

FEDERAL RESERVE BANK
OF NEW YORK

ATCIR No 8497(a)
January 16, 1979

**REDUCTION IN WAITING PERIOD FOR FLOOD INSURANCE COVERAGE UNDER THE
NATIONAL FLOOD INSURANCE ACT**

*To All State Member Banks, and Others Concerned,
in the Second Federal Reserve District:*

Flood insurance coverage under the National Flood Insurance Act can now be made effective in a shorter period of time under a rule change announced by the Federal Insurance Administration of the U.S. Department of Housing and Urban Development.

Under the revised rule, there are several circumstances that determine the effective date of coverage. In general, under the revised rule, flood insurance is effective five calendar days after the date of application for insurance and the presentment of the premium payment. Under the previous requirement, insurance could be effective only after a 15-day waiting period. This change applies to applications dated October 30, 1978 and after. The waiting period had been established to curb possible abuse of the program, as when applicants purchased insurance shortly before an imminent disaster, such as a hurricane. However, the waiting period delayed mortgage closings by lenders attempting to comply with the program's requirements. The Department of Housing and Urban Development has determined that the reduction in the waiting period to five days represents a reasonable means of making coverage more widely available without any unusual risk.

Under the new rule, any new or added flood insurance, or increase in the amount of flood insurance coverage, is effective the day following the filing of an application and presentment of premium payment in the following cases:

- During the 30 days following a community's initial eligibility for flood insurance under either the emergency or the regular program.
- Whenever application is made for additional coverage or increased limits in connection with an existing policy.

Where title to real property is conveyed and the new owner applies and pays for new or added coverage or an increase in the amount of coverage at or prior to the transfer of title, or where the existing policy is assigned to the purchaser at or prior to the transfer of title, there is no waiting period. That is, the date of transfer of title is the effective date of the coverage.

The rule change was published in the *Federal Register* on October 30, 1978, and became effective immediately. Printed on the reverse side is the text of the rule change. Questions regarding this matter may be directed to our Consumer Affairs Division (Tel. No. 212-791-5919).

PAUL A. VOLCKER,
President.

(Over)

**CHAPTER X—FEDERAL INSURANCE
ADMINISTRATION, DEPARTMENT
OF HOUSING AND URBAN DEVELOPMENT**

**SUBCHAPTER B—NATIONAL FLOOD
INSURANCE PROGRAM**

[Docket No. R-78-577]

**PART 1911—INSURANCE COVERAGE
AND RATES**

**Waiting Period—Standard Flood
Insurance Policy**

AGENCY: Federal Insurance Administration, HUD.

ACTION: Interim rule.

SUMMARY: This rule shortens the waiting period before which flood insurance coverage becomes effective under the Standard Flood Insurance Policy. The present rule provides for a 15-day waiting period which tends to delay and disrupt conventional, VA, and FHA mortgage closings by lenders attempting to comply with the program's legislative requirements.

EFFECTIVE DATE: October 30, 1978.

COMMENTS DUE: November 29, 1978.

ADDRESS: Send comments to Rules Docket Clerk, Office of General Counsel, Department of Housing and Urban Development, Room 5218, 451 Seventh Street SW., Washington, D.C. 20410.

**FOR FURTHER INFORMATION
CONTACT:**

Mr. Richard Krimm, Assistant Administrator, Office of Flood Insurance, 202-755-5581, or toll-free line, 800-424-8872, 451 Seventh Street SW., Washington, D.C. 20410.

SUPPLEMENTARY INFORMATION: Under the authority contained in the Act, the Federal Insurance Administrator is revising § 1911.11 of part 1911 of title 24 of the Code of Regulations to shorten the waiting period before which flood insurance coverage becomes effective under the Standard Flood Insurance Policy.

