance rate map (FIRM). Finally, new policies written on a submit-for-rate basis are effective at 12:01 am local time on the 30th calendar day after the presentment of premium, with three exceptions: in connection with a loan, when the lender determines that a property that did not have flood coverage should have it, and during the 13 month period beginning on the effective day of a map revision.

If a community is just entering the program, or is converting from the emergency to the regular program, the above rules and exceptions apply. Generally, endorsements requesting a new coverage or an increase in limits are effective 12:01 am local time on the 30th calendar day following the date of endorsement and the presentment of additional premium. This 30 day waiting period does not apply when the additional amount of insurance is requested in connection with a loan, such as a second mortgage, home equity loan, or refinancing.

The increase is effective at the time of closing, provided the increase is applied for and the additional premium presented prior to or at the closing. The other exception is during the 13 month period beginning on the effective date of a map revision, when the FIRM is revised to show the building is in a special flood hazard area when it had not been in the flood hazard area.

Emergency Program - One Hundred Year Flood

The Emergency Program was set up when it became clear that it would take longer to properly identify, map, and establish rates for floodplain areas than initially anticipated. Prior to the Program's establishment, communities had to have been mapped and have flood-risk zones in place before

they could participate in the National Flood Insurance Program. The Emergency Program, where limited, federally-subsidized coverage is available, allows a community time for the Flood Insurance Study that will eventually determine rates.

There are many references throughout the flood manual and in informational materials from FEMA about the one hundred year, 1%, or base flood. This is simply a standard that has been set to measure the chance of flooding in any given area. According to The National Flood Insurance Program Description (FEMA, 2002), "The 1% annual-chance flood (or 100 year flood) represents a magnitude and frequency that has a statistical probability of being equaled or exceeded in any given year, or stated alternatively, the 100-year flood has a 26% (or 1 in 4) chance of occurring over the life of a 30-year mortgage."

FEMA is required to notify all communities that have one or more areas containing special flood hazards. It publishes a Flood Hazard Boundary Map (FHBM) that shows the areas subject to flooding within these communities. The map is issued with a community number that identifies the particular community. It is possible that many communities will not, at the time of numbering, be actually participating in the Emergency Program. A community may become eligible for the Emergency Program before the actual distribution of the map by completing an application to FEMA. Agents are responsible for determining whether a community is eligible and for obtaining the community identification number before they attempt to sell flood insurance. Local communities maintain a copy of the map which is also available from FEMA.

The FHBM is used until publication of the FEMA flood insurance rate map (FIRM). Until a community enters the regular program only limited coverage is available. The second map issued by FEMA is actually the product of the flood insurance study mentioned earlier. It indicates the degree of flood hazard in the special flood hazard area, and actuarial rates are based on this.

As stated, only limited amounts of coverage are available. For building coverage: single-family dwelling or two-to four-family dwelling, \$35,000 (\$50,000 in Hawaii, Alaska, U.S. Virgin Islands, and Guam); other residential, \$100,000 (\$150,000 in Hawaii, Alaska, U.S. Virgin Islands, and Guam); non-residential, \$100,000 (\$150,000 in Hawaii, Alaska, U.S. Virgin Islands, and Guam). For contents coverage (per unit): residential, \$10,000; non-residential, \$100,000.

Regular Program

Once FEMA has completed the flood study, which is aimed at developing technical information, including minimum first floor elevations for land use purposes, the results are given to the community. The community has 90 days in which to appeal the elevation figures established by FEMA. During this period, flood insurance at subsidized rates remains available under the Emergency Program. Once a final determination on flood elevation is made and accepted, FEMA publishes the flood insurance rate map (FIRM) for determining actuarial rates. When the map is published, the community is converted to the regular program and additional insurance is available. The amounts of insurance available for building coverage are: single-family or two- to four-family dwelling, \$50,000 base plus an additional \$200,000 for a \$250,000 maximum; other residential, \$150,000 base plus an additional \$100,000 for a \$250,000 maximum; nonresidential, \$150,000 plus an additional \$350,000 for a \$500,000 maximum. The amounts of insurance available for contents coverage are: residential, \$20,000 base plus an additional \$80,000 for a \$100,000 maximum; non-residential, \$130,000 plus an additional \$370,000 for a maximum of \$500,000.

Rating

Rating a flood policy under the Emergency Program is merely a matter of multiplying the separate amounts of insurance for a building and contents times the appropriate building and contents rates. The current Emergency Program rates (per \$100 of insurance) for residential buildings and contents are, respectively, .68 and .79; for non-residential property the rates are .79 building and 1.58 contents.

Rating under the regular program is more complex. If a community is in the regular program, rates depend on the building's qualification as "Pre-FIRM" or "Post-FIRM" construction. Pre-FIRM construction is defined as construction or substantial improvement that started on or before December 31, 1974, or before the effective date of the initial Flood Insurance Rate Map (FIRM) of the community, whichever is later. Post-FIRM construction is that which started after December 31, 1974, or on or after the effective date of the community's initial FIRM, whichever is later. Separate tables in the flood insurance manual provide rates for each type of construction.

To the computed premium is added an expense constant, currently \$50 (except for the preferred risk policy). The expense constant differs for residential condominium building association policies, and is based on the number of units. For a scheduled building policy, the expense constant is \$45 per building. A federal policy fee of \$30 is added (\$11 for a preferred risk policy; see following section). Again, this fee is different for the RCBAP and is based on the number of units. Payment of the full policy premium must be made at the time of application or renewal, unless the application is submitted for rating.

Increased cost of compliance, or coverage for the consequential loss brought on by a flood plain management ordinance or law affecting the repair and reconstruction of a flood-damaged structure, is now mandatory (effective June 1, 1997) on all flood policies except for those in the Emergency Program or those insuring contents only. The limit of liability is \$20,000 per building, with a premium not to exceed \$75. Complete rating information is contained in the flood insurance manual.

When a community does not comply with NFIP floodplain management as determined by FEMA, a \$50 probation surcharge is applied to all policies, including preferred risk policies, issued on or after the probation surcharge effective date.

