

## **WHAT'S THE DIFFERENCE?**

*Property owners may want to know which of three NFIP policies fits their needs*

CHICAGO -- The National Flood Insurance Program (NFIP) offers three different cost-saving flood policies for property owners, each with a slightly different purpose. However all three policies – Preferred Risk, Preferred Risk Extension and Grandfathered – have a few things in common. All three provide rates at a reduction from the average flood insurance premium, and agents must verify that a policy holder is eligible.

### **The Preferred Risk Policy (PRP)**

The PRP is a lower cost policy for those owners or renters who are located in a low or moderate risk B, C, or X Zone. These zones are areas with low to moderate risk of flooding. Coverage under a PRP policy can be purchased separately as a building policy, a contents policy, or as a combined building and contents policy (the only policy that offers this option). Annual premiums for residential buildings and contents without a basement enclosure are available for as little as \$154. Coverage for contents only coverage, with the contents above ground level by at least one floor, is available for as low as \$49.00. Coverage is available up to \$250,000.00 for the buildings and \$100,000.00 for contents at an additional discounted rate.

With the PRP policy, or with the PRP Extension, the building must also meet a loss- history requirement based on flood insurance claims and/or Federal Disaster Relief Payments. When you consider that 20 percent of all flood insurance claims are for structures that are not in a high risk flood zone, this is a good way for property owners or renters to hedge their bets against possible flood damage.

### **The Preferred Risk Policy Extension**

The Preferred Risk Policy Extension is a lower cost policy for buildings that were formerly in a B, C, or X Zone and where placed into an Special Flood Hazard Area (A or V Zone) due to a map revision that occurred on or after Oct. 1, 2008. The PRP Extension allows buildings that were assigned to an A or V Zone to be converted to the lower-cost PRP for two policy years beginning with the first new policy or a renewal after January 1, 2011.

# PRP Extension Homeowner Policy Choices

Buildings meeting the above requirements must also meet the National Flood Insurance Program's PRP loss-history requirements (as discussed under PRP). At the end of the two-year period, policies must be converted to a standard rate policy, unless other options are available (grandfathering, elevation rating, or higher deductibles). Unlike the standard PRP policy, insurance under the Preferred Risk Policy Extension is subject to the mandatory purchase requirement for loans from federally regulated lenders; the lender will set the amount of coverage that the owner is required to carry. The decision to purchase contents coverage is voluntary and is made by the policy holder if the contents are not used as collateral.

As noted earlier, the Preferred Risk Policy Extension is available for two years. This is because the policy holders' buildings are in high-risk flood zones, and the two-year period gives the policy holders the opportunity to save funds in preparation to pay for a standard rated policy after two years, to make changes to their structures to reduce risk, or to give communities time to look at options to reduce flood risk.

## **Grandfathered Policy**

A grandfathered policy is a policy in which the rating is based on a structure's flood zone prior to the current flood zone. When the flood map changes occur, the NFIP provides a low-cost option to individuals who meet one of two conditions:

1. They have a flood insurance policy already in effect when the new map becomes effective, and then maintain continuous coverage; or,
2. Their structure was built in compliance with the Flood Insurance Rate Map in effect at the time the building was constructed and remained in compliance with no substantial improvement of substantial damage occurring.

In order to "grandfather" a zone, the insurance agent must produce documentation that supports the "grandfathering" eligibility criteria. The local floodplain manager or other community officials involved in building and zoning may be asked to supply built-in-compliance documentation.

It should be noted that since the 'grandfathered' policies are based on standard rates that they will be more expensive than PRP rates, but cheaper than the rates that individuals will pay based on the higher risk zones on new maps. Individuals that are eligible for grandfathered policies may revert back to "grandfathered" policies after the two-year Preferred Risk Policy Extension is over.

## **Further Information**

For further information on each of these programs, go to the websites listed below:

# PRP Extension Homeowner Policy Choices

*PRP:*

<http://www.floodsmart.gov/floodsmart/pages/faqs/what-is-the-preferred-risk-policy.jsp>

*PRP Extension:*

[www.floodsmart.gov/floodsmart/pages/faqs/preferred-risk-policy-eligibility-extension.jsp](http://www.floodsmart.gov/floodsmart/pages/faqs/preferred-risk-policy-eligibility-extension.jsp).

*Grandfathering:*

[http://www.floodsmart.gov/floodsmart/pages/flooding\\_flood\\_risks/grandfathering.jsp](http://www.floodsmart.gov/floodsmart/pages/flooding_flood_risks/grandfathering.jsp).