

Policy Issuance 5-98

Subject: 30-Day Waiting Period
Effective Date: October 1, 1998

This Policy Issuance updates the Federal Insurance Administration's interpretations of the applicability of the 30-day waiting period to various mortgage lending and insurance underwriting situations in Policy Issuance 8-95 (December 5, 1995). This Policy Issuance supercedes Policy Issuance 8-95 and provides answers to additional questions regarding the 30-day waiting period from Write Your Own companies and insurance agents. These interpretations are intended to serve the Congressional intent for the imposition of the 30-day waiting period for the purchase of flood insurance to prevent abuse (i.e., property owners would purchase insurance only when a flood was imminent) and to facilitate lender compliance with the mandatory purchase of flood insurance.

Policy Decisions

1. The 30-day waiting period will not apply when there is an existing insurance policy and an additional amount of flood insurance is required in connection with the making, increasing, extension, or renewal of a loan, such as a second mortgage, home equity loan, or refinancing. The increased amount of flood coverage will be effective as of the time of the loan closing, provided the increased amount of coverage is applied for and the presentment of additional premium is made at or prior to the loan closing.

Explanation: This interpretation is consistent with a basic objective of the National Flood Insurance Reform Act of 1994 (NFIRA), namely, to facilitate lender compliance with the statutory requirements for flood insurance. The 30-day waiting period was established to prevent abuse by insureds from increasing coverage when flooding was imminent. The exemptions to the waiting period on the other hand were for loan closing situations and to facilitate lender compliance with the flood insurance purchase requirements. [Note: This policy interpretation has been retained from Policy Issuance 8-95 (December 5, 1995) and has not changed.]

2. The 30-day waiting period will not apply when an additional amount of insurance is required as a result of a map revision. The increased amount of coverage will be effective 12:01 a.m. on the first calendar day after the date the increased amount of coverage is applied for and the presentment of additional premium is made.

Explanation: This interpretation is also consistent with a basic objective of the NFIRA to facilitate lender compliance with the statutory requirements for flood insurance. The purchase of additional flood insurance is to comply with the statutory requirement for flood insurance in an amount equal to the outstanding principal balance of the loan for a property owner who was prudent enough to buy voluntarily flood insurance but now must increase the amount to comply with statutory requirements for flood insurance resulting from a Federal Emergency Management Agency map change. [Note: This policy interpretation has been retained from Policy Issuance 8-95 (December 5, 1995) and has not changed.]

3. The 30-day waiting period will not apply when flood insurance is required as a result of a lender determining that a loan which does not have flood insurance coverage should be protected by flood insurance as required by Section 102(e) of the Flood Disaster Protection Act of 1973, as amended by NFIRA, because the building securing a loan is located in a Special Flood Hazard Area. The coverage will be effective upon completion of an application and the presentment of payment of premium.

Explanation: The interpretation is consistent with the purpose of the NFIRA to ensure compliance with the statutory requirements for flood insurance protection for property the subject of Federal or federally-related financial assistance even when the discovery is made by lender that flood insurance is required after the loan has closed. It is immaterial whether the lender's discovery of the need for flood insurance results from a scheduled mortgage loan portfolio review or a review of an individual loan file. [Note: This interpretation has been modified from that contained in Policy Issuance 8-95 to now provide that an exemption from the 30-day waiting period applies only to loans in Special Flood Hazard Areas, i.e., those loans for which the statute requires flood insurance.]

4. The 30-day waiting period does not apply when an additional amount of insurance is requested at renewal time that is no more than the amount of increase recommended by the insurer on the renewal bill to keep pace with inflation. The increased amount of coverage will be effective at 12:01 a.m. on the date of policy renewal provided the premium for the increased coverage is received before the expiration of the grace period. The 30-day waiting period applies to any additional amount of insurance requested at renewal time that is higher than any amount of increase offered on the renewal bill provided by the insurer. The beginning of the waiting period is determined by the normal rules. In the event that the insurer is unable to determine the application date and the presentment of premium, the insurer must use the premium receipt date in establishing the effective date for the increased coverage.

