

---

**INFORMATIONAL MEMORANDUM**



November 4, 2010

To: The Chief Executive Officer  
Each Farm Credit System Institution

From: Gary K. Van Meter, Acting Director  
Office of Regulatory Policy

A handwritten signature in black ink that reads 'Gary K. Van Meter'.

Subject: Preferred Risk Policy Eligibility Extension

The Federal Emergency Management Agency (FEMA) announced on July 15, 2010, that, effective January 1, 2011, Preferred Risk Policy (PRP) eligibility will be extended for two years beginning January 1, 2011, or the effective date of the flood map revision, whichever is later, for all policies covering buildings newly mapped within a Special Flood Hazard Area (SFHA) by a flood map revision effective on or after October 1, 2008. PRPs offer low-cost coverage to owners and tenants of eligible buildings located in National Flood Insurance Program (NFIP) Regular Program communities. FEMA's stated goal in providing this temporary extension of PRP eligibility is to reduce some of the financial burden on borrowers with collateral located in newly mapped SFHAs.

The PRP two-year eligibility extension does not apply to properties that were already located in SFHAs prior to the map change. The extended eligibility applies to buildings that meet PRP loss history requirements and:

- Are newly designated within an SFHA due to a map revision on or after October 1, 2008, and before January 1, 2011; or
- Will be moved from a non-SFHA to an SFHA due to a map revision on or after January 1, 2011.

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.

Determining PRP Eligibility

The flood insurance policy writing company, not the lender, 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 the lender's Standard Flood Hazard Determination Form (SFHDF).

### Zone Discrepancy Issues

The lender is required to investigate and resolve flood zone discrepancies between the lender's SFHDF and the "Current Flood Zone" in accordance with the Revised Interagency Questions and Answers Regarding Flood Insurance. Lenders need not delay closings pending resolution of the discrepancies. Lenders are not required to investigate or resolve differences between the "Current Flood Zone" and the "Flood Risk/Rated Zone" on these PRP policies nor between SFHDF and the "Flood Risk/Rated Zone".

### Mandatory purchase requirement

Lenders remain responsible for making sure the amount of flood insurance meets the mandatory purchase requirements. The mandatory purchase amount is the lesser of:

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

### Additional resources

FEMA has prepared a Frequently Asked Questions (FAQ) document to address questions it anticipates from lenders. A link to the FAQ is attached. Also attached are links to FEMA memoranda dated August 23, 2010, and September 14, 2010, to its WYO companies announcing and providing guidance on this PRP eligibility extension.

For further information, Farm Credit System lenders should contact the NFIP Help Center at (800) 427-4661, FEMA via email at [FloodSmart@dhs.gov](mailto:FloodSmart@dhs.gov), or the Farm Credit Administration.

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

[http://www.floodsmart.gov/floodsmart/pdfs/prp/Community\\_Fact\\_Sheet.pdf](http://www.floodsmart.gov/floodsmart/pdfs/prp/Community_Fact_Sheet.pdf).

Link to FEMA memoranda: W-10085-Preferred Risk Policy (PRP) Eligibility Extension –

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

W-10089-Guidance for Lenders – <http://www.nfipiservice.com/stakeholder/pdf/bulletin/w-10089.pdf>

If you have any questions or comments about this memorandum, please contact Mark Johansen, Senior Policy Analyst, Office of Regulatory Policy, at (703) 883-4064 or [johansenm@fca.gov](mailto:johansenm@fca.gov), or Mary Alice Donner, Senior Attorney, Office of General Counsel, at (703) 883-4033 or [Donnerm@fca.gov](mailto:Donnerm@fca.gov).