

EXHIBIT 1

NATIONAL FLOOD INSURANCE PROGRAM
WRITE YOUR OWN (WYO)
ACCOUNTING PROCEDURES MANUAL

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WYO ACCOUNTING PROCEDURES MANUAL

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NOTE: A DIAMOND (◆) INDICATES A REVISION AND/OR ADDITION TO THE PREVIOUSLY ISSUED WYO ACCOUNTING PROCEDURES MANUAL.

PART A

MONTHLY FINANCIAL STATEMENT PACKAGE REPORTING REQUIREMENTS

The Write Your Own (WYO) *Financial Control Plan* requires WYO Companies to submit a monthly financial statement reporting package to the National Flood Insurance Program (NFIP) Bureau and Statistical Agent. The components of the reporting package are financial statements, reconciliation statements, certification statements, and statistical transactions.

To ensure accurate monthly financial statements for the WYO Program, each WYO Company is required to submit financial data utilizing the attached statements (Exhibits I-IX). These statements must be received no later than the last day of the calendar month following each month's closing. Any Company whose statements are not received each month by the above deadline will not be included in the report to the Federal Insurance Administration (FIA) for that period. A list will also be submitted to FIA each month with the names of Companies whose statements were not included.

If there is no activity in any single month, the Company should still submit a financial report indicating that month's earned premium and net income.

The statements should be sent to the following address:

- ◆ National Flood Insurance Program
Bureau & Statistical Agent
10115 Senate Drive
Lanham, MD 20706-1833
ATTN: Bureau Accounting Manager

- ◆ **NOTE:** Monthly financial statements can be submitted either in hard copy or on diskette, or transmitted electronically using the Bulletin Board Service (BBS). For processing instructions for either the diskette or the BBS, please refer to Part G of this Manual.

In addition, the *Financial Control Plan* requires each WYO Company to perform monthly reconciliations. The completed reconciliation forms are to be submitted with the transaction detail. Please refer to the *Financial Control Plan* for these reporting requirements.

The NFIP Bureau and Statistical Agent's Accounting Department will review each WYO Company's financial reports for completion and reasonableness. If any questions arise concerning the financial reports, the appropriate WYO Company's representative will be contacted by the NFIP Bureau's accounting representative.

EXHIBIT I
INCOME STATEMENT

COMPANY (NAME) _____
 COMPANY (NUMBER) _____
 PERIOD ENDING _____

	CURRENT MONTH	FISCAL YEAR-TO-DATE
<u>REVENUE</u>		
◆ 100. Net Written Premiums	_____	_____
105. Change in Unearned Premium	_____	_____
110. Earned Premium	_____	_____
<u>EXPENSES</u>		
115. Net Paid Losses	_____	_____
120. Allocated LAE (Line 500)	_____	_____
125. Other Loss and LAE Items (Line 660)	_____	_____
130. Change in Loss and LAE Reserves (Lines 325 through 340, Col. C)	_____	_____
135. Net Loss and LAE Incurred	_____	_____
140. Expense Allowance (Line 430)	_____	_____
150. Miscellaneous Expense	_____	_____
155. Total Expense	_____	_____
160. Operating Income (Loss)	_____	_____
165. Interest Income (Line 710)	_____	_____
◆ 170. Net Federal Policy Fees	_____	_____
◆ 175. Net Income (Loss)	_____	_____

PREPARER'S NAME _____

PHONE NUMBER _____

EXHIBIT II

RECONCILIATION OF PAYABLE/RECEIVABLE BALANCE

COMPANY (NAME) _____
 COMPANY (NUMBER) _____
 PERIOD ENDING _____

	<u>CURRENT MONTH</u>	<u>FISCAL YEAR-TO-DATE</u>
200. Beginning Payable/ Receivable Balance (Line 315, Col. B)	_____	_____
205. Net Income (Loss) ◆(Line 175)	_____	_____
210. LOC Funds Received (Line 800)	_____	_____
215. Disbursements to NFIP (Line 805)	_____	_____
220. Ending Payable/ Receivable Balance (Line 315, Col. A)	_____	_____

EXHIBIT III**BALANCE SHEET ITEMS**

		PERIOD ENDING _____			
		A	B	C	D
		<u>CURRENT</u>	<u>PRIOR</u>	<u>INCREASE/</u>	<u>BEGINNING</u>
		<u>MONTH</u>	<u>MONTH</u>	<u>(DECREASE)</u>	<u>OF FISCAL</u>
				<u>(Col. A-B)</u>	<u>YEAR</u>
300.	Cash	_____	_____	_____	_____
305.	Cash - Not Transferred To Restricted Account*	_____	_____	_____	_____
310.	Cash - Not Transferred From Restricted Account*	_____	_____	_____	_____
315.	Payable To (Receivable From) NFIP	_____	_____	_____	_____
320.	Unearned Premium Reserves	_____	_____	_____	_____
325.	Loss Reserves (Case)	_____	_____	_____	_____
330.	Loss Reserves (IBNR)	_____	_____	_____	_____
335.	LAE Reserves - Case (Allocated)	_____	_____	_____	_____
336.	LAE Reserves - IBNR (Allocated)	_____	_____	_____	_____
340.	LAE Reserves (Unallocated)	_____	_____	_____	_____
345.	Premium Suspense (Under 60 Days Old)	_____	_____	_____	_____
346.	Premium Suspense (60 Days And Older)*	_____	_____	_____	_____
	TOTAL	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>

Please show debits as positive numbers and bracket all credits. The columns must add to -0-.

*Upon FEMA request, a WYO Company must provide supporting aged detail for the reported balance. Companies will be notified when such a request is made.

EXHIBIT IV

EXPENSE ALLOWANCE CALCULATION

COMPANY (NAME) _____
 COMPANY (NUMBER) _____
 PERIOD ENDING _____

	<u>CURRENT MONTH</u>	<u>FISCAL YEAR-TO-DATE</u>
<u>EXPENSE ALLOWANCE</u>		
◆400. Net Written Premiums (Line 100)	_____	_____
405. Expense Allowance %	_____ %	_____ %
410. Expense Allowance for Written Premium	_____	_____
415. Cancellation Premium Refund Adjustment Base	_____	_____
420. Commission Allowance %	_____ 15%	_____ 15%
425. Cancellation Commission Retention	_____	_____
◆426. Expense Allowance Adjustment	_____	_____
427. Rating Organization Expense	_____	_____
◆428. State Sales Tax on Insurance Services	_____	_____
430. Total Expense Allowance	=====	=====

EXHIBIT V-A

FEE SCHEDULE - ALLOCATED LAE

(USE FOR CLAIMS WITH LOSS DATE OF 09/30/90 AND PRIOR)

COMPANY (NAME) _____

COMPANY (NUMBER) _____

PERIOD ENDING _____

A ENTRY VALUE RANGE	B NUMBER CLOSED	C FEE	D FEES PAID (COLS. B X C)
Erroneous Assignment	_____	\$ 40.00	_____
Closed Without Payment	_____	70.00	_____
\$.01 - \$ 200.00	_____	70.00	_____
200.01 - 400.00	_____	90.00	_____
400.01 - 600.00	_____	110.00	_____
600.01 - 800.00	_____	130.00	_____
800.01 - 1,000.00	_____	150.00	_____
1,000.01 - 1,500.00	_____	180.00	_____
1,500.01 - 2,000.00	_____	200.00	_____
2,000.01 - 2,500.00	_____	220.00	_____
2,500.01 - 3,000.00	_____	240.00	_____
3,000.01 - 3,500.00	_____	260.00	_____
3,500.01 - 4,000.00	_____	280.00	_____
4,000.01 - 4,500.00	_____	300.00	_____
4,500.01 - 5,000.00	_____	320.00	_____
5,000.01 - 6,000.00	_____	350.00	_____
6,000.01 - 7,000.00	_____	370.00	_____
7,000.01 - 8,000.00	_____	380.00	_____
8,000.01 - 9,000.00	_____	400.00	_____
9,000.01 - 10,000.00	_____	420.00	_____
10,000.01 - 15,000.00	_____	460.00	_____
15,000.01 - 20,000.00	_____	490.00	_____
20,000.01 - 25,000.00	_____	520.00	_____
25,000.01 - 30,000.00	_____	550.00	_____
30,000.01 - 35,000.00	_____	580.00	_____
35,000.01 - 40,000.00	_____	610.00	_____
40,000.01 - 45,000.00	_____	640.00	_____
45,000.01 - 50,000.00	_____	670.00	_____
50,000.01 - 75,000.00	_____	800.00	_____
75,000.01 - 100,000.00	_____	950.00	_____
100,000.01 - 125,000.00	_____	1,100.00	_____
125,000.01 - 150,000.00	_____	1,250.00	_____
150,000.01 - 175,000.00	_____	1,400.00	_____
175,000.01 - 200,000.00	_____	1,550.00	_____
200,000.01 to Limits	_____	1,700.00	_____

500-A. *Total Allocated LAE Fees Paid - Exhibit V-A _____

* Upon FEMA request, a Company must provide detail supporting the reported expense.

