



FEMA

W-05054

September 21, 2005

MEMORANDUM FOR: Write Your Own Principal Coordinators and the NFIP Servicing Agent

FROM: David I. Maurstad *David I. Maurstad*
Acting Administrator / Director
Mitigation Division
Federal Emergency Management Agency

SUBJECT: Hurricane Katrina - Flood Claim Handling Standards

The numbers and severity of Katrina flood losses are unprecedented in the history of the National Flood Insurance Program (NFIP). The complexities presented, both logistically and in terms of claim handling itself, have not been encountered before. To date, the WYO companies and the NFIP Servicing Agent have reported 150,000 claims. As a point of reference, the NFIP handled 74,000 flood claims nationwide in 2004. The situation requires innovative claim handling that will assist our policyholders to quickly recover from these losses, while maintaining adequate controls over NFIP funds.

FEMA, with the help of claims experts from some of our WYO companies, has sought to identify characteristics of flood claims that would lend those losses to an expedited claim handling process.

As a result, we have developed three processes, described in Attachment A, for handling claims with specific characteristics. Process # 1 should be used to expedite the claims handling of structures that have or have had standing water in them for an extended period of time. In order for your company to participate in this process, you must be able to acquire a reliable square foot measurement so that an accurate value can be developed. Some companies have a homeowner policy base that largely matches the flood policy base and may develop the square foot measurement from that information.

Process # 2 is to be used when it has been determined that the structure has been washed off its foundation by flood water and the square foot measurements are known. The company should use the same settlement procedures as in process # 1. All other claims require a site visit and will be handled using the company's normal claim procedures (process # 3).

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As part of a separate e-mail to individual companies, we will provide depth data that includes three sets of data identified by the value in the “floodarea” field. One set includes areas that are known to have flooded (identified as “in”). The second set includes areas that may have flooded (identified as “near0”). The third set includes areas that did not flood to the best of our knowledge (identified as “out”). If a company receives a claim for a risk located in an area identified as “out” in the third set, it cannot use process # 1 or # 2.

Attached to this memorandum are three documents:

Attachment A: Description of Katrina Expedited Claim Handling Processes;
Attachment B: File Documentation Requirements; and
Attachment C: Example of a Valuation Worksheet

The NFIP’s general adjusters will be involved in closely monitoring the performance and procedures of the WYO carriers utilizing this process. Their activities will include site visits to field operations and the homes and businesses of insureds.

The existing NFIP fee schedule will be modified for the claims handled by processes # 1 and # 2. The fee will be \$750.00 for each claim + \$400.00 if a site visit is necessary at a later date. Process # 3 will be paid based upon the existing NFIP fee schedule. FEMA will not seek reimbursement from the company when a subsequent review identifies overpayments resulting from the company’s proper use of the FEMA depth data and a reasonable method of developing square foot value in concluding claims.

If your company has a method of acquiring reliable square foot measurements and wants to participate in these processes of handling Katrina claims, please reply to Jim Shortley or Tim Johnson at: James.Shortley@dhs.gov or Timothy.Johnson@dhs.gov. If your company chooses not to participate in process # 1 or # 2, it should still use process # 3 for those circumstances.

Attachments (3)

cc: Vendors, IBHS, FIPNC, WYO Marketing Committee, Government Technical Representative

Suggested Routing: Claims, Marketing, Underwriting

KATRINA EXPEDITED CLAIM HANDLING PROCESSES

1 APPLIES TO PRE-SELECTED AREAS

WYO carriers will utilize available depth data to determine areas of standing water. A site inspection would not be required.

The process uses flood depth data to identify structures that have been severely impacted. Depth data will be furnished by FEMA for the area of flooding caused by failure of the levees in the New Orleans area, resulting in flooding from Lake Pontchartrain. The depth data is being provided relative to the prevailing ground level at the risk. In addition, the flood elevation is estimated to be 2.7 feet relative to National Geodetic Vertical Datum (NGVD29). These water depths were at this level for at least five days.

Using the flood elevation and the depth data provided, the company should be able to determine the depth of the flood waters in the risk. For risks that are not elevation rated, speak with the insured to determine the first floor level of the risk relative to the prevailing ground. This information should be subtracted from the FEMA provided water depth relative to the prevailing ground to calculate the depth of the water in the building. If the resulting depth is a negative number, it is an indication that the risk may not have been flooded. For elevation rated risks, the first floor level relative to NGVD29 should be verified from the elevation certificate information. This information can be subtracted from the 2.7 foot NGVD29 flood elevation to determine depth of water in the building.

The company should use its best judgment, based on the depth and duration of the water in the building, to determine if it is likely that the covered damage exceeds policy limits. If the depth of water in the building is not likely to cause damage in excess of the policy limits the company should proceed based upon # 3.

