

Preferred Risk Policy Extension

In 1989, FEMA began offering a low-cost, preferred risk flood insurance policy for structures located in low-to-moderate risk areas (or Zones B, C or X) with a favorable flood loss history. FEMA requires property owners to reside in a community participating in the regular phase of the National Flood Insurance Program (NFIP) in order to purchase a Preferred Risk Policy (PRP). Eligible structures are not only insured at a lower cost but are insured under a Standard Flood Insurance Policy, providing the same amount of coverage as those properties located in the high risk areas. Purchasing a PRP can be a wise decision for property owners since nearly 25% of all NFIP flood insurance claims are paid to property owners living in low-to-moderate risk flood zones.

On May 21, 2010, FEMA announced it was revising the eligibility requirements for the PRP starting on January 1, 2011. FEMA's decision to change the eligibility requirements was based on a combination of factors. As a result of FEMA's Map Modernization Program, many communities nation-wide are receiving new maps and, incidentally, a lot of property owners are finding their structures have been newly mapped into higher risk areas. FEMA's intent for extending the eligibility requirements is to help ease the transition of purchasing flood insurance for property owners who are newly subject to mandatory purchase laws. FEMA also recognizes the financial hardship that a Special Flood Hazard Area (SFHA) designation may place on individuals in newly identified high-risk flood zones; therefore, they have decided to extend the eligible time period for two policy years.

Expanding the PRP Eligibility Criteria

Typically, when a Flood Insurance Rate Map (FIRM) is revised and an insured structure is moved from a low-to-moderate risk zone to a high-risk zone, the insured would lose the PRP premium upon policy renewal. Because of the PRP extension, property owners with structures newly mapped into a SFHA are now eligible to purchase a PRP if:

- Structures that were newly designated within an SFHA due to a map revision on or after October 1, 2008, and before January 1, 2011, are eligible to purchase a PRP for 2 policy years between January 1, 2011, and December 31, 2012, or.
- Structures that will be moved from a non-SFHA to an SFHA due to a map revision on or after January 1, 2011, will be eligible for a PRP for 2 policy years from the map revision date

Structures meeting either of the circumstances listed above must also meet the flood loss history requirements to be eligible for a PRP. If the structure has received two flood insurance claims or disaster relief payments for flood damage of \$1,000 or more, or three losses of any amount, the structure is ineligible for a PRP.

(Frequently Asked Questions on PRP extension - <http://www.floodsmart.gov/floodsmart/pages/faqs/preferred-risk-policy-eligibility-extension.jsp>)

(Example Insurance Rates - http://www.floodsmart.gov/floodsmart/pages/choose_your_policy/policy_rates.jsp)

Grandfathering

FEMA also provides another low-cost flood insurance option known as “grandfathering”. Grandfathering is available to policyholders who have a policy in place prior to a new map becoming effective and who maintain continuous coverage. The grandfathering rules allow policyholders to continue paying for a B, C or X zone policy after a map revision placed their structure in a SFHA. Insurance agents are allowed to rate a policy using the flood zone (or Base Flood Elevation) on the previous FIRM if it benefits the policyholder. However, in order to grandfather a previous zone or BFE, a policy has to be in place prior to the effective date of the map revision.

(Additional Information on Grandfathering Rules -

http://www.floodsmart.gov/floodsmart/pages/flooding_flood_risks/grandfathering.jsp)

The PRP extension is separate from the existing grandfathering rules in the sense that the PRP extension does not apply to properties that were already located in a SFHA prior to a map revision. With the PRP extension, property owners can purchase a PRP during the two year eligibility period and at the end of the two year period, structures insured under a PRP must be rated using Zone X rates when their policies are renewed.

Structures mapped into a SFHA after October 1, 2008 are eligible to grandfathering their previous flood risk zone after the two PRP policy years are completed. In order to qualify for grandfather rates following the two year eligibility period, the grandfathering guidelines must be met. Pre-FIRM structures (one built before the community’s first FIRM) must maintain continuous coverage and have no substantial damage or improvement. Post-FIRM structures (one built after the community’s first FIRM) must have been built in compliance with the FIRM in effect at the time of construction to be eligible for the grandfathering following the PRP extension period.

To help determine if a property is eligible for the PRP extension or grandfathering rating option, property owners will need to obtain a copy of a previous (historic) FIRM. Historic FIRMs can be found at FEMA’s Map Service Center or by contacting the DNR at (515) 281-4333.

(Link to Map Service Center -

<http://msc.fema.gov/webapp/wcs/stores/servlet/StoreCatalogDisplay?storeId=10001&catalogId=10001&langId=-1&userType=G>)

Notification

Your insurance agent is responsible for determining if a property owner is eligible for the PRP extension. They will be required to verify a building’s flood risk zones on the current and previous FIRMs. Eligible policyholders will be notified at least 90 days before their policy renewal date. Property owners are encouraged to contact their insurance agents in order to learn if they are eligible for the PRP extension.