EXHIBIT V-B

FEE SCHEDULE - ALLOCATED LAE

(USE FOR CLAIMS WITH LOSS DATE OF 10/1/90 TO 10/31/96)

A	B	C	D
<u>ENTRY VALUE RANGE</u>	<u>NUMBER CLOSED</u>	<u>FEE</u>	<u>FEEES PAID (COLS. B X C)</u>
ERRONEOUS ASSIGNMENT	_____	\$ 40.00	_____
CLOSED WITHOUT PAYMENT	_____	125.00	_____
MINIMUM FOR UPTON-JONES	_____	800.00	_____
\$.01 - \$600.00	_____	150.00	_____
600.01 - 1,000.00	_____	175.00	_____
1,000.01 - 2,000.00	_____	225.00	_____
2,000.01 - 3,500.00	_____	275.00	_____
3,500.01 - 5,000.00	_____	350.00	_____
5,000.01 - 7,000.00	_____	425.00	_____
7,000.01 - 10,000.00	_____	500.00	_____
10,000.01 - 15,000.00	_____	550.00	_____
15,000.01 - 25,000.00	_____	600.00	_____
25,000.01 - 35,000.00	_____	675.00	_____
35,000.01 - 50,000.00	_____	750.00	_____
50,000.01 - 100,000.00	_____	1,000.00	_____
100,000.01 - 150,000.00	_____	1,300.00	_____
150,000.01 - 200,000.00	_____	1,600.00	_____
200,000.01 to Limits	_____	2,000.00	_____
◆ EXCESS MILEAGE	_____		_____
500-B. *Total Allocated LAE Fees Paid - Exhibit V-B			=====

*Upon FEMA request, a WYO Company must provide supporting detail for the reported expense.

◆ EXHIBIT V-C

FEE SCHEDULE - ALLOCATED LAE

(USE FOR CLAIMS WITH LOSS DATE OF 11/01/96 TO 04/30/97)

PERIOD ENDING _____

A	B	C	D
<u>ENTRY VALUE RANGE</u>	<u>NUMBER CLOSED</u>	<u>FEE</u>	<u>FEES PAID (COLS. B X C)</u>
ERRONEOUS ASSIGNMENT	_____	\$40.00	_____
CLOSED WITHOUT PAYMENT	_____	125.00	_____
MINIMUM FOR UPTON-JONES	_____	800.00	_____
\$.01 - \$600.00	_____	150.00	_____
600.01 - 1,000.00	_____	175.00	_____
1,000.01 - 2,000.00	_____	225.00	_____
2,000.01 - 3,500.00	_____	275.00	_____
3,500.01 - 5,000.00	_____	350.00	_____
5,000.01 - 7,000.00	_____	425.00	_____
7,000.01 - 10,000.00	_____	500.00	_____
10,000.01 - 15,000.00	_____	550.00	_____
15,000.01 - 25,000.00	_____	600.00	_____
25,000.01 - 35,000.00	_____	675.00	_____
35,000.01 - 50,000.00	_____	750.00	_____
50,000.01 - 100,000.00	_____	3.0%	_____
100,000.01 - 250,000.00	_____	2.3% BUT NOT LESS THAN \$3,000	_____
250,000.01 AND UP	_____	2.1% BUT NOT LESS THAN \$5,750	_____
500-C. *Total Allocated LAE Fees Paid - Exhibit V-C			_____
500-B *Total Allocated LAE Fees Paid - Exhibit V-B			_____
500-A. *Total Allocated LAE Fees Paid - Exhibit V-A			_____
500. Total Allocated LAE Fees Paid			=====

* Upon FEMA request, a WYO Company must provide supporting detail for the reported expense.

◆ EXHIBIT V-D

FEE SCHEDULE - ALLOCATED LAE

(USE FOR CLAIMS WITH LOSS DATE OF 05/01/97 AND LATER)

PERIOD ENDING _____

A	B	C	D
<u>ENTRY VALUE RANGE</u>	<u>NUMBER CLOSED</u>	<u>FEE</u>	<u>FEE PAID (COLS. B X C)</u>
ERRONEOUS ASSIGNMENT	_____	\$ 40.00	_____
CLOSED WITHOUT PAYMENT	_____	125.00	_____
\$.01 - \$ 600.00	_____	150.00	_____
600.01 - 1,000.00	_____	175.00	_____
1,000.01 - 2,000.00	_____	225.00	_____
2,000.01 - 3,500.00	_____	275.00	_____
3,500.01 - 5,000.00	_____	350.00	_____
5,000.01 - 7,000.00	_____	425.00	_____
7,000.01 - 10,000.00	_____	500.00	_____
10,000.01 - 15,000.00	_____	600.00	_____
15,000.01 - 25,000.00	_____	750.00	_____
25,000.01 - 35,000.00	_____	900.00	_____
35,000.01 - 50,000.00	_____	1200.00	_____
50,000.01 - 100,000.00	_____	3.0%	_____
100,000.01 - 250,000.00	_____	2.3%, BUT NOT LESS THAN \$3,000	_____
250,000.01 AND UP	_____	2.1%, BUT NOT LESS THAN \$5,750	_____
500-D. *Total Allocated LAE Fees Paid - Exhibit V-D			_____
500-C. *Total Allocated LAE Fees Paid - Exhibit V-C			_____
500-B. *Total Allocated LAE Fees Paid - Exhibit V-B			_____
500-A. *Total Allocated LAE Fees Paid - Exhibit V-A			_____
500-E. *Total Allocated LAE Fees Paid - Exhibit V-E			_____
500. Total Allocated LAE Fees Paid			=====

*Upon FEMA request, a WYO Company must provide supporting detail for the reported expense.

Exhibit V-E

Increased Cost of Compliance (ICC) Fee Schedule - Allocated LAE

(Use for ICC Claims with Loss Date of 06/01/97 and Later.)

Period Ending _____

A	B	C	D
<u>Entry Value Range</u>	<u>Number Closed</u>	<u>Fee</u>	<u>Fees Paid (Cols. B x C)</u>
Erroneous Assignment	_____	\$ 40.00	_____
Closed Without Payment	_____	125.00	_____
\$.01 - \$ 600.00	_____	150.00	_____
600.01 - 1,000.00	_____	175.00	_____
1,000.01 - 2,000.00	_____	225.00	_____
2,000.01 - 3,500.00	_____	275.00	_____
3,500.01 - 5,000.00	_____	350.00	_____
5,000.01 - 7,000.00	_____	425.00	_____
7,000.01 - 10,000.00	_____	500.00	_____
10,000.01 - 15,000.00	_____	600.00	_____

(Use the following Entry Value only for ICC total claims payments greater than \$15,000 but not more than \$20,000, **and with a Loss Date of 05/01/00 and later.**)

15,000.01 - 20,000.00	_____	750.00	_____
-----------------------	-------	--------	-------

500-E. Total Allocated LAE Fees Paid for ICC* =====

*Upon FEMA request, a WYO company must provide supporting detail for the reported expense.

EXHIBIT VI

OTHER LOSS AND LAE CALCULATION

COMPANY (NAME) _____
 COMPANY (NUMBER) _____
 PERIOD ENDING _____

	<u>CURRENT MONTH</u>	<u>FISCAL YEAR-TO-DATE</u>
<u>UNALLOCATED LAE PAID</u>		
600. Net Paid Losses (Line 115)	_____	_____
605. Change In Case Reserves (Line 325, Col. C)	_____	_____
610. Case Incurred Losses	_____	_____
615. Unallocated Expense Allowance %	x 3.3%	x 3.3%
620. Unallocated LAE	_____	_____
<u>SALVAGE, SUBROGATION, AND RECOVERY</u>		
625. Net Salvage Received	_____	_____
630. Salvage Allowance %	x10%	10%
635. Salvage Credit	_____	_____
640. Net Subrogation Received	_____	_____
645. Subrogation Allowance %	x25%	x25%
650. Subrogation Credit	_____	_____
◆ 652. Recovery of Losses Paid	_____	_____
<u>SPECIAL ALLOCATED LAE</u>		
655. Special Allocated Loss Adjustment Expenses	_____	_____
660. Total Other Loss & LAE Items (Sum of Lines 620, 635, 650, and 655)	=====	=====