The risks in selected areas as identified above will be subject to the following claim handling process for the Dwelling form and General Property form of the Standard Flood Insurance Policy. While this is primarily for certain parishes in Louisiana, this process may also be used in other areas if the WYO carrier or NFIP Servicing Agent has a method to determine the damage will exceed policy limits without a site visit.

The insured should be given the option to decline to have their claims processed in this manner. If the insureds accepts this process, but are not satisfied with the settlement offer from this process, the company should proceed based upon # 3.

Reminder – The Proof of Loss requirement has been waived as noted in WYO Bulletin W-05040.

BUILDING – DWELLING FORM

- If known, Insurer will obtain the square foot area of the building from their underwriting records to determine the replacement cost, utilizing the square foot cost determined for the specific geographic area.

KATRINA EXPEDITED CLAIM HANDLING PROCESSES

- If square footage is unavailable from the underwriting record, ask insured for the square footage of the property. If the information provided appears incorrect, advise insured a site inspection will be needed. File needs to be documented as to how square footage was determined.
- If RCV or ACV, as appropriate, is more than the limit of liability, pay the limit.
- If the risk is not insured to 80% of value, a detailed discussion will take place with the insureds to determine appropriate depreciation to be applied to the building component categories.

CONTENTS – DWELLING FORM*

- Assist the insured to list major categories of contents (e.g. Appliances, electronics, furniture, clothing, etc.).
- If ACV of the contents exceeds policy limits, issue payment of policy limits.
- If ACV does not exceed policy limits, issue amount agreed upon with insured.
- Serial and Model numbers for appliances are not required.
- File documentation by the adjuster must reflect how amounts were determined, e.g. # of adults / children in the residence, etc.

BUILDING – GENERAL PROPERTY FORM

- If known, Insurer will obtain the square foot area of the building from the underwriting records to determine the replacement cost, utilizing the square foot cost determined for the specific geographic area.
- If square footage is unavailable from the underwriting record, ask the insured for the square footage of the property. If the information provided appears incorrect, advise insured a site inspection will be needed. File needs to be documented as to how square footage was determined.
- Determine the age of the building and apply depreciation.
- If ACV of building is more than the limit of liability, pay the limit.

CONTENTS – GENERAL PROPERTY FORM*

- Assist insured to list major categories of contents.
- If ACV of contents exceeds policy limits, issue payment of policy limits.
- If ACV does not exceed policy limits, issue amount agreed upon with insured.
- Serial and Model numbers for appliances are not required.
- File documentation by the adjuster must reflect how amounts were determined, e.g. # of adults / children in the residence, etc.

KATRINA EXPEDITED CLAIM HANDLING PROCESSES

2 - APPLIES TO STRUCTURES WASHED OFF THEIR FOUNDATIONS

This process is to be used in handling of losses without a site visit, where the covered damages appear to exceed policy limits, where only a slab or pilings remain or where the company can obtain its own flood depth data.

BUILDING – DWELLING FORM

- If known, Insurer will obtain the square foot area of the building from their underwriting records to determine the replacement cost, utilizing the square foot cost determined for the specific geographic area.
- If square footage is unavailable from the underwriting record, ask insured for the square footage of the property. If the information provided appears incorrect, advise insured a site inspection will be needed. File needs to be documented as to how square footage was determined.
- If RCV or ACV, as appropriate, is more than the limit of liability, pay the limit.
- If the risk is not insured to 80% of value, a detailed discussion will take place with the insureds to determine appropriate depreciation to be applied to the building component categories.

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KATRINA EXPEDITED CLAIM HANDLING PROCESSES

- Determine the age of the building and apply depreciation.
- If ACV of building is more than the limit of liability, pay the limit.

CONTENTS – GENERAL PROPERTY FORM*

- Assist insured to list major categories of contents.
- If ACV of contents exceeds policy limits, issue payment of policy limits.
- If ACV does not exceed policy limits, issue amount agreed upon with insured.
- Serial and Model numbers for appliances are not required.
- File documentation by the adjuster must reflect how amounts were determined, e.g. # of adults / children in the residence, etc.

3 – APPLIES TO ALL OTHER CLAIMS

BUILDING

If the claim requires a site visit it will be handled using the company's normal claim procedures.

