



The NFIP: What is going to happen?

The U.S. Senate successfully passed an extension of the National Flood Insurance Program on June 29. The extension, which was passed as an amendment attached to a larger farming bill, would extend the program for six months.

While this may seem like good news, there are several issues that could prevent this extension from being signed into law. Differences between the farm bill that passed the Senate and the version that passed the House, including the extension of the NFIP, will require the conference committee to convene between the House and the Senate. The conference committee will debate the differences of the two bills, and produce one uniform bill. It is unknown whether this will occur prior to July 31, the expiration date of the NFIP.

If the NFIP is not reauthorized before July 31, many flood insurance policies may not be written or renewed.

What happens then?

New coverage

For requests to increase or begin coverage that are on or before the last day of effective authorization; or if the carrier receives the application and payment within the lapse period and within 10 days of the date of request, the policy or coverage change may be issued and effective on the requested date in accordance with standard rules.

If the effective date is before the beginning of the lapse in authorization, and all is received within 10 days of that date, the policy may be issued as long as all other eligibility requirements have been met. However, if the

application or request and payment are not received within 10 days of the application request date, the policy or change will not be issued.

When a loan closing is involved, if applications or change requests are dated after the lapse, then the policy or change request can't be issued. If the loan is closing before the lapse in authority and the premium payment is not part of the closing, as long as the application or request and premium are received within 10 days of the closing date, the policy or change may be effective as of the date of the closing.

When the premium for the payment is from the escrow account, title company or settlement attorney, then payment must be received within 30 days of the closing date. If the loan closes after the lapse in authority, but the date of coverage was before the lapse period, then payment from the insured is acceptable within 10 days. If payment is from the escrow account or others, payment is acceptable within 30 days of the effective date of the closing.

Renewing coverage

Renewals are handled similarly to new coverage. Offers to renew a policy can't be made during the lapse in authority. If a renewal is offered before the lapse in authority and premium payment is received before 30 days have passed, then the policy may be renewed. The same applies if underpayment was made as long as the difference is made up within 30 days. If payment is received beyond the 30 days, the policy may not be renewed.

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If the renewal requests increased limits that are within the inflation factors on the bill, the next higher Preferred Risk Property or a newly mapped limit, it is processed the same way as policies with premiums received within or after the 30-day grace period, whichever applies. If the renewal requests a higher limit than the inflation factor, PRP or newly mapped limit, the amount above the existing coverage amount must be handled as if it were a new policy or a request to increase coverage, as stated earlier.

Endorsements that increase coverage also are handled the same as new policies or requests to increase coverage. Endorsements not increasing coverage are handled using existing NFIP rules, and policies may be assigned during the lapse. Cancellations may be handled normally.

Expiration dates

Policies that are in force before midnight of the last effective day of authorization will remain in effect until their expiration date. Any claims filed will be handled as usual. If a policy is in force after the last day of authorization, claims on those policies are also handled as usual.

If a claim occurs under a policy that was not issued due to a lapse, it can still be investigated under a reservation-of-rights

letter or a non-waiver agreement, up to the point of payment. However, payment will not be made if the NFIP is not reauthorized.

If the NFIP is reauthorized retroactively, then the policy will be issued and the claim paid as appropriate. If the reauthorization is not retroactive and the NFIP is authorized with a lapse, policies without a waiting period (which are the loan closings) would become effective the date of the reauthorization. Policies with a 30-day waiting period would become effective 30 days after the date of reauthorization. When reauthorization is not retroactive to the first day of the lapse, policies with a one-day waiting period become effective one day after the effective date of the reauthorization.

The NFIP makes a number of recommendations to carriers while the program is lapsed. All premiums for changes or policies effective on or after the first day of the lapse should be held in abeyance, as should applications.

Because the acceptance of applications and premiums gives the impression that a contract is in force, carriers should advise applicants in writing that insurance is unavailable by law and pending reauthorization.