EXHIBIT VII
INTEREST INCOME

COMPANY (NAME) _____
COMPANY (NUMBER) _____
PERIOD ENDING _____

	<u>CURRENT MONTH</u>	<u>FISCAL YEAR-TO-DATE</u>
700. Total Interest Received	_____	_____
705. Restricted Account Charges	_____	_____
710. Total Interest Income	=====	=====

◆ EXHIBIT VIII-B

CASH PAYMENTS TO THE NFIP

COMPANY (NAME) _____

COMPANY (NUMBER) _____

PERIOD ENDING _____

<u>DATE</u>	<u>AMOUNT</u>
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

805-B. TOTAL CASH PAYMENTS _____

805-C. TOTAL CREDIT CARD PAYMENTS _____

805. TOTAL PAYMENTS TO THE NFIP _____

◆ EXHIBIT VIII-C

CREDIT CARD PAYMENTS TO THE NFIP

COMPANY (NAME) _____
 COMPANY (NUMBER) _____
 PERIOD ENDING _____

<u>DATE</u>	<u>AMOUNT</u>
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
805-C. TOTAL	=====

◆ EXHIBIT IX

RESTRICTED ACCOUNT DEPOSITS SUMMARY

COMPANY (NAME) _____

COMPANY (NUMBER) _____

PERIOD ENDING _____

RESTRICTED ACCOUNT DEPOSITS

	<u>DATE</u>	<u>AMOUNT</u>
	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
	_____	_____
900.	TOTAL DEPOSITS FOR THE MONTH	_____

PART B

FINANCIAL STATEMENTS - DEFINITION OF TERMS AND COMPLETION INSTRUCTIONS

EXHIBIT I - INCOME STATEMENT

◆ **100. NET WRITTEN PREMIUMS:**

Represents the total premiums written (calculated values) less the premium refunds and voids.

Consists of the premiums processed to the Policy Master File for the following *Transaction Record Reporting and Processing (TRRP) Plan* transactions:

- New business (TRRP Plan, transaction #11)
- Reinstatement (TRRP Plan, transaction #15)
- Renewals (TRRP Plan, transaction #17)
- Endorsements (TRRP Plan, transaction #20)
- Policy correction (TRRP Plan, transaction #23)
- Policy cancellation (TRRP Plan, transaction #26)
- Cancellation correction (TRRP Plan, transaction #29)

- ◆ **NOTE:** Written premium does not include the Federal Policy Fee. It does include the Expense Constant.

105. CHANGE IN UNEARNED PREMIUM:

(From Exhibit III, Line 320, Column C)

Reflects the increase or decrease in the account balances of unearned premiums (1 year, 3 years, etc.) from the ending balance of the prior month to the ending balance of the current month.

110. EARNED PREMIUM:

Line 100 + or - Line 105.

Represents net written premium plus or minus the change in unearned premium.

115. NET PAID LOSSES:

Represents actual claim payments for flood losses. This amount is net of salvage, subrogation, recoveries, and applicable deductibles.

Losses Paid consists of the following TRRP Plan transactions:

- Open claim reserve (TRRP Plan, transaction #31)
- Reopen claim (TRRP Plan, transaction #34)
- Partial payments (TRRP Plan, transaction #40)
- Closed claim payments (TRRP Plan, transaction #43)
- Addition to final payments (TRRP Plan, transaction #49)
- Recovery after final payment (TRRP Plan, transaction #52)
- Claim payment correction (TRRP Plan, transaction #64)
- Recovery correction (TRRP Plan, transaction #67)

NOTE: For paid losses, count the claim payment only, not the open reserve amount.

120. ALLOCATED LAE:

From Exhibit V-D, Line 500

Represents fee expense for services provided in processing flood claims per the Fee Schedules.

125. OTHER LOSS AND LAE ITEMS:

From Exhibit VI, Line 660

130. CHANGE IN LOSS AND LAE RESERVES:

Reflects the increase or decrease in the following accounts' ending balances from prior period to the current:

- Loss Reserves - Case (Exhibit III, Line 325, Column C).
- Loss Reserves - IBNR (Exhibit III, Line 330, Column C).
- LAE Reserves - Case (Allocated) (Exhibit III, Line 335, Column C).
- LAE Reserves - IBNR (Allocated) (Exhibit III, Line 336, Column C).
- LAE Reserves - Unallocated (Exhibit III, Line 340, Column C).

135. NET LOSS AND LAE INCURRED:

Sum of Lines 115, 120, 125, and 130.

140. EXPENSE ALLOWANCE:

From Exhibit IV, Line 430

Represents the amount given to the WYO Companies for their operating, administrative, and commission expenses.

150. MISCELLANEOUS EXPENSE:

◆ Represents net underpayment or overpayment for premiums submitted within \$6.00 of the system calculated amount (Breakage). This can occur on new business applications, endorsements, or long form renewals.

155. TOTAL EXPENSE:

Sum of Lines 135, 140, and 150.

160. OPERATING INCOME (LOSS):

Line 110 less Line 155.

165. INTEREST INCOME:

From Exhibit VII, Line 710

◆ Line 700 less Line 705.

◆ 170. NET FEDERAL POLICY FEES

Represents the amount charged for Federal Policy Fees, less the amount refunded for these fees.

◆ 175. NET INCOME (LOSS):

Sum of Lines 160, 165, and 170.

EXHIBIT II - RECONCILIATION OF PAYABLE/RECEIVABLE BALANCE

200. BEGINNING PAYABLE/RECEIVABLE BALANCE:

From Exhibit III, Line 315, Column B

Represents the prior period ending balance.

205. NET INCOME (LOSS):

◆ From Exhibit I, Line 175

210. LOC FUNDS RECEIVED:

◆ From Exhibit VIII-A, Line 800

Represents the amount of money drawn from the Letter of Credit.

215. DISBURSEMENTS TO NFIP:

◆ From Exhibit VIII-B, Line 805

Represents funds inclusive of credit card payments remitted to the NFIP by the WYO Company during the reporting period.

220. ENDING PAYABLE/RECEIVABLE BALANCE:

Sum of Lines 200, 205, 210, less Line 215.

EXHIBIT III - BALANCE SHEET ITEMS

300. CASH:

- ◆ Represents the General Ledger ending cash balance for the flood insurance restricted account.

305. CASH - NOT TRANSFERRED TO RESTRICTED ACCOUNT:

- ◆ Represents the total amount of cash due the restricted account but not transferred to it by the end of the reporting month. Consider this balance as an Accounts Receivable due FIA. Upon FIA's request, the WYO Company must provide supporting detail concerning the reported balance. The detail should include policy number or payor name and amount. This detail should also age balances under the following time frames: 60-180 days; 181-360 days; and over 360 days. The WYO Company will be notified when the data is required.

310. CASH - NOT TRANSFERRED FROM RESTRICTED ACCOUNT:

- ◆ Represents the total amount of cash due from the restricted account but not withdrawn from it by the end of the reporting period. Consider this balance as an Accounts Payable due from FIA. Upon FIA's request, the WYO Company must provide supporting detail concerning the reported balance. This detail should include payee name or policy number and amount payable. This detail should also age balances under the following time frames: 60-180 days; 181-360 days; and over 360 days. The WYO Company will be notified when the data is needed.

315. PAYABLE TO (RECEIVABLE FROM) NFIP:

- ◆ Assets minus liabilities.

320. UNEARNED PREMIUM RESERVES:

Represents the income received for the written premiums but not yet earned. Companies shall utilize a pro-rata earnings method over the life of the policy.

325. LOSS RESERVES (CASE):

Represents the estimated loss (building and/or contents) for all the open claim cases. The balance of this account is affected by the following TRRP Plan transactions:

- Open claim reserve (TRRP Plan, transaction #31)
- Reopen claim reserve (TRRP Plan, transaction #34)
- Change reserve (TRRP Plan, transaction #37)
- Partial payment (TRRP Plan, transaction #40)
- Close claim with payment (TRRP Plan, transaction #43)
- Close claim without payment (TRRP Plan, transaction #46)
- General claim correction (TRRP Plan, transaction #61)
- Claim payment correction (TRRP Plan, transaction #64)

330. LOSS RESERVES (IBNR):

Represents the estimated outstanding losses for building and/or contents that are incurred but not yet reported.

335. LAE RESERVES - CASE (ALLOCATED):

Represents an estimate of allocated LAE reserves for open reported claims only.

336. LAE RESERVES - IBNR (ALLOCATED):

Represents an estimate of allocated LAE reserves for incurred but not reported claims only.

340. LAE RESERVES (UNALLOCATED):

Represents the LAE reserves for the unallocated loss adjustment expenses on the reported IBNR (Line 330, Column A x 3.3%).

345. PREMIUM SUSPENSE (UNDER 60 DAYS OLD):

Represents the total premiums aged under 60 days for policies that have not been processed.