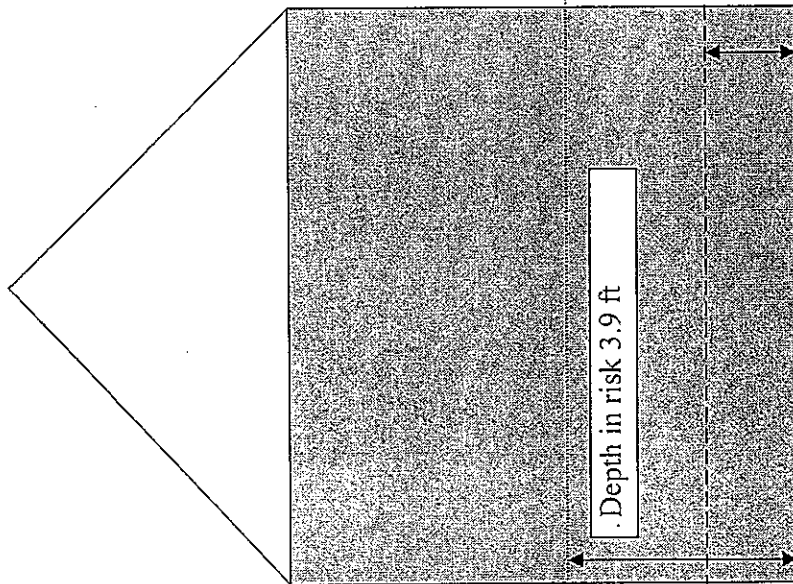
CONTENTS*

- Assist insured to list major categories of contents.
- If ACV of the contents exceeds policy limits, issue payment of policy limits.
- If ACV does not exceed policy limits, issue amount agreed upon with insured.
- Serial and Model numbers for appliances are not required.
- File documentation by the adjuster must reflect how amounts were determined, e.g. # of adults / children in the residence, etc.

*** The contents portion of a claim file must reflect the basis for the adjuster's determination of the quantity, quality and value of the insured's personal property.**

Elevation Rated

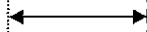
FEMA provides flood elevation = 2.7 ft NGVD29
Adjuster determines low floor elevation = -1.2 ft NGVD29
Depth in risk = flood elevation - low floor elevation
Depth in risk = 2.7 ft NGVD29 - (-1.2 ft NGVD29)
Depth in risk = 3.9 ft



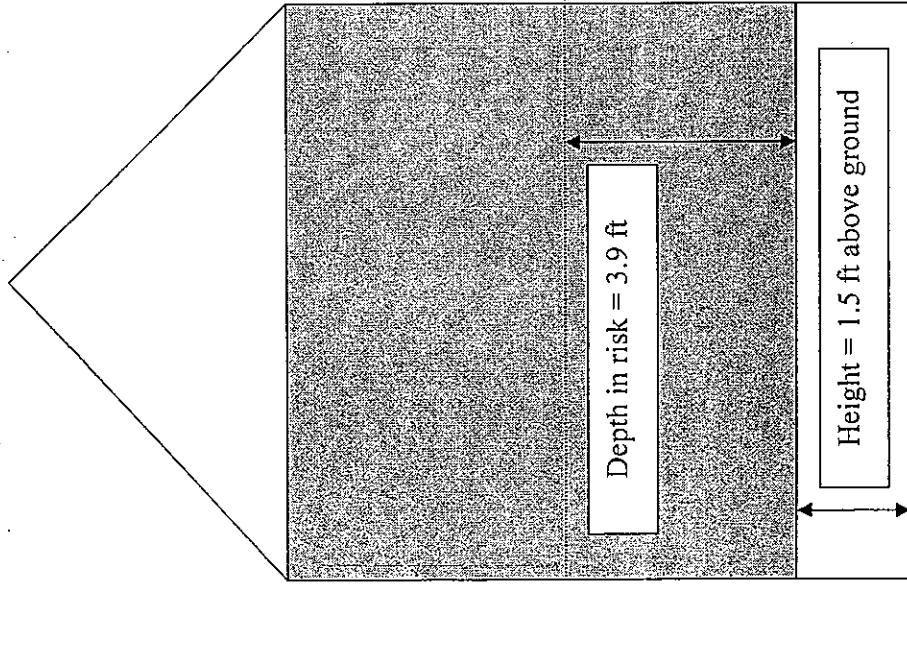
Flood elevation = 2.7 ft NGVD29

0.0 NGVD29

Low Floor elevation = -1.2 ft NGVD29



Non-Elevation Rated
FEMA provides depth relative to ground = 5.4 ft
Adjuster determines low floor height above ground = 1.5 ft
Depth in risk = FEMA provided depth = low floor height above ground
Depth in risk = 5.4ft - 1.5 ft
Depth in risk = 3.9 ft



FILE DOCUMENTATION

1

- Insured and coverage information
- Activity log
- Adjuster's narrative report
- NFIP final report
- Water Depth data or equivalent
- Valuation worksheet – including square footage
- Contents information – listed by major categories
- Letter to insured including ICC language