Preferred Risk Policy

The preferred risk policy (PRP) is a package policy offering coverage combinations for both building and contents at a fixed premium. Previously, it was available only to owners of one- to four-family residential buildings located in B, C, and X flood zones. Now, for new or renewal business written on or after May 1, 2004, the PRP can be used for combined building/contents coverage for nonresidential properties, and contents-only coverage for all occupancies. The building must be in a B, C, or X flood zone on the effective date of the policy and must qualify at each renewal (the policy term is one year).

The maximum one- to four-family residential coverage combination is \$250,000 building and \$100,000 contents. Up to \$100,000 contents-only coverage is the limit for other residential properties. Non-residential maximums are \$500,000 building and \$500,000 contents.

This policy is not available in the Emergency Program or in special flood hazard areas. Condominium units, except for townhouse or rowhouse type buildings insured under the unit owner's name, detached, single-family dwelling insured under the unit owner's name, or contents-only coverage for tenants occupying one of these, are ineligible (however, increased cost of compliance coverage is not available for townhouse or rowhouse condominium units). Contents-only coverage is not available for contents located in basements.

Replacement cost coverage applies if the building is the principal residence of the insured and the building coverage is at least 80% of the replacement cost of the building at the time of the loss, or the maximum coverage available under the NFIP.

PRP eligibility is based on flood loss history. A dwelling is ineligible if there are: two loss payments, each more than \$1,000; three or more loss payments, regardless of amount; two federal disaster relief payments, each more than \$1,000; three federal disaster relief payments, regardless of amount; or one flood insurance claim payment and one flood disaster relief payment (including loans and grants), each more than \$1,000. If, during a policy term, a risk fails to meet the eligibility requirements, it will be ineligible for the PRP and must be non-renewed or rewritten in the standard flood program.

Rates for the PRP are substantially lower than those in the standard program. The federal policy fee (\$11) and increased cost of compliance (\$1; deduct where property is not eligible for the coverage) are included in the premium, but not the \$50 probation surcharge. One should refer to the flood insurance manual for complete rates.

Claims Handling Process

The following information is a guideline for policyholders regarding the claims handling process for a flood insurance claim.

What to do Before a Flood:

Check Your Policy – Make sure all information is correct, including information about the mortgage company. If the mortgage has been refinanced with a company other than the one shown in the policy, contact the insurer immediately.

Prepare Lists and Documentation – If the policy includes contents coverage, make it a priority to make a detailed list of contents and personal property. The list should include:

- Date and place of purchase
- Model numbers
- Serial numbers (for large appliances)
- Descriptions
- Original purchase costs (with receipts, if possible)
- Photos or video of the interior and personal property

Secure Important Papers – Originals of important insurance papers should be kept in a safe place, preferably in a bank safe deposit box. Include contact information for the insurance agent or

company, the flood insurance policy, and documentation on contents and personal property. Keep copies in the safest, most accessible place possible that is not subject to flooding. Having this detailed documentation will make filing a claim much easier. If floodwaters actually carry property away, this information will be important to documenting the loss.

Talk to the Agent or Insurer – Calling the agent or insurer to discuss the particular requirements of a flood claim can save time and effort later. These requirements can vary from company to company. After a flood it may be difficult to reach an agent or insurer. Power and phone service may be interrupted or overwhelmed.

Plan an Emergency Contact – After a flood, an insured may be unable to stay in his or her home or to be contacted at the home address or phone number. Insureds should share an emergency address or phone number with his or her agent and family.

What to do After a Flood:

Steps to Take Immediately:

- **Contact the Agent or Company Representative to Report the Loss** – Have ready the name of your insurance company, policy number and a phone number where you can be reached. All flood insurance policies require that the insured give prompt written notice of loss. If the agent or company representative can be reached directly, he or she will advise how to file a notice of claim. Otherwise, a written notice must be sent to the insurance company with the policy number.
- **Separate the Property** – The policy also requires damaged property be separated from undamaged property. Nothing should be thrown away until an adjuster sees it, unless required by local law. In such case, photos should be taken of damaged property before disposing of it keeping samples for the adjuster to see. (For example, cut out a piece of damaged carpet.) The insured should do all he or she can do to protect undamaged property.
- **Make a list of damaged contents** – If the policy includes contents coverage, make a list of damaged property. If comprehensive lists were prepared before the flood, this should be relatively easy. Include with these comprehensive lists an estimate of the loss amount along with photos.
- **List Areas of Structural Damage** – Make a list of any areas of structural damage that should be pointed out to the insurance adjuster.

Handling of the Claim:

- **Working with the Adjuster** – Generally, an adjuster will contact the insured within 24-48 hours after receiving notice of loss. However, depending on local conditions and the severity of flooding, it may take more time. After being contacted by the adjuster, the insured should set a time for the adjuster to view the property. The insured may ask the adjuster for an advance or partial payment.

- “Scoping” the Loss – During the initial visit to the property, the adjuster will take measurements and photographs and not direct flood damage. This is known as “scoping” a loss. The insured is encouraged to point out all damage he or she has noticed. After the scope is finished, the adjuster will provide a local contact number and indicate if additional visits are needed. This may be necessary if damage is extensive.
- Preparing a Detailed Estimate – The adjuster uses the knowledge gained from the visit(s) along with the documentation provided by the insured to complete a detailed estimate of damages. The insured will receive a copy which he or she will use as a guide when securing bids for repair work.

Filing the Claim:

- Proof of Loss Required – The official claim for damages is called a Proof of Loss. This must be fully completed and signed and in the hands of the insurance company within 60 days after the loss occurs. The Proof of Loss includes a detailed estimate to replace or repair the damaged property. It is the responsibility of the insured to make sure the Proof of Loss is complete, accurate and filed in a timely manner.
- Extensions Beyond the 60 Days – In some severe floods, FEMA may authorize Proof of Loss extensions for everyone in a given area. The insurer will be notified, as will local news outlets.
- Payment of Claims – The claim is payable after:
 - The insured and insurer agree on the amount of damages
 - The insurer receives the complete, accurate and property signed Proof of Loss
- Payment for Buildings and Personal Property – Any check for building property must include the mortgage company name, or the name of the individual holding the mortgage. A check for personal property will usually be in the name of the insured only.
- Filing a Supplemental Claim – If the insured notices additional damage after filing the claim, he or she may file a supplemental claim. This means that he or she must repeat the documentation and filing process, including a Proof of Loss, but only for the newly discovered damage.