346. PREMIUM SUSPENSE (60 DAYS AND OLDER):

Represents the total premiums aged 60 days or more for policies that have not been processed.

- ◆ Upon FIA's request, the WYO Company must provide supporting detail concerning the reported balance. The detail should contain policy number, policy effective date, amount, and number of days outstanding.

EXHIBIT IV - EXPENSE ALLOWANCE CALCULATION

◆ 400. NET WRITTEN PREMIUM:

From Line 100.

405. EXPENSE ALLOWANCE %:

The WYO Company expense allowance percentage for operating, administrative, and commission expenses for a specific fiscal year.

410. EXPENSE ALLOWANCE FOR WRITTEN PREMIUM:

Line 400 multiplied by Line 405.

415. CANCELLATION PREMIUM REFUND ADJUSTMENT BASE:

The WYO Company may retain 15 percent of the premium refunded (exclusive of the Federal Policy Fee) on policies cancelled for the following reasons:

- Property sold.
- Property removed.
- Insurance no longer required by lender because property is no longer located in area of special flood hazard, provided no claim has been paid or is pending.
- Cancellation of condominium association or unit policy due to issuance of a condominium master policy.
- Mid-term voidance of a 3-year policy because of the community's cessation of participation in the NFIP.

Line 415 represents the total amount of the premium refunds for the allowable cancellations as defined above.

420. COMMISSION ALLOWANCE %:

Represents the percentage of the premium refund which can be retained as commission (15 percent).

425. CANCELLATION COMMISSION RETENTION:

Line 415 multiplied by Line 420.

◆ **426. EXPENSE ALLOWANCE ADJUSTMENT:**

Line 426 is used to record the adjustment to a Company's expense allowance based upon its performance to achieve predetermined policy- or contract-in-force goals. The adjustment can result in a Company either earning additional expense allowance or returning with interest any expense allowance not earned.

The calculation of the expense allowance adjustment will be performed by the NFIP Bureau and Statistical Agent. A Company will be notified by the NFIP Bureau of the additional expense allowance amount earned or owed.

If a Company receives notice that it is entitled to additional expense allowance monies, the funds should be taken from the restricted flood account and the transaction recorded as a debit on Line 426. Conversely, if monies are owed to the NFIP, they must be deposited into the restricted account and the transaction recorded as a credit on Line 426.

◆ **427. RATING ORGANIZATION EXPENSE:**

Several WYO Companies have agreed to utilize the services of a rating organization in assisting the Federal Insurance Administration (FIA) in performing studies and investigations on a community or an individual risk basis to determine more equitable and accurate estimates of flood insurance risk premium rates. With the prior approval of the FIA Administrator, these Companies will be reimbursed for fees charged in conjunction with this project.

To report such expenses, the WYO Company should indicate on its monthly financial statement, Exhibit IV, Line 427, the fee paid to the rating organization. The Company may disburse funds directly from the WYO restricted account, or be reimbursed from the restricted account, if it so chooses. A copy of the paid bill must be attached to the monthly financial statements.

◆ **428. STATE SALES TAX ON INSURANCE SERVICES:**

Background

The Texas tax authorities have determined that the Texas sales tax on insurance services is applicable to all fees paid by WYO Companies to claim adjusters and/or adjusting firms for handling NFIP claims for Texas. Because of this determination, the NFIP had no alternative but to pass on the cost of this Texas adjuster services sales tax to Texas flood insurance policyholders. This was done by assessing an additional \$5 charge to new business policies (effective 1/1/93) and to renewal policies (effective 3/1/93).

In addition, FEMA has determined it will reimburse dollar-for-dollar the expense incurred by a WYO Company that pays the Texas sales tax for adjuster services provided to Texas policyholders. Your Company may take the reimbursement for the tax expense after the tax has been paid to the adjuster and/or adjusting firm.

Procedure

In order to be reimbursed for the Texas sales tax, a WYO Company must make the expenditure to the adjuster and then must submit supporting documentation. The specifics of the reimbursement procedure are as follows:

1. On financial statement Exhibit IV (Expense Allowance Calculation), Line 428, indicate the total amount of Texas sales charges paid for the reporting month. Please note, this entry should **not** include your Company's allocated loss adjustment fee for the adjustment of claims cases. This expense should still be indicated on the appropriate Fee Schedule.
2. Include with your financial statement package a listing that details the Texas sales tax paid for adjuster services on each payment made. The total of the individual tax payments on this listing should agree with the total amount recorded on Exhibit IV, Line 428. The listing should contain the following information: the policy number (not claim number) associated with the paid adjuster expense; date of loss; name of adjuster and/or adjusting firm paid; the date of the adjuster payment; total amount of payment to the adjuster (inclusive of the sales tax); and amount of Texas sales tax paid.
3. Maintain in your Company's records all supporting documentation concerning the payment of the Texas sales tax.

430. TOTAL EXPENSE ALLOWANCE:

- ◆ Sum of Lines 410, 425, 426, 427, and 428.

EXHIBITS V-A, V-B, V-C, V-D, AND V-E**◆ FEE SCHEDULES - ALLOCATED LAE**

NOTE: Please be aware that there are five financial statement fee schedules for allocated Loss Adjustment Expense (LAE). The key to the use of the proper fee schedule is the claim loss date. Once the claim loss date is known, simply apply the following guide to determine what financial statement fee schedule you should use to report the allocated LAE on your financial statement:

DATE OF LOSS	FEE SCHEDULE
09/30/90 and prior	Exhibit V-A
10/01/90 through 10/31/96	Exhibit V-B
11/01/96 through 04/30/97	Exhibit V-C
05/01/97 and later	Exhibit V-D
06/01/97 and later	Exhibit V-E — Used only for Increased Cost of Compliance (ICC) claim expenses

FEE SCHEDULE PRINCIPLES

- The allocated LAE fee can be taken at the time a final claim payment is made. The allocated LAE fee can also be taken at the time a **partial** claim payment is made.
- Fees are not paid separately for building and content losses. Rather, the sum of the building and contents covered or gross losses is the basis for the fee.
- The major task in using the various fee schedules is to determine the entry value for each claim. The entry value may be based on either the **covered** loss or the **gross** loss. In addition, the entry value will not always equal the claim payment.
- For fee schedule entry value calculations based on covered loss, the standard deductible is subtracted from the covered loss amount, rather than the actual deductible amount shown on the policy. The standard deductible is \$500 for both building and contents. Covered loss is limited to the amount of insurance purchased.
- Fee schedule entry value calculations based on gross loss pertain to all claims with a date of loss from 05/15/96 to 07/10/96 and all claims with a date of loss from 05/01/97 and later. For these claims, all entry value

calculations should be based on the **gross loss** as described in the "**footnotes**" to the fee schedule in the May 1996 rule. (See page B-15)

- Exhibit V-E is to be used to record and to report **only** LAE related to ICC coverage payments.

EXHIBIT V-A

FEE SCHEDULE - ALLOCATED LAE

(USE FOR CLAIMS WITH LOSS DATE OF 9/30/90 AND PRIOR)

500-A. TOTAL ALLOCATED LAE FEES PAID:

Allocated loss adjustment expenses for loss dates of 9/30/90 and prior are reported and reimbursed on the basis of the Exhibit V-A Fee Schedule. The following factors determine the fee to which the Company is entitled:

- All fee schedule entry values should be based on covered loss, less standard deductible for building (\$500) and contents (\$500), if applicable.
- Fees are not paid separately for building and contents losses.
- The Fee Schedule is predicated on the application of the \$500 standard deductible to the covered losses, subject to the amounts of insurance purchased.
- Bring forward total on Exhibit V-A, Line 500-A, to Exhibit V-D, Line 500-A.

Refer to the *WYO Accounting Training Manual* for additional information and instructions on how to complete Exhibit V-A.

◆ EXHIBIT V-B

FEE SCHEDULE - ALLOCATED LAE

(USE FOR CLAIMS WITH LOSS DATE OF 10/1/90 TO 10/31/96)

500-B. TOTAL ALLOCATED LAE FEES PAID - EXHIBIT V-B:

Allocated loss adjustment expenses for loss dates of 10/1/90 to 10/31/96 are reported on the Exhibit V-B Fee Schedule. The following procedures outline the calculation of the LAE and its reporting requirements.

**LOSS DATES BETWEEN 10/01/90 AND 05/14/96 AND
BETWEEN 07/11/96 AND 10/31/96**

- Allocated loss adjustment expenses for loss dates of 10/01/90 to 5/14/96 and loss dates of 7/11/96 to 10/31/96 are reimbursed based on the Exhibit V-B Fee Schedule.
- All fee schedule entry value calculations should be based on **covered loss**, (not **gross loss**), less standard deductibles for building (\$500) and contents (\$500), if applicable. Covered loss is limited to the amount of insurance purchased.
- Fees are not paid separately for building and contents losses.
- Bring forward total on Exhibit V-B, Line 500-B, to Exhibit V-D, Line 500-B.