Under the present rule, there is no waiting period for new or added coverage during the initial 30 days of community eligibility in both the emergency and regular programs. Following this 30-day period, however, there is a 15-day waiting period beginning on the date the flood insurance is applied for before coverage is effective. The revised rule shortens the waiting period so that flood insurance benefits can be made available as soon as possible after the flood insurance policy application has been made. Also, under present procedures, where ownership of insured property is transferred, the

new owner must arrange beforehand for an assignment of the previous owner's flood insurance for the coverage to continue uninterrupted. If, instead, the new owner applies for a new policy, or seeks additional coverage, under the present rule he must wait 15 days for coverage to become effective. This procedure delays mortgage closings by lenders attempting to comply with the flood insurance purchase requirements of section 102 of the Flood Disaster Protection Act of 1973 (Pub. L. 93-234). The lender's alternative—closing the loan without the property being insured, is in conflict with sound lending practices. The amendment also addresses this problem by making the coverage effective when the ownership of the property changes hands.

In addition, a rule is being established under which the time of 12:01 a.m. on the day after the date of the application for flood insurance constitutes, where there is no waiting period or change of ownership to insurable property involved, the time at which flood insurance coverage becomes effective. Where there is a waiting period under the revised rule, the day of application is the first day counted in calculating the waiting period.

The Department has determined that notice and public procedure are contrary to the public interest since the primary purpose of the program is to reduce Federal disaster relief expenditures through the insurance mechanism and sound flood plain management, and because of the importance to the consumer of the new benefits being provided. Since the rule relieves a restriction, this amendment is being made effective upon publication. However, interested persons are invited to submit comments with respect to this amendment and all such comments will be considered before a final rule becomes effective. Comments should be addressed to the Rules Docket Clerk, Office of the General Counsel, Department of Housing and Urban Development, Room 5218, 451 Seventh Street SW., Washington, D.C. 20410. All comments should be received by the Rules Docket Clerk on or before November 29, 1978. Copies of all comments received will be available for inspection and copying at the above address.

The Department has determined that an environmental impact statement is not required for this rule. A copy of the finding of inapplicability is available for inspection at the above address.

Accordingly, 24 CFR Part 1911 is amended as follows:

**PART 1911—INSURANCE COVERAGE
AND RATES**

Section 1911.11 is revised to read as follows:

Section 1911.11, "Adding coverage while policy is in force" is amended to

read as follows:

§ 1911.11 Effective date and time of coverage under the Standard Flood Insurance Policy.

(a) The effective date and time of any new or added or increase in the amount of flood insurance coverage shall be 12:01 a.m. of the day following the application date and the presentment of payment of premium in the following cases:

(1) During the 30-day period which follows a community's initial eligibility for flood insurance under the emergency program;

(2) During the 30-day period which follows a community's initial eligibility for flood insurance under the regular program;

(3) At any time as to any application for additional coverage or increased limits made in connection with a policy then in force.

(b) Where title to property is conveyed, any new or added coverage or increase in the amount of coverage with respect to the property shall be effective as of the time title to the property is transferred to the purchaser when:

(1) The flood insurance policy is applied for and the presentment of payment of premium is made at or prior to the transfer of title; or

(2) The existing flood insurance policy on the property was assigned to the purchaser at or before the transfer of title to the property.

(c) Except as provided by (a) or (b) the effective date and time of any new policy shall be 12:01 a.m. (local time) on the 5th calendar day after the application date and the presentment of payment of premium; for example, a flood insurance policy applied for with the payment of the premium on April 1 to cover property located in a community that has been participating in the program longer than 30 days will become effective at 12:01 a.m. on April 6.

(d) Adding new coverage or increasing the amount of coverage in force is permitted during the term of any policy. The additional premium for any new coverage or increase in the amount of coverage shall be calculated pro rata in accordance with the rates currently in force, with a minimum premium of \$4.

(National Flood Insurance Act of 1968 (title XIII of the Housing and Urban Development Act of 1968); effective January 28, 1969 (33 FR 17804, November 28, 1968), as amended (42 U.S.C. 4001-4128); and Secretary's delegation of authority to Federal Insurance Administrator (43 FR 7719, February 24, 1978).)

Issued at Washington, D.C., October 25, 1978.

GLORIA M. JIMENEZ,
*Federal Insurance
Administrator.*

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