Appealing the Claim:

The NFIP provides a process to appeal decisions regarding a flood insurance claim. This process will help resolve claims issues, but it cannot give added coverage or claim limits beyond those in the NFIP policy. The following are steps to appealing a claim:

- Talk with the adjuster regarding the claim. Questions about decisions regarding application of coverage, timing of the filing of the Proof of Loss, or the damage estimate should be addressed with the adjuster first.
- If the adjuster does not provide satisfactory answers or if the insured does not agree with the adjuster, he or she should get contact information for the adjuster’s supervisor.

- If the adjuster's supervisor cannot resolve the issues, the insured should contact the insurance company's claim representative. The insurance agent should be able to provide assistance.
- An insured who still has questions or concerns after following the above steps should contact the Federal Emergency Management Agency (FEMA) with details regarding the questions he or she may have and detailed information supporting the appeal along with the policy number and information on how he or she can be contacted.

Flood Insurance Reform Act of 2004

The Flood Insurance Reform Act of 2004 reformed the National Flood Insurance Program and the terms of the National Flood Insurance Act of 1968. It was designed to "reduce losses to properties for which repetitive flood insurance claim payments have been made." The bill included the following findings that are the motivation for the new law:

- The NFIP insures approximately 4,400,000 policyholders
- Approximately 48,000 properties in the program has experienced, within a 10 year period, two or more flood losses where each loss is more than \$1,000
- About 10,000 repetitive-loss properties have experienced two or three losses that cumulatively exceed building value
- These repetitive-loss properties cost taxpayers about \$200 million annually
- About 1% of insure properties account for 25-30% of claims losses
- The vast majority of repetitive-loss properties were built before the 1974 implementation of floodplain management standards created under the original program and thus are eligible for subsidized flood insurance

Flood Insurance Reform and Modernization Act of 2006

The Flood Insurance Reform and Modernization Act of 2006 is being considered by the current United States Congress. It would provide the National Flood Insurance Program (NFIP) with funds to pay remaining valid claims from the 2005 Gulf Coast hurricanes and reform the program, which is currently in an unsustainable financial position. Without a change in law, the NFIP will be unable to pay all flood insurance claims promptly, and faced with a nonfunctional program, those policyholders who are not required to carry flood insurance may abandon it.

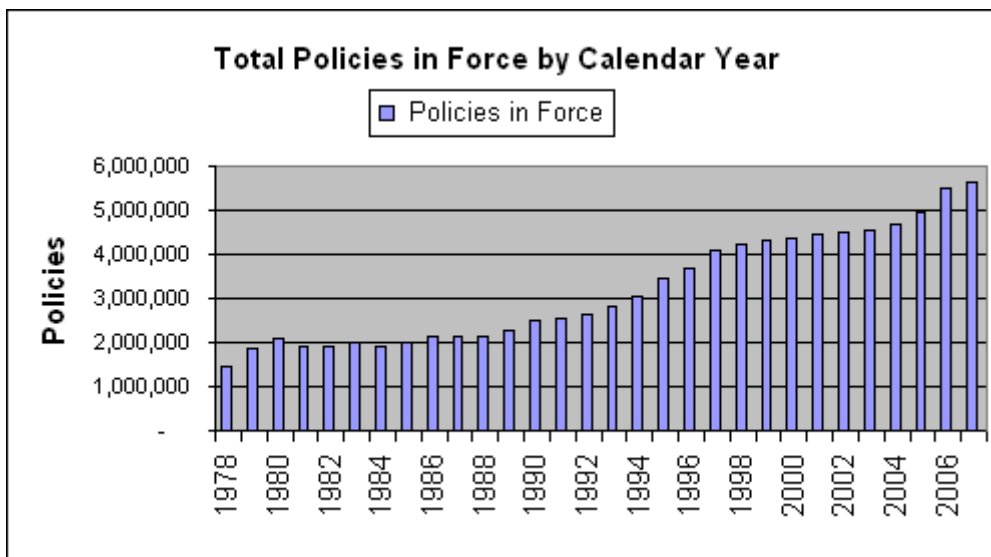
Enacting the Flood Insurance Reform and Modernization Act of 2006 would improve the financial status of the NFIP and significantly increase the likelihood that the program could continue to offer insurance coverage and pay claims in a timely fashion. By providing funds to pay remaining claims from the 2005 Gulf Coast hurricanes and forgiving the debt incurred to pay previous claims from 2005, the bill would essentially return the NFIP to a financial condition similar to that which existed before Hurricane Katrina.

Enacting the bill would also strengthen the NFIP's financial position in the future. It would direct the Federal Emergency Management Agency (FEMA) to impose rate increases of up to 15% per year on all policyholders so as to establish a reserve fund for the insurance program. That reserve fund would be available to pay insurance claims whenever it was needed. The bill also would require some policyholders that do not pay the full cost of their insurance coverage to gradually begin to do

so. Finally, it would require some policyholders to carry a larger deductible amount on their insurance policies, and it would end the current practice of offering new policies to some property owners at less than their expected cost. These requirements would increase the cost to policyholders and reduce the net cost of the program to the government. Over the next several years, those changes would improve the chances that the NFIP would have sufficient funds to pay future claims. The bill also would increase the amounts authorized to be appropriated for FEMA's flood mapping program.