Refer to the *WYO Accounting Training Manual* for additional information and instructions on how to complete Exhibit V-B.

LOSS DATE BETWEEN 5/15/96 AND 7/10/96

- For claims with a loss date between 5/15/96 and 7/10/96, calculate the fee amount based on the Exhibit V-C Fee Schedule. All entry value calculations should be based on the **gross loss** as described in the "footnotes" to the fee schedule in the May 1996 rule.

The "footnotes" contained in the May 1996 rule are as follows:

- (1) Gross loss shall mean the agreed cost to repair or replace before application of depreciation, deductibles, or other limiting clauses or condition.
 - (2) For the purpose of this schedule, should the loss exceed the available coverage, gross loss shall mean the amount of coverage.
 - (3) If the claim involves a salvage "buy-back," gross loss shall mean the amount of the claim before the salvage value is deducted.
 - (4) If the insured qualifies for replacement cost coverage, gross loss is determined on the basis of the entire replacement cost claim (including depreciation holdback).
- For all claims with a fee range value of \$50,000.01 and above, calculate the fee amount based on the Exhibit V-C Fee Schedule. The amount of fee in excess of the Exhibit V-B Fee Schedule is to be processed as a Special Allocated Loss Adjustment Expense (SALAE) - Type 2. No prior FIA approval (authorization letter) is necessary.
 - The excess fee should be reported on the current financial statement Exhibit VI, Line 655. For the SALAE, follow the procedures as outlined in Accounting Training Assistance Bulletin (ATAB) 1-92 that requires a listing which details the SALAE by policy number, date of loss, amount, and type code. To establish an audit trail, please include the gross loss amount on your SALAE listing.
 - The basic fee (amount per Exhibit V-B Fee Schedule) is to be reported on Exhibit V-B, Fee Schedule-Allocated LAE.
 - For all claims with a fee range value of \$50,000 and below, calculate the fee based on the Exhibit V-C Fee Schedule and use the financial statement Exhibit V-B Fee Schedule to report the LAE.

Refer to the WYO Accounting Training Manual for additional information and examples.

◆ EXHIBIT V-C

FEE SCHEDULE - ALLOCATED LAE

(USE FOR CLAIMS WITH LOSS DATE OF 11/1/96 TO 04/30/97)

500-C. TOTAL ALLOCATED LAE FEES PAID - EXHIBIT V-C:

Allocated loss adjustment expenses for loss dates between 11/1/96 and 4/30/97 are reimbursed on the basis of the Exhibit V-C Fee Schedule.

The following factors determine the fee to which the Company is entitled:

- All fee schedule entry values should be based on covered loss, less standard deductible for building (\$500) and contents (\$500), if applicable.
- Fees are not paid separately for building and contents losses.

The Exhibit V-C Fee Schedule incorporates the revised fee amounts for the entry value ranges of \$50,000.01 and above, and its use will eliminate the need for WYO Companies to process the excess fee above the basic fee schedule as a SALAE.

The Exhibit V-C Fee Schedule should be used only to report adjuster fees for claims with a loss date between 11/1/96 and 4/30/97. All fees for loss dates prior to 11/1/96 should be reported on financial statement Exhibit V-A or V-B.

- Bring forward total on Exhibit V-C, Line 500-C, to Exhibit V-D, Line 500-C.
- **Refer to the *WYO Accounting Training Manual* for additional information and instructions on how to complete Exhibit V-C.**

◆ EXHIBIT V-D

FEE SCHEDULE - ALLOCATED LAE

(USE FOR CLAIMS WITH LOSS DATE OF 05/01/97 AND LATER)

500-D. TOTAL ALLOCATED LAE FEES PAID - EXHIBIT V-D:

Allocated loss adjustment expenses for loss dates of 05/01/97 and later are reimbursed on the basis of the Exhibit V-D Fee Schedule. All fee schedule entry values should be based on gross loss.

Gross loss is defined as follows:

- (1) Gross loss shall mean the agreed cost to repair or replace before application of depreciation, deductibles, or other limiting clauses or condition.
- (2) For the purpose of this schedule, should the loss exceed the available coverage, gross loss shall mean the amount of coverage.
- (3) If the claim involves a salvage "buy-back," gross loss shall mean the amount of the claim before the salvage value is deducted.
- (4) If the insured qualifies for replacement cost coverage, gross loss is determined on the basis of the entire replacement cost claim (including depreciation holdback).

The Exhibit V-D Fee Schedule should be used only to report adjuster fees for claims with a loss date of 05/01/97 and later. All fees for loss dates prior to 05/01/97 should be reported on financial statement Exhibit V-A, V-B, or V-C.

500-C. TOTAL ALLOCATED LAE FEES PAID - EXHIBIT V-C:

Total brought forward from Exhibit V-C, Line 500-C.

500-B. TOTAL ALLOCATED LAE FEES PAID - EXHIBIT V-B:

Total brought forward from Exhibit V-B, Line 500-B.

500-A. TOTAL ALLOCATED LAE FEES PAID - EXHIBIT V-A:

Total brought forward from Exhibit V-A, Line 500-A.

500-E. TOTAL ALLOCATED LAE FEES PAID-EXHIBIT V-E.

Total brought forward from Exhibit V-E, Line 500-E.

500. TOTAL ALLOCATED LAE FEES PAID:

Sum of Lines 500-D, 500-C, 500-B, 500-A, and 500-E.

NOTE: Upon FEMA's request, a WYO Company must provide supporting details for its fiscal year-to-date allocated loss adjustment expenses. The detail should include the policy number associated with the claim, date of loss, total claim payments, and the total allocated loss adjustment expense.

Refer to the *WYO Accounting Training Manual* for additional information and instructions on how to complete Exhibit V-D.

◆ EXHIBIT V-E

INCREASED COST OF COMPLIANCE (ICC) FEE SCHEDULE - ALLOCATED LAE

(USE FOR CLAIMS WITH LOSS DATE OF 06/01/97 AND LATER)

500-E. TOTAL ALLOCATED LAE FEES PAID FOR ICC:

This Exhibit is to be used **only** to report allocated loss adjustment expenses associated with ICC coverage payments.

ICC allocated loss adjustment expenses for loss dates of 06/01/97 and later are reported and reimbursed on the basis of the Exhibit V-E Fee Schedule. The following factors determine the fee to which the Company is entitled:

- All fee schedule entry values should be based on the loss amount.
- The maximum loss limit is \$15,000.
- ICC coverage is effective for new and renewal policies dated June 1, 1997, and later.
- Bring forward total on Exhibit V-E, Line 500-E, to Exhibit V-D, Line 500-E.

Refer to the *WYO Accounting Training Manual* for additional information and instructions on how to complete Exhibit V-E.

EXHIBIT VI - OTHER LOSS AND LAE CALCULATION

600. NET PAID LOSSES:

From Line 115.

605. CHANGE IN CASE RESERVES:

From Exhibit III, Line 325, Column C.

610. CASE INCURRED LOSSES:

Sum of Lines 600 and 605.

Represents the amount to which the unallocated LAE percentage allowance is applied.

615. UNALLOCATED EXPENSE ALLOWANCE %:

Represents the unallocated expense allowance percentage.

620. UNALLOCATED LAE:

Line 610 multiplied by Line 615.

Represents the amount allowed the WYO Companies for unallocated LAE.

625. NET SALVAGE RECEIVED:

Represents the recoveries made on salvaged items, net of the recovery expenses (transactions #52 and #67), plus any additional recovery that is not attributable to any single claim.

630. SALVAGE ALLOWANCE %:

Represents allowance percentage for salvage collected (currently 10 percent).

635. SALVAGE CREDIT:

Line 625 multiplied by Line 630.

Represents the amount to be retained by the Company as its share of collections.

640. NET SUBROGATION RECEIVED:

Represents the recoveries made on subrogation cases. This amount should be net of expenses incurred for the subrogation collections (transactions #52 and #67).

645. SUBROGATION ALLOWANCE %:

Represents allowance percent for subrogation collected (currently 25 percent).

650. SUBROGATION CREDIT:

Line 640 multiplied by Line 645.

Represents the amount retained by Companies for their collection efforts.

◆ 652. RECOVERY OF LOSSES PAID

Represents the amount of recoveries (transactions #52 and #67) for the erroneous payment of claim losses.