Explanation: To permit an insured to increase flood coverage to the amount recommended by the insurer as a safeguard against inflation without the 30-day waiting period is consistent with insurance industry practices and does not create a loophole for the kind of abuse Congress specifically wanted to prohibit with the statutory 30-day waiting period. To apply the 30-day waiting period in situations when a policyholder wants to significantly increase the amount of insurance beyond the amount recommended by the insurer to keep pace with inflation is in keeping with Congressional intent. [Note: This policy interpretation has been modified from that contained in Policy Issuance 8-95 to now provide that the 30-day waiting period applies to any additional amount of insurance requested at renewal time that is higher than any amount of increase offered on the renewal bill provided by the insurer.]

5. The waiting period does not apply to a renewal offer to the insured for the next higher limits available under PRP.

Explanation: This interpretation is consistent with other interpretations in this Issuance that exempt from the 30-day waiting period modest increases in coverage that are comparable to the inflation adjustment recommended by insurers at renewal.

6. The 30-day waiting period does not apply when an insured decides to rewrite the existing policy at the time of renewal from Standard to a Preferred Risk Policy (PRP), provided that the selected PRP coverage limit amount is no higher than the next highest PRP amount above that which was carried on the Standard policy using the highest of building and contents coverage. In those cases where the Standard policy has only one kind of coverage, either building or contents only, the 30-day waiting period applies.

In addition, if the structure is no longer eligible under the PRP or the insured decides to rewrite the existing PRP at renewal time to a Standard policy, the 30-day waiting period does not apply provided the coverage limit amount is no more than the previous PRP coverage amount or the next highest PRP amount above that.

Explanation: The change in coverage that results from converting a Standard Policy to a PRP or from converting a PRP to a Standard Policy with the limitations set forth above results in only a modest increase of flood insurance coverage--roughly equal to the amount of increase in No. 4 above.

7. Unless the contents are part of the security for a loan, the 30-day waiting period applies to the purchase of only contents coverage by a condominium unit owner at the time of the loan, i.e., where building coverage is not being purchased by the unit owner.

Explanation: Since the mandatory purchase of flood insurance applies only to property--real improved and/or any personal property--which is securing a loan, then a condominium unit owner who exercises his or her own option to buy insurance and is not responding to a lender's mandatory purchase decision is subject to the 30-day waiting period. This interpretation is consistent with other situations where an exemption to the 30-day waiting period applies only in situations to facilitate lender compliance with NFIRA.

8. Provided that the application and premium are received before an anniversary date, the 30-day waiting period does not apply to a cancel/rewrite of a 3-year policy at an anniversary date to obtain Increased Cost of Compliance (ICC) coverage.

Explanation: ICC coverage became effective for all new or renewal policies with effective dates on and after June 1, 1997. Those policyholders with 3-year policies without being able to cancel and rewrite in order to obtain ICC coverage would be delayed unnecessarily from obtaining coverage that Congress mandated under the NFIRA.

9. The insurer may rely on an agent's representation on the application that the loan exception applies unless there is a loss during the first 30 days of the policy period. In that case, the insurer must obtain documentation of the loan transaction, such as settlement papers, before adjusting the loss.

Explanation: It would be inconsistent with the intent of Congress for the NFIP to impose burdensome and time-consuming documentation requirements for the agent during the application process, in the case of loan transactions which Congress specifically wanted to exempt from the 30-day waiting period. Requiring documentation if a loss occurs during the first 30 days, however, assures that there will be no abuse of the rule.

10. The 30-day waiting period does not apply to a reduction of the deductible effective as of the renewal date.

Explanation: The amounts involved are comparable to the modest inflation adjustments recommended by the insurer at renewal.

In order to provide a reasonable period of time for the insurers to comply with the new Policy Decisions (5 through 10), the effective date for Policy Decisions 5 through 10 is October 1, 1998.