Total Policies in Force by Calendar Year

1978 through December 2007



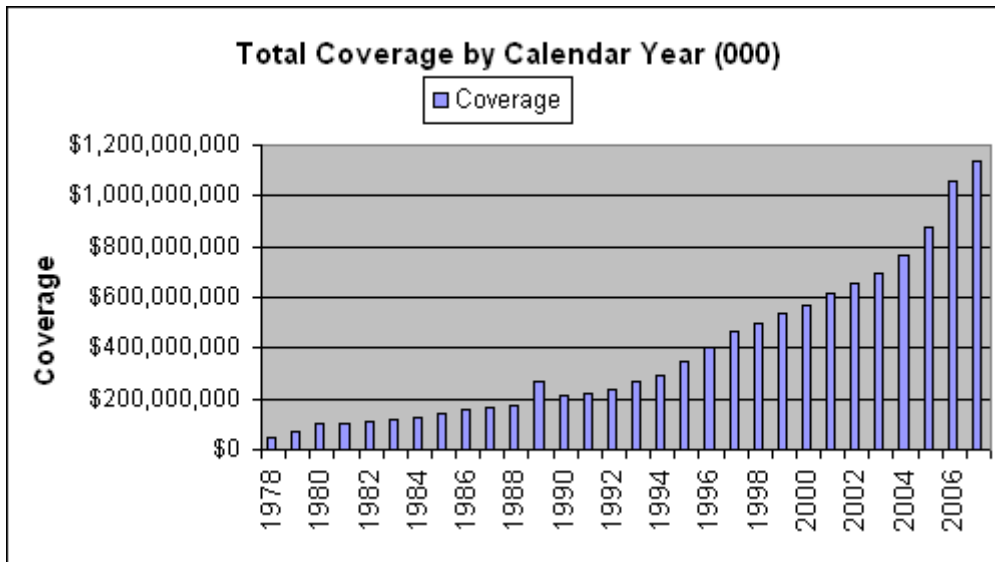
Calendar Year Policies in Force

1978	1,446,354
1979	1,843,441
1980	2,103,851
1981	1,915,065
1982	1,900,544
1983	1,981,122
1984	1,926,388
1985	2,016,785
1986	2,119,039
1987	2,115,183
1988	2,149,153
1989	2,292,947
1990	2,477,861
1991	2,532,713
1992	2,623,406
1993	2,828,558
1994	3,040,198

1995	3,476,829
1996	3,693,076
1997	4,102,416
1998	4,235,138
1999	4,329,985
2000	4,369,087
2001	4,458,470
2002	4,519,799
2003	4,565,491
2004	4,667,446
2005	4,962,011
2006	5,514,895
2007	5,653,949

Total Coverage by Calendar Year

1978 through December 2007

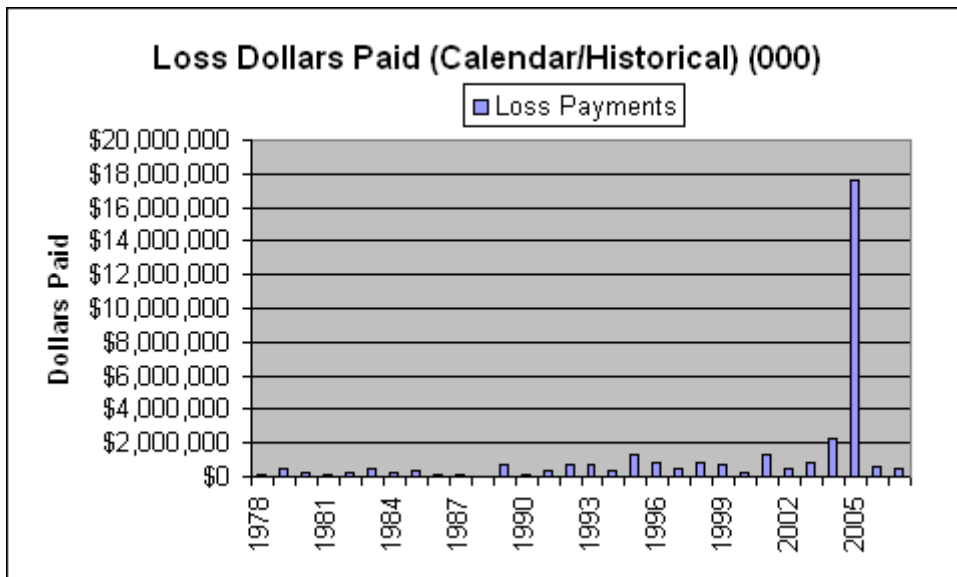


Calendar Year	Coverage
1978	\$50,500,956
1979	\$74,375,240
1980	\$99,259,942
1981	\$102,059,859
1982	\$107,296,802
1983	\$117,834,255
1984	\$124,421,281
1985	\$139,948,260

1986	\$155,717,168
1987	\$165,053,402
1988	\$175,764,175
1989	\$265,218,590
1990	\$213,588,265
1991	\$223,098,548
1992	\$236,844,980
1993	\$267,870,761
1994	\$295,935,328
1995	\$349,137,768
1996	\$400,681,650
1997	\$462,606,433
1998	\$497,621,083
1999	\$534,117,781
2000	\$567,568,653
2001	\$611,918,920
2002	\$653,776,126
2003	\$691,786,140
2004	\$765,205,681
2005	\$876,679,658
2006	\$1,054,087,148
2007	\$1,139,822,517

Loss Dollars Paid by Calendar Year

1978 through December 2007



Calendar Year Loss Dollars Paid

1978	\$147,719,253
1979	\$483,281,219
1980	\$230,414,295
1981	\$127,118,031
1982	\$198,295,820
1983	\$439,454,937
1984	\$254,642,874
1985	\$368,238,794
1986	\$126,388,812
1987	\$105,422,538
1988	\$51,022,523
1989	\$661,668,435
1990	\$167,919,559
1991	\$353,684,967
1992	\$710,247,980
1993	\$659,069,808
1994	\$411,079,605
1995	\$1,295,581,467
1996	\$828,040,301
1997	\$519,505,659
1998	\$886,305,129
1999	\$754,965,083
2000	\$251,719,208
2001	\$1,276,963,290
2002	\$433,603,879
2003	\$778,793,929
2004	\$2,214,303,484
2005	\$17,575,117,955
2006	\$632,688,511
2007	\$523,219,557

General Definitions

This list of terms is intended to include those that have specific meaning to the National Flood Insurance Program (NFIP). In a few instances, standard industry terms have been added for additional focus and emphasis. You will need to become familiar with these terms.

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

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

Alternative Rating - A rating method used when a building is Pre-FIRM, the FIRM zone is unknown, and the community in which the building is located has no V zones. May also be used for renewal of policies in communities that have converted from the Emergency Program to the Regular Program during a policy's term.

Anchored - Adequately secured to prevent flotation, collapse, or lateral movement.

Application - The statement made and signed by the prospective policyholder or the agent in applying for an NFIP flood insurance policy. The application gives information used to determine the eligibility of the risk, the kind of policy to be issued, and the correct premium payment. The application is part of the flood insurance policy. For a policy to be issued, the correct premium payment must accompany the application.