◆ 655. SPECIAL ALLOCATED LOSS ADJUSTMENT EXPENSES:

These are special allocated loss adjustment expenses (SALAE) (transactions #71 and #74) authorized by the FIA for reimbursement exclusive of expenses based on the Fee Schedule. The types of SALAE are as follows:

- **Expense Type 1** - Engineering Expense - WYO Company authorized to approve up to \$2,500 per claim without FIA's approval.
- **Expense Type 2** - Adjuster Expense (in excess of the applicable Fee Schedule) - WYO Company authorized to approve up to \$500 per claim without FIA's approval.
- ◆ **Expense Type 3** - Litigation Expenses - WYO Company authorized to approve up to \$5,000 per claim without FIA's approval.
- **Expense Type 4** - Cost of Appraisal (implementation of the Standard Flood Insurance Appraisal Clause) - WYO Company authorized to approve up to \$2,500 per claim without FIA's approval.

For detailed information concerning the procedures for reporting SALAE on your monthly financial statement, refer to Part F of this Manual.

660. TOTAL OTHER LOSS & LAE ITEMS:

Sum of Lines 620, 635, 650, and 655. This sum is posted to Exhibit I, Line 125.

EXHIBIT VII - INTEREST INCOME

700. TOTAL INTEREST RECEIVED:

- ◆ Represents the interest, if any, that has been earned from NFIP funds deposited into the restricted flood account or any other account(s). These funds and their associated interest are flood insurance-related money.

705. RESTRICTED ACCOUNT CHARGES:

Represents the charges, if any, related to the restricted flood account, that are levied by the banking institution. The reported charge must be offset by any account earning credits.

710. TOTAL INTEREST INCOME:

Line 700 minus Line 705. This total is posted to Exhibit I, Line 165.

Represents the total interest income for the month.

◆ **EXHIBIT VIII-A - LETTER OF CREDIT DRAWDOWNS**

800. TOTAL LETTER OF CREDIT (LOC) DRAWDOWNS:

Represents the total amount of LOC monies deposited in the restricted account for the reporting month. As indicated, the Exhibit requires the date and amount of the individual drawdown.

This total is then posted to Exhibit II, Line 210.

◆ **EXHIBIT VIII-B - CASH PAYMENTS TO THE NFIP**

805-B. TOTAL CASH PAYMENTS

Represents the excess funds, exclusive of credit card payments, remitted to the U.S. Treasury.

805. TOTAL PAYMENTS TO NFIP:

The sum of Lines 805-B and 805-C. This total is then brought forward to Exhibit II, Line 215.

◆ **EXHIBIT VIII-C - CREDIT CARD PAYMENTS TO THE NFIP**

805-C. TOTAL CREDIT CARD PAYMENTS

This Exhibit is to be completed by only those Companies accepting credit card payments. Line 805-C represents the funds remitted to the U.S. Treasury through the use of the credit card payment mechanism. This total is then brought forward to Exhibit VIII-B, Line 805-C.

EXHIBIT IX - RESTRICTED ACCOUNT DEPOSITS SUMMARY

900. TOTAL DEPOSITS FOR THE MONTH:

Represents the total amount of monies deposited in the restricted account for the reporting month. As indicated, the Exhibit also requires the date and amount of the individual deposits.

PART C
◆ CASH MANAGEMENT PROCEDURES

◆I. DEPOSIT OF NFIP MONIES

All premiums (net of expense allowances), federal policy fees, and interest income relating to the WYO flood insurance program shall be deposited in a special account in an FDIC-regulated bank separate from all other Company business. For purposes of clarification, premiums collected will also include all "suspense" items, not only posted policies. In addition, all premiums and federal policy fees collected for policies with a future effective date must be deposited into the WYO Company's restricted account as soon as processing allows. A WYO Company may not use flood monies to earn interest for its Company. Once monies have been identified as NFIP funds, any interest earned on processing accounts, restricted accounts, satellite accounts, lockboxes, or other accounts must be paid to the NFIP.

Using existing cash flow systems of each WYO Company, the flood insurance cash activity should be monitored on the same basis as all other Company funds. To supplement this cash monitoring process, particularly the timely deposit of funds, WYO Companies are required to report all monthly restricted account deposits on Exhibit IX of the financial statements. The WYO Company must deposit flood insurance funds in the restricted account as soon as possible following collection of the premium. Each WYO Company must exert a good faith effort to comply with this intent. Each WYO Company must be prepared to document and explain how its individual procedures satisfy the intent.

In order to facilitate timely deposit of WYO funds, a WYO Company may, at its discretion, operate more than one restricted account. The Company will continue to supply FIA with one (1) financial report encompassing all such accounts. In addition, the Company will be allowed only one (1) Letter of Credit.

To ensure that the intent of overall proper cash management is achieved, each WYO Company shall outline its proposed cash management procedures for review by FIA. These procedures shall be transmitted to the Company's WYO Account Executive prior to the start of WYO operations. In addition, FIA may request Companies currently writing to update their cash management procedures or clarify a specific one.

To ensure the proper control and maintenance of the flood insurance account, WYO Companies must establish a general ledger to record transactions and provide supporting detail for the cash balances. In addition, monthly reconciliations between bank statements and the general ledger cash balances must be performed.

◆ II. TRANSFER OF EXCESS FUNDS

Transfer of excess funds from the restricted flood insurance account to the U.S. Treasury is mandatory and should be performed at least once a week. Excess funds are defined as those funds in the restricted account less \$5,000 and established payables (Exhibit III, Line 310). Monies in the premium suspense account are to be included in the excess funds calculation. In addition, premiums and federal policy fees collected for policies with future effective dates should be included in the excess funds calculation. Established reserves for claim payments and claim loss adjustment expenses are not included when calculating the excess funds amount.

The WYO Company or vendor must transmit excess funds to FEMA on at least a weekly basis. If weekly transfers are not made, a WYO Company must be prepared to document the reasons for FIA. These excess funds must be remitted through an Automated Clearinghouse (ACH) established by FEMA. No excess funds checks should be sent directly to the NFIP Bureau and Statistical Agent. The WYO Account Executive assigned to each Company should be contacted to coordinate the establishment of the ACH. For more details on the ACH, please refer to Part E of this Manual.

III. WYO COMPANY EXPENSE REIMBURSEMENT

- The appropriate expense allowance for the WYO Company may be taken at the time the policy is processed and reported on the financial statement.
- Allocated loss adjustment expenses based on the Fee Schedules can be taken at the time the claim payment is made.
- Unallocated loss adjustment expenses may be taken at the time the reserve is established (with any necessary adjustments made as the incurred claim develops) or at the time the claim case is closed.
- Special allocated loss adjustment expense reimbursement procedures are detailed in Part F of this Manual.

IV. PREMIUM/CLAIM CHECKS OUTSTANDING 6 MONTHS AND OLDER

The following procedures should be used in processing premium and claim checks that are outstanding (not cashed) for 6 months and later.

A. Premium Checks

1. Void check(s).
2. Increase your net written premium (Exhibit I, Line 100) for the reporting month by the amount of the check(s).
3. Increase your cash account (Exhibit III, Line 300, Column A) by the amount of the voided check(s).
4. Your expense allowance for written premium (Exhibit IV, Line 410, Current Month Column) will be increased because of the increase in net written premium.
5. On your "Net Written Premiums" monthly reconciliation statement, show in the "Other-Explain" line the amount of the voided check(s), and then subtract this figure from your net written premium total. Identify this entry on the reconciliation statement with "Stale-Dated Check(s)." This adjustment is required since no statistical transaction will be generated for the voided check(s).
- ◆ 6. Maintain for 3 years the details supporting the voided check(s).

B. Claim Checks

1. Void check(s).
2. Decrease your net paid losses (Exhibit I, Line 115) for the reporting month by the amount of the check(s).
3. Increase your cash account (Exhibit III, Line 300, Column A) by the amount of the voided check(s).
4. On your "Losses" monthly reconciliation statement, show in the "Other-Explain" line the amount of the voided check(s), and then add this figure to your reported net paid losses total. Identify this entry on the reconciliation statement with "Stale-Dated Check(s)." This adjustment is required since no statistical transaction will be generated for the voided check(s).
- ◆ 5. Maintain for 3 years the details supporting the voided check(s).

PART D

◆ LETTER OF CREDIT (LOC)/SMARTLINK II - HEALTH AND HUMAN SERVICES (HHS) PAYMENT MANAGEMENT SYSTEM

I. OVERVIEW OF SMARTLINK II - HHS PAYMENT MANAGEMENT SYSTEM

The Department of Health and Human Services Payment Management System (DHHS PMS) is the system currently utilized by FEMA to enable WYO Companies to draw funds as needed from the U.S. Treasury. The DHHS PMS allows each recipient to request transfer of funds via computer through a program called SMARTLINK. After receipt of the request, transfer of the funds is made to the recipient's bank on a next business day basis.

