

National Flood Insurance Program Policy Issuance 2-2001

Subject: Duplicate NFIP Policies

Background: The Duplicate Policies provision (Dwelling and General Property Policies, Section VII.U; Residential Condominium Building Association Policy, Section VIII.U) of the Standard Flood Insurance Policy (SFIP) states that if we find that the duplication was not knowingly created, the insured may choose which policy to keep. If the insured knowingly created duplicate policies through the NFIP covering the same building, the policy with the later effective date must be cancelled. This provision does not apply in those cases where the insured had purchased a conventionally written SFIP standard policy to replace a more expensive NFIP Mortgage Portfolio Protection Program (MPPP) policy purchased by the lender to comply with the mandatory purchase requirements of the Flood Disaster Protection Act of 1973. The NFIP cancellation rules allow the MPPP policy to be cancelled even if the effective date of the MPPP policy has an earlier effective date.

It has been brought to our attention that lenders, when force-placing flood insurance coverage through the NFIP, were able to provide all necessary underwriting information, which allowed the issuance of a conventionally written SFIP standard policy instead of a MPPP policy. This approach has been very effective for lenders to reduce the costs of the flood insurance premium and to encourage the borrowers to keep the lender-placed policies since the premium will be the same even if they obtain their own insurance through another agent or WYO company. However, if borrowers decided to purchase their own policy through another NFIP insurer, and the replacement policy was issued with a later effective date, the writing company of the force-placed coverage was not able to cancel the policy because of the SFIP Duplicate Policies provision.

Policy Decision: This is to clarify that when coverage has been force-placed by a lender using the conventionally written standard policy, that policy is to be considered equivalent of the MPPP policy. The WYO Company is authorized to cancel the conventionally written standard force-placed policy, provided a copy of the force-placed letter from the mortgagee is submitted with the cancellation request form.

Refunds should be made according to the duplicate policy rules in the Flood Insurance Manual (Reason code 4, in the Cancellation/Nullification Section).

Date

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