Appurtenant Structure - A detached garage servicing a 1-4 family dwelling.

Assignment - The transfer by a policyholder of his/her legal right or interest in a policy contract to a third party. In the NFIP, written assignment of a policy is permissible upon transfer of title, without the consent of the Federal Emergency Management Agency (FEMA), except in the case where a residential (household) contents-only policy is involved or a policy was issued to cover a building in the course of construction.

Base Flood - A flood having a 1% chance of being equaled or exceeded in any given year.

Base Flood Depth (BFD) - The depth shown on the Flood Insurance Rate Map for Zone AO that indicates the depth of water above highest adjacent grade resulting from a flood that has a 1% chance of equaling or exceeding that level in any given year.

Base Flood Elevation (BFE) - The elevation shown on the Flood Insurance Rate Map for Zones AE, AH, AI-A30, AR, AR/A, AR/AE, AR/AI-A30, AR/AH, AR/AO, VI-V30, and VE that indicates the water surface elevation resulting from a flood that has a 1% chance of equaling or exceeding that level in any given year.

Basement - Any area of the building, including any sunken room or sunken portion of a room, having its floor below ground level (sub-grade) on all sides.

Binder - A temporary agreement between company, producer, and insured that the policy is in effect. Binders are not permitted under the NFIP.

Blanket Insurance - A single amount of insurance applying to more than one building and/or contents. Blanket insurance is not permitted under the NFIP.

Breakaway Wall - A wall that is not part of the structural support of the building and is intended through its design and construction to collapse under specific lateral loading forces, without causing damage to the elevated portion of the building or supporting foundation system.

Building -

- A structure with two or more outside rigid walls and a fully secured roof, that is affixed to a permanent site; or
- 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.

"Building" does not mean a gas or liquid storage tank or a recreational vehicle, park trailer, or other similar vehicle, except as described above.

Building in the Course of Construction - A walled and roofed building (see page GR 4 for exception) that is principally above ground and affixed to a permanent site. It does not include building materials or supplies intended for use in construction, alteration, or repair unless such materials or supplies are within an enclosed building on the premises.

Cancellation - The ending of the insurance coverage provided by a policy before the expiration date.

Cistern - Covered cisterns and the water in them are defined as an integral part of an insurable building, meaning under the building or above ground and physically attached to a side of the building with one of the walls of the building and cistern being common to each other.

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

Closed Basin Lake - A natural lake from which water leaves primarily through evaporation and whose surface area exceeds or has exceeded 1 square mile at any time in the recorded past. NFIP-insured buildings that are subject to continuous lake flooding from a closed basin lake are covered under the provisions of Standard Flood Insurance Policy.

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

Coastal Barrier Improvement Act of 1990 (CBIA) - Enacted on November 16, 1990, the Act greatly expanded the identified land in the Coastal Barrier Resources System established pursuant to the Coastal Barrier Resources Act of 1982.

Coastal Barrier Resources Act of 1982 (CBRA) - For the purposes of the NFIP, the Coastal Barrier Resources Act of 1982 designated certain portions of the Gulf and East Coasts as undeveloped coastal barriers. These areas are shown on appropriate flood insurance map panels and have certain coverage restrictions.

Coastal Barrier Resources System (CBRS) - Communities, coastal barriers, and other protected areas identified by the Department of the Interior legislation defined above.

Coastal High Hazard Areas - Special Flood Hazard Areas along the coasts that have additional hazards due to wind and wave action. These areas are identified on Flood Insurance Rate Maps as Zones V, VI-V30, and VE.

Coinsurance - A penalty imposed on the loss payment unless the amount of insurance carried on the damaged building is at least 80% of its replacement cost or the maximum amount of insurance available for that building under the NFIP, whichever is less. Coinsurance applies only to building coverage under the Residential Condominium Building Association Policy.

Community - A political entity that has the authority to adopt and enforce floodplain ordinances for the area under its jurisdiction.

Community Number - A 6-digit designation identifying each NFIP community. The first two numbers are the state code. The next four are the FEMA-assigned community number. An alphabetical suffix is added to a community number to identify revisions in the Flood Insurance Rate Map for that community.

Community Rating System (CRS) - A program developed by FEMA to provide incentives for those communities in the Regular Program that have gone beyond the minimum floodplain management requirements to develop extra measures to provide protection from flooding.

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

Condominium Association - The entity made up of the unit owners responsible for the maintenance and operation of common elements owned in undivided shares by unit owners and other real property in which the unit owners have use rights where membership in the entity is a required condition of unit ownership.

Countywide Map - A Flood Insurance Rate Map that shows flooding information for the entire geographic area of a county, including the incorporated communities within the county.

Date of Construction - The date that the building permit was issued, provided the actual start of construction, repair, reconstruction, or improvement was within 180 days of the permit date.

Declarations Page - A computer-generated summary of information provided by the prospective policyholder in the application for flood insurance. The Declarations Page also describes the term of the policy and the limits of coverage and displays the premium and the insurer's name. The Declarations Page is a part of the flood insurance policy.

Deductible Buyback - The option whereby, for an additional premium, policyholders who wish to reduce their deductibles from the standard deductibles of \$1,000 per building loss and per contents loss for Pre-FIRM risks may purchase separate \$500 deductibles for building and contents coverages.

Described Location - The location where the insured building or personal property is found. The described location is shown on the Declarations Page.

Diagram Number - Any of the numbers used in the instructions to the FEMA Elevation Certificate to identify the diagrams of the eight main types of buildings.

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.

Doublewide Manufactured (Mobile) Home - A manufactured (mobile) home that, when assembled as a non-movable, permanent building, is at least 16 feet wide and has an area within its perimeter walls of at least 600 square feet.

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

Dwelling Form - See "Standard Flood Insurance Policy - Dwelling Form."

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. Solid perimeter foundations walls are not an acceptable means of elevating buildings in V and VE zones.

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.

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

Erosion - The collapse, undermining, or subsidence of land along the shore of a lake or other body of water. Erosion is a covered peril if it is caused by waves or currents of water exceeding their cyclical levels which result in flooding.

Expense Constant - A flat fee formerly charged on each new and renewal policy, the Expense Constant was eliminated effective May 1, 2003, and no longer affects the premium calculation for new and renewal business. However, the Expense Constant may affect the calculation of refunds going back prior to May 1, 2003, for policy cancellations and endorsements.