FEMA will delay approval of SMARTLINK requests only in extraordinary circumstances. A Company's requests may be delayed if they seem excessive relative to its financial statement entries. In such cases, the Company will be contacted immediately and the funds approved upon satisfactory resolution of the issue.

II. APPLICATION FOR ACCESS TO SMARTLINK

- A. In order to participate in the WYO Program, a Company must have a signed Financial Assistance/Subsidy Arrangement with FEMA. Once the Arrangement has been executed, a WYO Account Executive will be assigned by the NFIP Bureau and Statistical Agent to assist the Company in establishing access to SMARTLINK for the purpose of paying claims and adjustment expenses arising from the issuance of flood insurance policies.
- B. The WYO Company should provide a complete Direct Deposit Form (Form 1199A), available at the financial institution where the Company has established its NFIP restricted account. Instructions for completing the Direct Deposit Form are as follows:
 - ◆ 1. Section 1 (to be completed by the recipient) - Fill out all paragraphs except paragraphs B and G. Be certain to enter your Company Tax ID number in paragraph C. This Employer Identification Number (EIN) is absolutely necessary for access to the SMARTLINK II Payment Management System. Provide the signature(s) of the person or persons having authority overseeing the account to which funds are to be deposited, and date the form.

- ◆2. Section 2 (to be completed by the recipient) - The following agency address should be included: Federal Emergency Management Agency, FM-CFO, Room 726, 500 C Street, SW, Washington, DC 20472.
- ◆3. Section 3 (to be completed by the financial institution) - The financial institution's representative must sign the form and provide a telephone number for contact purposes.
- ◆C. After the form is completed, provide all parts of the original form to your Account Executive.

NOTE: At the same time you transmit these forms to your Account Executive, please provide the name, telephone number, and mailing address of your contact representative. Your contact will be given the password to access SMARTLINK to request funds for payment of flood claims.

- D. Once your Company has been registered on SMARTLINK, DHHS will provide KERMIT communications software access to enable your representative to process online with SMARTLINK. HHS will also provide the appropriate password, Technical Manual, and User's Manual. FIA will provide the necessary additional information to request funds.

III. OPERATION OF SMARTLINK

- A. As funds are needed, the recipient must follow the instructions in the SMARTLINK User's Manual to request funds via computer. The HHS office hours are Monday through Friday from 8:00 a.m. to 7:30 p.m. EST.
- B. Upon receipt, the request is approved for payment through the Federal Reserve Bank of Richmond. Payment will be made on the day after the request is received for funds via SMARTLINK.
- C. However, it is the Company that must keep track of its Letter of Credit balance.
- D. If for any reason the payment request is rejected, the recipient will be notified immediately. The recipient will, in most cases, be notified by HHS via phone and given the reason(s) for the rejection. If the problem cannot be resolved, the individual should contact the assigned Account Executive or an FIA representative.

- ◆ E. Letter of Credit balances for Companies are normally kept at a "zero balance." If a Company wants an increase to pay for claims or premium refunds, it must send a written request to its Account Executive and include the following documentation:
 1. The actual amount needed to pay claims or premium refunds.
 2. The current balance in the Company's LOC account.
 3. The number and dollar amount of current Company reserves as adjusted by previous payments.
 4. Any other documentation that will support the request for additional funds.
- ◆ F. All Letter of Credit increases are forwarded by the Account Executive to FEMA for processing.

IV. SMARTLINK PAYMENT MANAGEMENT SYSTEM REPORTING

The current financial statement entitled "Letter of Credit Drawdowns" (Exhibit VIII-A) must be completed and reported by the WYO Companies utilizing the DHHS SMARTLINK Payment Management System. This financial statement must be submitted monthly as part of the financial statement package.

If any other report is required by the DHHS on the SMARTLINK PMS, the WYO Company will be advised by memorandum.

◆ PART E

AUTOMATED CLEARINGHOUSE (ACH) PROCEDURES

All excess flood insurance funds must be transferred to the NFIP through the use of the Automated Clearinghouse (ACH) mechanism. NationsBank is part of the U.S. Treasury electronic lockbox network and has been selected to serve as the ACH for WYO Company transfer to the NFIP. These transfers can be handled through the ACH as automatic debits from WYO Company bank accounts, utilizing either a modem-equipped personal computer or a touch-tone telephone.

- ◆ To implement this procedure, the WYO Company sends a Direct Deposit Form to the Account Executive, who transfers it to FEMA to obtain the location code and password from NationsBank. When the WYO Company receives the required location code and password, excess funds transfers are completed as follows:

For Telephone Transfers:

Daily deposits must be reported by 1:50 p.m., E.T., using the following instructions:

1. Calculate the check digit prior to the call, by adding the number of digits (including cents) to the value of all the digits. For example, if the amount to be deposited is \$100,000.00:

- a. Total all the digits in the deposit amount:

$$1+0+0+0+0+0+0+0 = 1$$

- b. Count the number of digits in the deposit:

$$1,0,0,0,0,0,0,0 = 8$$

- c. Add a + b:

$$1 + 8 = 9$$

The check digit is 9.

2. Call (800) 669-3110.

3. After the operator's identification, state your company's name.
4. When prompted for deposit amount, say: "Field 1 is \$100,000.00."
5. When you have completed your reporting, the operator will repeat the amount. The operator will then give you a check digit (compare this with the one you have previously calculated and advise the operator of any discrepancy) and a trace number for possible future reference.
6. Your reporting is completed.

For On-Line Transfers:

1. Turn the terminal's power switch "on."
- ◆ 2. Dial 1- 800 - 827 - 3001 (if the baud rate is 1200).
Dial 1- 800 - 827 - 8001 (if the baud rate is 2400).
3. When the phone is answered at the other end, you should hear a continuous, high-pitched tone. When you hear the tone, place the phone receiver in the coupler box next to the terminal.
4. On the area of the coupler box labeled "CARRIER," a light should go on after a few seconds. When it does, press the sign-on character key for your particular terminal or press the carriage return key twice. It will return automatically and type out the following message:

AUTONET LINE XXXXX.
5. Then the system will ask for "COMMAND." Type in your Company's "Command" and press the carriage return key.
6. Next, the terminal will display "ADP NETWORK SERVICES," and on the next line, six black squares followed by the word "PASSWORD." Type in your Company's "Password" and press the carriage return key.
7. You will get a message giving you the log-on information, and then the system will ask for the Location Number. Type in your Company's "Location Number" and press the carriage return key.
8. Next, the system will ask for the Password for the Location. Type in your Company's "Password for the Location" and press the carriage return key.
9. The system will then prompt for "ENTRY, CORRECTION, ADJUSTMENT, OR INQUIRY (E,C,A,I)." Type in the appropriate letter, and press the carriage return key.

10. Next, the system will prompt "ENTER (1) DEPOSIT AMOUNT." Enter the deposit amount and press the carriage return key.
11. The system will respond with a check digit and a trace number. Calculate the check digit by adding the number of digits (including cents) to the value of all the digits. For example, if the amount to be deposited is \$100,000.00:
 - a. Total all the digits in the deposit amount:
$$1+0+0+0+0+0+0+0 = 1$$
 - b. Count the number of digits in the deposit:
$$1,0,0,0,0,0,0,0 = 8$$
 - c. Add a + b:
$$1 + 8 = 9$$
12. The system will continue to prompt for location number and deposit amount. When all locations have been entered, respond with *** to the location number prompt, and press the carriage return key.
13. The system will then log off.
14. This completes the use of the ACH system for excess funds deposit.

PART F

◆ SPECIAL ALLOCATED LOSS ADJUSTMENT EXPENSES (SALAE), SALVAGE/SUBROGATION, AND SUPPLEMENTAL CLAIM PAYMENT PROCEDURES

I. SPECIAL ALLOCATED LOSS ADJUSTMENT EXPENSES (SALAE)

Special Allocated Loss Adjustment Expenses are of the following types:

- **Expense Type 1** - Engineering Expense - WYO Company is authorized to approve up to \$2,500 per claim without FIA's approval.
- **Expense Type 2** - Adjuster Expense (in excess of the applicable Schedule Fee) - WYO Company is authorized to approve up to \$500 per claim without FIA's approval.
- **Expense Type 3** - Litigation Expenses - WYO Company is authorized to approve up to \$5,000 per claim without FIA's approval.
- **Expense Type 4** - Cost of Appraisal (implementation of the Standard Flood Insurance Appraisal Clause) - WYO Company is authorized to approve up to \$2,500 per claim without FIA's approval.

When approved, the SALAE can be drawn from the flood insurance restricted account.

When a SALAE is incurred, it must be reported on the monthly financial statement, Exhibit VI, Line 655. In addition, the WYO Company representative must attach to its monthly financial statement a listing of all SALAEs taken in the reporting period. The listing should contain the following information: policy number, date of loss, SALAE amount, SALAE type code, and gross loss amount (when appropriate).