#2

- Insured and coverage information
- Activity log
- Adjuster's narrative report
- NFIP final report
- Company obtained data such as water depths, aerial photographs or the equivalent
- Valuation worksheet – including square footage
- Contents information – listed by major categories
- Letter to insured including ICC language

3

- Normal Claim Handling Procedure (with the exception that personal property may be grouped)
- Letter to insured including ICC language

VALUATION WORKSHEET
- EXAMPLE -

Policyholder Structure

Policy Number: 1-2345-6789-0
Name: Donald Waters
Property Address: 1234 Main Street
 Hammond, LA 70402

Date of Loss: 08/29/2005
Date Assigned: 09/05/2005

Structure Type

Configuration: 100% - 1 Story
Style: Ranch
Built In: 1988
Purpose: Single Family
Sq. Feet: 1,500
Roof Type: 70% Gable
 30% Hip
Overall Quality: Average

Foundation

Shape: L Shape
Construction: 100 % Basement
Lot Slope: None/Moderate
Foundation: 100% Concrete

Room Information

Living Space: 1 Hallway
 1 Living Room
 1 Nook

Bedrooms: 3 Bedrooms

Kitchen: 1 Kitchen

Bathrooms: 2 Full Baths

Utility/Closets: 1 Laundry Room
 1 Linen Closet
 1 Pantry
 1 Utility Room
 1 Walk-in Closet

Garage 1 Two-Car Garage

VALUATION WORKSHEET
- EXAMPLE -

Room Finishes and Features	
Wall Materials	100 % 1/2" Drywall over Wood or Steel Framing - Ready to Paint
Wall Finishes	75% Paint 10% Open – No wall or included in home's exterior wall finish 15% Wallpaper
Ceiling Finishes	100% Paint
Floor Covering	70% Carpet 30% Ceramic Tile/Slate
Room Features	1 Cathedral/Vaulted Ceiling 2 Ceiling Fan 3 Corner or Crown Molding 3 Chair Rail 8 Recessed Lights 1 Chandelier
Avg. Interior Wall Height	8'0"
Kitchen and Bathroom	
Kitchen Appliances	1 Garbage Disposal 1 Dishwasher 1 Range Hood
Bath Fixtures & Features	1 Acrylic/Fiberglass Tub or Shower Surround 1 Ceramic Tile tub or Shower Surround 1 Extra sink (one sink is included w/each bathroom)
Counter/Vanity Tops	50% Plastic Laminate Countertop 50% Tile Countertop
Cabinet/Vanity Features	1 Peninsula Bar (enter the number in all selected rooms) 1 Island
HVAC	
Heating, AC, and Fireplace	1 Forced Air Heating System 1 Central Air Conditioning 1 Masonry Fireplace
Home Specialty	1 Intercom System

VALUATION WORKSHEET
- EXAMPLE -

Appurtenant Private Structures - Garage

Interior Wall Material **100% 1/2" Drywall over wood or steel framing, ready for paint**

Interior Wall Finishes **100% Paint**

Ceiling Finishes **100% Paint**

Floor Covering **100 % Paint/Epoxy Finish on Concrete**

Ext. Wall Finishes **25% Brick Veneer**

75 % Stucco

Roof Covering **100 % Tile**

Exterior Finishes and Features

Exterior Wall Finish **25% Brick Veneer**

75 % Stucco over Framing

Exterior Feature **2 Exterior Doors**

1 Patio Door

1 Double Garage Door

User Defined **Redwood Deck**

VALUATION WORKSHEET
- EXAMPLE -

Cost Breakdown

Appliances	\$ 6,711.86	
Electrical	\$ 5,707.87	
Exterior Finish	\$ 18,547.45	
Flooring Covering	\$ 5,679.71	
Foundation	\$ 13,417.25	
Heating A/C	\$ 4,521.89	
Interior Finish	\$ 30,340.40	
Roofing	\$ 12,641.20	
Rough Framing	\$ 20,409.52	
Windows	\$ 4,353.20	
Special Features	\$ 1,503.18	
Additional Features	\$ 4,200.00	
Sub Total	<u>\$128,033.53</u>	
Permits & Fees	\$ 0.00	
Overhead & Profit	\$ 26,485.54	
Sales Tax	\$ 4,394.15	(If not already included in pricing)

Estimated Replacement Cost**\$158,913.22**

Cost per SF Finished Living Area	\$105.94 (The Replacement Cost/SF of finished Living Area only)
Cost per SF Total Structure	\$ 45.66 (The Replacement Cost/SF of Finished and Unfinished Areas)
Dwelling Replacement Cost	<u>\$158,913.22</u>

The Replacement Cost Figure represents the estimated reconstruction cost for the above described residence and includes such things as labor and materials and contractor profit and overhead.