Federal Emergency Management Agency (FEMA) - The federal agency under which the National Flood Insurance Program (NFIP) is administered. In March 2003, FEMA became part of the newly created U.S. Department of Homeland Security.

Federal Policy Fee - A flat charge that the policyholder must pay on each new or renewal policy to defray certain administrative expenses incurred in carrying out the National Flood Insurance Program.

Financial Assistance/Subsidy Arrangement - The arrangement between an insurance company and FEMA to initiate the company's participation in the Write Your Own (WYO) Program. It establishes the duties of the company and the government.

Finished (Habitable) Area - An enclosed area having more than 20 linear feet of finished walls (paneling, etc.) or used for any purpose other than solely for parking of vehicles, building access, or storage.

Flood – A general and temporary condition of partial or complete inundation of two or more acres of normally dry land area or of two or more properties (at least one of which is the policyholder's property) from:

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

Collapse or subsidence of land along the shore of a lake or similar body of water as a result of erosion or undermining caused by waves or currents of water exceeding anticipated cyclical levels that result in a flood as defined above.

Flood Hazard Boundary Map (FHBM) - Official map of a community issued by FEMA, where the boundaries of the flood, mudflow, and related erosion areas having special hazards have been designated.

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

Flood Insurance Rate Map (FIRM) - Official map of a community on which FEMA has delineated both the special hazard areas and the risk premium zones applicable to the community.

Flood Response Office (FRO) - The FRO provides a local presence in the affected area and supports the WYO companies, the NFIP Servicing Agent, and various federal, state, and local officials in providing answers to claims coverage questions, forms for claims handling, and survey and statistical input. One of the key requirements of personnel at the FRO is to coordinate and conduct reinspections of WYO and NFIP Direct losses. The FRO also tracks adjuster performance and provides such information to interested WYO and NFIP Direct companies.

Floodplain - Any land area susceptible to being inundated by flood waters from any source.

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

Flood-proofing - Any combination of structural and nonstructural additions, changes, or adjustments to structures, which reduce or eliminate risk of flood damage to real estate or improved real property, water and sanitation facilities, or structures with their contents.

Freeboard - An additional amount of height above the Base Flood Elevation used as a factor of safety (e.g., 2 feet above the Base Flood) in determining the level at which a structure's lowest floor must be elevated or flood-proofed to be in accordance with State or community floodplain management regulations.

General Property Form - See "Standard Flood Insurance Policy—General Property Form."

Grade Elevation - The lowest or highest finished ground level that is immediately adjacent to the walls of the building. Use natural (pre-construction), ground level, if available, for Zone AO and Zone A (without BFE).

Grandfathering - An exemption based on circumstances previously existing. Under the NFIP, buildings located in Emergency Program communities and Pre-FIRM buildings in the Regular Program are eligible for subsidized flood insurance rates. Post-FIRM buildings in the Regular Program built in compliance with the floodplain management regulations in effect at the start of construction will continue to have favorable rate treatment even though higher base flood elevations or more restrictive, greater risk zone designations result from FIRM revisions.

Group Flood Insurance - 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.

High-Rise Building - High-rise condominium buildings have five or more units and at least three floors excluding enclosure even if it is the lowest floor for rating purposes. An enclosure below an elevated building, even if it is the lowest floor for rating purposes, cannot be counted as a floor to avoid classifying the building as low rise.

Historic Building - Any building that is:

- Listed individually in the National Register of Historic places (a listing maintained by the Department of the Interior) or preliminarily determined by the Secretary of the Interior as meeting the requirements for individual listing on the National Register; or
- Certified or preliminarily determined by the Secretary of the Interior as contributing to the historical significance of a registered historic district or a district preliminarily determined by the Secretary to qualify as a registered historic district; or
- Individually listed in a state inventory of historic places in states with preservation programs that have been approved by the Secretary of the Interior; or
- Individually listed on a local inventory of historic places in communities with historic preservation programs that have been certified either:
 - By an approved state program as determined by the Secretary of the Interior, or
 - Directly by the Secretary of the Interior in states without approved programs.

Improvements - Fixtures, alterations, installations, or additions comprising a part of the insured building.

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

Letter of Determination Review (LODR) - FEMA's ruling on the determination made by a lender or third party that a borrower's building is in a Special Flood Hazard Area (SFHA). A LODR deals only with the location of a building relative to the SFHA boundary shown on the Flood Insurance Rate Map.

Letter of Map Amendment (LOMA) - An amendment to the currently effective FEMA map which establishes that a property is not located in a Special Flood Hazard Area. A LOMA is issued only by FEMA.

Letter of Map Revision (LOMR) - An official amendment to the currently effective FEMA map. It is issued by FEMA and changes flood zones, delineations, and elevations.

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

Lowest Adjacent Grade - The lowest point of the ground level next to the building.

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

Lowest Floor Elevation (LFE) - The measured distance of a building's lowest floor above the National Geodetic Vertical Datum (NGVD) or other datum specified on the FIRM for that location.

Low-Rise Building - Low-rise condominium buildings have fewer than five units regardless of the number of floors or five or more units with fewer than three floors including basement. All townhouses/rowhouses, regardless of the number of floors or units, and all single-family detached condominium buildings are classified as low rise. An enclosure below an elevated building, even if it is the lowest floor for rating purposes, cannot be counted as a floor to avoid classifying the building as low rise.

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

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

Manufactured (Mobile) Home Park or Subdivision, Existing - A manufactured (mobile) home park or subdivision for which the construction of facilities for servicing the lots on which the manufactured (mobile) homes are to be affixed is completed on or before December 31, 1974, or before the effective date of the community's initial FIRM, whichever is later.

Manufactured (Mobile) Home Park or Subdivision, Expansion to Existing Site - The preparation of additional sites by the construction of facilities for servicing the lots on which manufactured (mobile) homes are to be affixed (including the installation of utilities, the construction of streets, and either final site grading or the pouring of concrete pads).

Manufactured (Mobile) Home Park or Subdivision, New - A manufactured (mobile) home park or subdivision for which the construction of facilities for servicing the lots on which the manufactured (mobile) homes are to be affixed (including, at a minimum, the installation of utilities, the construction of streets, and either final site grading or the pouring of concrete pads) is completed after December 31, 1974, or on or after the effective date of the community's initial FIRM, whichever is later.

