

# REGULATORY ALERT

## NATIONAL CREDIT UNION ADMINISTRATION 1775 Duke Street, Alexandria, VA 22314

**DATE:** December 2010                      **NO.:** 10-RA-14  
**TO:** All Federally Insured Credit Unions  
**SUBJ:** Flood Insurance May Be Extended at Lower Cost

Dear Board of Directors:

Effective January 1, 2011, owners of buildings found to be in a Special Flood Hazard Area (SFHA) during flood map revisions may be eligible for a Preferred Risk Policy (PRP) that will allow them to maintain a lower-cost flood insurance policy for an extended period.

This update by the Federal Emergency Management Agency (FEMA) could result in cost savings for some of your credit union's real estate borrowers.

For some policies covering buildings that were mapped within an SFHA by a flood map revision effective on or after October 1, 2008, the period will either be two years following the effective date of the flood map revision, or January 1, 2011 (whichever is later).

PRPs offer low-cost coverage to owners and tenants of eligible buildings located in National Flood Insurance Program (NFIP) Regular Program communities. FEMA is providing this temporary extension of PRP eligibility to reduce some of the financial burden on borrowers with collateral located in newly mapped SFHAs. FEMA states that insurance companies will be contacting policyholders – those who may potentially qualify for this extension – at least 90 days before their policy expires.

### **Determine Eligibility**

The flood insurance policy writing company, not your credit union, will be responsible for determining and validating PRP extended eligibility. The NFIP Direct and all Write-Your-Own (WYO) companies will be required to display two flood zones ("Current Flood Zone" and "Flood Risk/Rated Zone") on PRP declarations pages. The "Current Flood Zone" should match the flood zone identified on your credit union's Standard Flood Hazard Determination Form (SFHDF).

The PRP two-year eligibility extension does not apply to properties that were already located in SFHAs prior to the map change. Residential condominium associations eligible for coverage under the Residential Condominium Building Association Policy (RCBAP) are not eligible for the PRP, and therefore, are not eligible for this two-year extension of PRP coverage.

### **Address Flood Zone Discrepancies**

Your credit union should address flood zone discrepancies between your credit union's SFHDF and the "Current Flood Zone" in accordance with the *Revised Interagency Questions and Answers Regarding Flood Insurance*.

**However, your credit union need not delay loan closings during this process.**

Differences between the "Current Flood Zone" and the "Flood Risk/Rated Zone" on these PRP policies or between the SFHDF and the "Flood Risk/Rated Zone" are not to be considered discrepancies.

### **Enforce Mandatory Purchase Requirements**

Your credit union remains responsible for making sure that each borrower's amount of flood insurance meets mandatory purchase requirements. The mandatory purchase amount is the lesser of the:

- Outstanding principal balance of the loan(s) or;
- Maximum amount of insurance available under the NFIP, which is the lesser of the:
  - Maximum limit available for the type of structure or;
  - "Insurable value" of the structure.

### **Read Additional Resources**

FEMA has prepared a *Frequently Asked Questions (FAQ)* document to address questions it anticipates from lenders. A link to the FAQ is enclosed.

Also enclosed are links to FEMA memoranda announcing this PRP eligibility extension, including *Guidance for Lenders*.

Link to FEMA's Fact Sheet, FAQ, and Talking Points

[http://www.floodsmart.gov/floodsmart/pages/prp\\_extension\\_information.jsp?WT.mc\\_id=PRPExtension](http://www.floodsmart.gov/floodsmart/pages/prp_extension_information.jsp?WT.mc_id=PRPExtension)

Link to FEMA "WYO Program Bulletin W-10085: Preferred Risk Policy (PRP) Eligibility Extension" (August 23, 2010)

<http://www.nfipiservice.com/stakeholder/pdf/bulletin/w-10085.pdf>

Link to FEMA “WYO Program Bulletin W-10089: Guidance for Lenders: Preferred Risk Policy (PRP) 2-Year Extension” (September 14, 2010)

<http://www.nfipiservice.com/stakeholder/pdf/bulletin/w-10089.pdf>

For further information, credit unions should contact the NFIP Help Center at (800) 427-4661 or [FloodSmart@dhs.gov](mailto:FloodSmart@dhs.gov). Additional information about the program is available at [www.FloodSmart.gov/PRPExtension](http://www.FloodSmart.gov/PRPExtension).

If you have questions concerning this letter, please contact your Regional Office, state supervisory authority, or examiner.

Sincerely,

/s/

Debbie Matz  
Chairman