Map Revision - A change in the FHBM or FIRM for a community which reflects revised zone, base flood, or other information.

Mean Sea Level - See National Geodetic Vertical Datum (NGVD).

Modular Building - A building that is usually transported to its site on a steel frame or special trailer because it does not have a permanent chassis like a manufactured (mobile) home. A modular building is classified and rated under one of the other building types.

Mortgage Portfolio Protection Program (MPPP) - A program designed to help lending institutions maintain compliance with the Flood Disaster Protection Act of 1973, as amended. Policies written under the MPPP can be placed only through a WYO Company.

Mudflow - A river of liquid and flowing mud on the surfaces of normally dry land areas, as when earth is carried by a current of water. Other earth movements, such as landslide, slope failure, or a saturated soil mass moving by liquidity down a slope, are not mudflows.

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

National Geodetic Vertical Datum (NGVD) - National standard reference datum for elevations, formerly referred to as Mean Sea Level (MSL) of 1929. NGVD is used as the reference datum on most FIRMs.

Natural Grade - The grade unaffected by construction techniques such as fill, landscaping, or berming.

New Construction - Buildings for which the "start of construction" commenced on or after the effective date of an initial FIRM or after December 31, 1974, whichever is later, including any subsequent improvements.

NFIP Bureau and Statistical Agent - A corporation, partnership, association, or any other organized entity that contracts with the Federal Emergency Management Agency to be the focal point of support operations for the NFIP.

NFIP Servicing Agent - A corporation, partnership, association, or any other organized entity that contracts with the Federal Emergency Management Agency to service insurance policies as direct business.

NFIP Special Direct Facility (SDF) - Formed in 2000, a branch of the NFIP Servicing Agent to which WYO companies transfer renewals for identified properties in the Repetitive Loss Target Group so that mitigation assistance can be offered to the policyholders.

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

Nullification - The act of declaring an insurance contract invalid from its inception so that, from a legal standpoint, the insurance contract never existed.

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

Out-As-Shown Determination - An alternative outcome of the FEMA Letter of Map Amendment (LOMA) review process stating that a specific property is located outside the Special Flood Hazard Area as indicated on the Flood Hazard Boundary Map or Flood Insurance Rate Map.

Participating Community - A community for which FEMA has authorized the sale of flood insurance under the NFIP.

Policy - The entire written contract between the insured and the insurer. It includes:

- The printed policy form;
- The application and Declarations Page;
- Any endorsement(s) that may be issued; and
- Any renewal certificate indicating that coverage has been instituted for a new policy and new policy term.

Only one dwelling, specifically described by the prospective policyholder in the application, may be insured under a policy.

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.

Ponding Hazard - A flood hazard that occurs in flat areas when there are depressions in the ground that collect "ponds" of water. The ponding hazard is represented by the zone designation AH on the FIRM.

Post-FIRM Building - A building for which construction or substantial improvement occurred after December 31, 1974, or on or after the effective date of an initial Flood Insurance Rate Map (FIRM), whichever is later.

Pre-FIRM Building - A building for which construction or substantial improvement occurred on or before December 31, 1974, or before the effective date of an initial Flood Insurance Rate Map.

Preferred Risk Policy (PRP) - A policy that offers fixed combinations of building/contents coverage or contents-only coverage at modest, fixed premiums. The PRP is available for property located in B, C, and X Zones in Regular Program communities that meets eligibility requirements based on the property's flood loss history.

Prepaid Amount (Total) - The total amount that must be submitted with an application or renewal in order to be acceptable for coverage. It is determined by adding the Federal Policy Fee to the Total Prepaid Premium.

Prepaid Premium (Total) - The amount on the application (excluding the Preferred Risk Application) that includes the Annual Subtotal, the ICC Premium, the CRS Premium Discount (if applicable), and the Probation Surcharge (if applicable).

Presentment of Payment (Premium) - The date of receipt of premium at the office of the NFIP or the date of certified mail. In the case of transfer of title, the date of settlement or closing, when the premium is paid at that time.

Principal Residence - A single-family dwelling in which, at the time of loss, the named insured or the named insured's spouse has lived for either 80% of the 365 days immediately preceding the loss, or 80% of the period of ownership, if less than 365 days.

Principally Above Ground Building - A building that has at least 51% of its actual cash value, including machinery and equipment, above ground.

Probation - A FEMA-imposed change in a community's status resulting from violations and deficiencies in the administration and enforcement of NFIP local floodplain management regulations.

Probation Surcharge (Premium) - A flat charge that the policyholder must pay on each new or renewal policy issued covering property in a community that the NFIP has placed on probation.

Proper Openings - Enclosures (Applicable to Zones A, A1-A30, AE, AO, AH, AR, and AR Dual) -All enclosures below the lowest elevated floor must be designed to automatically equalize hydrostatic flood forces on exterior walls by allowing for the entry and exit of floodwaters. A minimum of two openings, with positioning on at least two walls, having a total net area of not less than 1 square inch for every square foot of enclosed area subject to flooding must be provided. The bottom of all openings must be no higher than 1 foot above grade.

Property Removed to Safety Expense - Up to \$1,000 of reasonable expenses incurred by the insured to temporarily remove insured property from the described location because of flood or the imminent danger of flood.

Provisional Rating - A method for placing flood coverage prior to the receipt of a FEMA Elevation Certificate.

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.

Regular Program Community - A community wherein a FIRM is in effect and full limits of coverage are available under the Act.

Repetitive Loss Structure - An NFIP-insured structure that has had at least two paid flood losses of more than \$1,000 each in any 10-year period since 1978.

Replacement Cost Value (RCV) - The cost to replace property with the same kind of material and construction without deduction for depreciation.

Residential Condominium Building - A building, owned and administered as a condominium, containing one or more family units and in which at least 75% of the floor area is residential.

Residential Condominium Building Association Policy (RCBAP) - See "Standard Flood Insurance Policy - Residential Condominium Building Association Policy (RCBAP)."

Scheduled Building Policy - A policy that requires a specific amount of insurance to be designated for each building and its contents.

Section 1316 - Section of the National Flood Insurance Act of 1968, as amended, which states that no new flood insurance coverage shall be provided for any property that FEMA finds has been declared by a duly constituted state or local zoning authority or other authorized public body to be in violation of state or local laws, regulations, or ordinances that are intended to discourage or otherwise restrict land development or occupancy in flood-prone areas.

Severe Repetitive Loss (SRL) Properties - NFIP-insured buildings that, on the basis of paid flood losses since 1978, meet either of the loss criteria described on page SRL 1. SRL properties with policy effective dates of January 1, 2007, and later will be afforded coverage (new business or renewal) only through the NFIP Servicing Agent's Special Direct Facility so that they can be considered for possible mitigation activities.

Shear Walls - Walls used for structural support but 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 flood zone.

Sheet Flow Hazard - A type of flood hazard with flooding depths of 1 to 3 feet that occurs in areas of sloping land. The sheet flow hazard is represented by the zone designation AO on the FIRM.

Single Adjuster Program - A procedure implemented among the NFIP, various wind pools, and WYO Companies to allow one adjuster to represent both carriers in adjusting a combined wind-water loss where the NFIP has the flood coverage and another carrier has the wind coverage.

Single Building - A building that is separated from other buildings by intervening clear space or solid, vertical, load-bearing division walls.

Single-Family Residence - A residential single-family dwelling. Incidental office, professional, private school, or studio occupancies, including a small service operation, are permitted if such incidental occupancies are limited to less than 50% of the building's total floor area.

Solid Perimeter Foundation Walls - Walls that are used as a means of elevating a building in A Zones and that must contain sufficient openings to allow for the unimpeded flow of floodwaters more than 1 foot deep.

Special Flood Hazard Area (SFHA) - An area having special flood, mudflow, or flood-related erosion hazards, and shown on a Flood Hazard Boundary Map or Flood Insurance Rate Map as Zone A, AO, AI-A30, AE, A99, AH, AR, AR/A, AR/AE, AR/AH, AR/AO, AR/AI-A30, VI-V30, VE, or V. For the purpose of determining Community Rating System premium discounts, all AR and A99 zones are treated as non-SFHAs.

Standard Flood Insurance Policy - Dwelling Form - Policy issued to insure a building and/or residential contents on a single-family or a 2-4 family dwelling.

Standard Flood Insurance Policy - General Property Form - Policy issued to insure a building and/or contents on other residential or non-residential buildings.

Standard Flood Insurance Policy - Residential Condominium Building Association Policy (RCBAP) - Policy issued to insure a residential condominium building and all units within the building, provided that the building is located in a Regular Program community and at least 75% of the total floor area is residential.

Start of Construction - For other than new construction or substantial improvements, under the Coastal Barrier Resources Act, this is the date when the building permit was issued, provided that the actual start of construction, repair, rehabilitation, addition, placement, or other improvement was within 180 days of the permit date. The actual start means either the first placement of permanent construction of a building on site, such as the pouring of a slab or footing, the installation of piles, the construction of columns, or any work beyond the stage of excavation; or the placement of a manufactured (mobile) home on a foundation. For a substantial improvement, actual start of construction means the first alteration of any wall, ceiling, floor, or other structural part of a building, whether or not that alteration affects the external dimensions of the building.

Stock - Merchandise held in storage or for sale, raw materials, and in-process or finished goods, including supplies used in their packing or shipping. "Stock" does not include any property not covered under "Section IV. Property Not Covered" of the General Property Form, except the following:

- Parts and equipment for self-propelled vehicles;
- Furnishings and equipment for watercraft;

- Spas and hot-tubs, including their equipment; and
- Swimming pool equipment.

Submit-for-Rate - An application for flood insurance on a building for which no risk rate is published in the Flood Insurance Manual. Insurance coverage can be obtained only after the NFIP has approved the application and has established the risk premium rate.

Substantial Damage - Damage of any origin sustained by a building whereby the cost of restoring the building to its before-damaged condition would equal or exceed 50% of the market value of the building before the damage occurred.

Substantial Improvement - Any reconstruction, rehabilitation, addition, or other improvement of a building, the cost of which equals or exceeds 50% of the market value of the building before the "start of construction" of the improvement. Substantial improvement includes buildings that have incurred "substantial damage," regardless of the actual repair work performed. The term does not, however, include either any project for improvement of a building to correct existing state or local code violations or any alteration to a "historic building," provided that the alteration will not preclude the building's continued designation as a "historic building."

Suspension - FEMA's removal of an NFIP participating community from the Program because the community has not enacted and/or enforced the proper floodplain management regulations required for participation.

Tentative Rates - Unpublished NFIP rates used to issue policies for applications that fail to provide the NFIP with valid actuarial rating information.

Travel Trailer - Under the NFIP, a travel trailer can be considered a building only if it is without wheels, built on a chassis and affixed to a permanent foundation, and regulated under the community's floodplain management and building ordinances or laws.

2- to 4-Family Residence - A residential building (excluding hotels and motels with normal room rentals for less than 6 months' duration) containing no more than four dwelling units. Incidental occupancies such as office, professional, private school, or studio space are permitted if the total area of such occupancies is limited to less than 25% of the total floor area within the building.

Underground Building - A building for which 50% or more of the actual cash value, including machinery and equipment that are part of the building, is below ground.

Unfinished Area - An enclosed area that is used only for the parking of vehicles, building access, or storage purposes and that does not meet the definition of a finished (habitable) area. Drywall used for fire protection is permitted in unfinished areas.

Unit - A single-family unit owned by the policyholder in a condominium building.

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.

Variance - A grant of relief by a participating community from the terms of its floodplain management regulations.

Waiting Period - The time between the date of application and the policy effective date.

Walled and Roofed. A building that has two or more exterior rigid walls and a fully secured roof and that is affixed to a permanent site.

Wave Height Adjustment - A measurement that is added to the base flood elevation for V Zones shown on the Flood Insurance Rate Map published prior to 1981. For coastal communities, the base flood elevation shown on Flood Insurance Rate Maps published prior to 1981 are still-water elevations, which include only the effects of tide and storm surge, and not the height of wind-generated waves.

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

Zone - A geographical area shown on a Flood Hazard Boundary Map or a Flood Insurance Rate Map that reflects the severity or type of flooding in the area.