The WYO Company representative must attach a copy of the FEMA/FIA approval letter for SALAEs that required approval. It should be noted that the SALAE statistical transaction and the appropriate monthly financial/statistical reconciliation form are also required from the WYO Company.

II. SALVAGE/SUBROGATION PROCEDURES

Expenses incurred in an unsuccessful subrogation situation will be reimbursed as an Expense Type 1 SALAE.

The Company's share of salvage and subrogation recoveries (10-percent salvage/25-percent subrogation) will be deducted from the net recovery proceeds prior to remitting the remaining proceeds to the restricted bank account. The amounts of salvage and subrogation recoveries reported to FEMA (via the recovery after final payment transaction) will be for the total recoveries, inclusive of the Company's entitlement.

◆ III. SUPPLEMENTAL CLAIM PAYMENT PROCEDURES

For claim losses that require reopening and reassignment, the additional loss adjustment expense (LAE) payment for the supplemental claim handling is calculated as the **larger** of the Closed Without Payment (CWOP) Fee (\$125.00), **or** the **difference** between the allocated LAE determined by the entry value on the Fee Schedule (Exhibit V-A, V-B, V-C, V-D, or V-E of the monthly financial statement) when the claim was first closed and the entry value for the entire claim after the supplemental claim is concluded. With the use of either criterion, the minimum LAE to be paid for the handling of a supplemental claim will be the CWOP Fee Schedule amount (\$125.00).

For more information and examples on supplemental claim payment cases, please refer to the *WYO Accounting Training Manual*.

◆PART G

**USE OF DISKETTE OR BULLETIN BOARD SERVICE
FOR MONTHLY FINANCIAL STATEMENT REPORTING**

I. USE OF DISKETTE FOR MONTHLY FINANCIAL STATEMENT REPORTING

To expedite the processing of monthly financial statements, an optional procedure has been developed for WYO Companies and their vendors. The new procedure involves the use of a preformatted diskette containing a "spreadsheet" for Exhibits I-IX and a Diskette Control Form written in Quattro Pro. This spreadsheet can also be retrieved in Lotus 1-2-3 or MS Excel. The WYO Company representative keys the Company's financial data onto the preformatted disk and submits this data via diskette to the NFIP Bureau and Statistical Agent for processing in lieu of hard copies.

The use of these diskettes will enhance processing time for both the WYO Company and the NFIP Bureau and Statistical Agent. It will also significantly reduce paper maintenance and its associated costs. WYO Companies are encouraged to use this new option. The procedure is outlined below:

1. Notify the NFIP Bureau and Statistical Agent Accounting Manager or your WYO Account Executive, preferably in writing, of your intention to use the diskette system for financial statement submission and the diskette size your system will need.
2. NFIP Bureau and Statistical Agent Accounting management will then send to your accounting representative a preformatted diskette containing financial statement Exhibits I-IX and the Diskette Control Form.
3. Use the preformatted diskette (file name: FSBLANK.WQ1) to record your monthly financial statement information. Key only in the unprotected cells. Save the keyed financial statement information by a new file name. This will not alter the file FSBLANK.WQ1, which you will maintain as a template for your monthly use.
4. Complete the required Diskette Control Form. For your convenience, this form is contained on the diskette; however, a hard copy must be submitted with the diskette. In addition, identify your Company's diskette with a diskette label. On the diskette label, state your Company's name, reporting month/year, and the assigned file name. If multiple WYO Companies are submitted on one diskette by the servicing vendor, please state vendor's name, reporting month/year, and the number of WYO Companies included on the diskette.

5. Securely package the diskette, the Diskette Control Form, and the remaining hardcopy financial reporting package (Certification Statements, Reconciliation Statements), and send to the following address:

National Flood Insurance Program
Bureau and Statistical Agent
10115 Senate Drive
Lanham, MD 20706-1833
ATTN: Bureau Accounting Manager
6. The NFIP Bureau and Statistical Agent Accountant will record the receipt date of the diskette and financial statement package.
7. The NFIP Bureau and Statistical Agent Accountant will load the diskette to the financial system and review information. If data cannot be read clearly or if there are any questions, the Accountant will contact your Company's representative.
8. Upon verification, the NFIP Bureau and Statistical Agent Accountant will upload data to the WYO FOCUS financial system.
9. Upon completion of the "upload," the NFIP Bureau and Statistical Agent Accountant will file the WYO Company financial statement diskette in a secured area for future reference.

NOTE: Please remember, the diskette will not be returned to your Company.

All WYO Companies are encouraged to use this easy procedure for reporting monthly financial statement information. If you have any questions concerning this procedure or are interested in participating, please contact the NFIP Bureau and Statistical Agent Accounting Manager.

NOTE: When using the financial statement diskette for the first time, please submit hardcopy Exhibits I-IX for verification of accurate update.

DISKETTE CONTROL FORM

WYO Company Name: _____

File Name: _____ Date Sent: _____

Reporting Month/Year: _____

Preparer's Name: _____

Telephone Number: _____

	Current Month	FYTD
Net Income (Loss) for Reporting Month (Exhibit I, Income Statement, Line 175):	\$ _____	\$ _____
Payable To (Receivable From) NFIP (Exhibit III, Balance Sheet Items, Line 315, Current Month Column):	\$ _____	

◆ II. USE OF BULLETIN BOARD SERVICE (BBS) FOR MONTHLY FINANCIAL STATEMENT REPORTING

As part of its continuing endeavor to achieve the goal of NFIP simplification, FIA has established the Bulletin Board Service (BBS) to send and receive selected financial data. This communication system will allow WYO Companies or their vendors to exchange financial data electronically with the NFIP Bureau and Statistical Agent.

The use of the BBS will eliminate the need to send hardcopy financial statements and will provide for the same-day receipt of the documents.

To ensure the correct and efficient operation of the BBS, your Company representative should test the mechanism prior to the actual "live" date for the transmission of data. The NFIP Bureau and Statistical Agent's accounting personnel are prepared to assist your Company or vendor in its testing efforts.

Before your Company can test and use the BBS, you must first obtain an NFIP-assigned identification number and password to access the BBS. In addition, your Company or vendor must have the following hardware and software:

- An IBM-compatible PC
- A Hayes-compatible modem
- Lotus 1-2-3 or Quattro Pro software
- Communications software such as Procomm Plus or SmartCom.

To obtain your BBS identification number and password, please contact the NFIP Bureau and Statistical Agent's accounting staff on 301-731-5300, extension 750.

After you have obtained an assigned NFIP ID, please refer to the following instructions for the implementation and use of the BBS.

BBS FINANCIAL REPORTING INSTRUCTIONS

Telephone Number: (301) 918-1480

Hours of Operation: Monday - Friday, 8:00 a.m. to 5:00 p.m.

STEP 1: Dial the telephone number listed above to connect to the BBS via modem.

STEP 2: Follow the prompts listed below:

1. **What is your first name?** (Enter first name.)
2. **What is your last name?** (Enter last name.)
3. **Password?** (Enter your password.)

Here you will receive a Welcome message.

1. **No bulletins available.** (Press Enter)
2. **No personal mail found.** (Press Enter)

Here you will enter the Main Menu.

1. **Command?** Enter **J** for Join Conference. Enter **L** to list the conference numbers or enter your conference number. If you choose **L**, enter the number that corresponds to your Company name.
2. Press Enter to continue.

Here you will go back to the Main Menu.

Command? (Enter **F** for Files Menu.)

Now you are ready to Upload or Download a file.

STEP 3: Uploading a File.

1. **Command?** (Enter **U** for Upload.)
2. **Route uploads to area #?** (Enter **#2**. This will route upload to your conference.)
3. **Enter name for file #1 or [Enter] to start upload.** (Enter file name.)
4. **Do you wish to password protect this file?** (No.)
5. **Description []** (Enter short description.)
6. **Keywords []** (Enter to bypass.)
7. **Would you like to leave a detailed description? [N]** (Enter.)
8. **Ready to receive your file(s) via Zmodem. Please begin your upload now.**

Here you must invoke the send command through your communication software. For some software programs, this command can be accessed by the "Page Up" key.

Follow the prompts of your communication software to send the file.

You will be prompted for the file name, including the directory path and file extension.

9. **Do you wish to password protect this file?** (No.)
10. **Description []** (Enter short description.)
11. **Keywords []** (Enter to bypass.)
12. **Would you like to leave a detailed description? [N]** (Press Enter.)
13. **Enter name for file #2 or [Enter] to start upload []** (Press Enter.)

At this point the file upload will begin. After the upload is complete, you will receive an "Upload Successful" message.

STEP 4: Downloading a File.

1. **Command?** Enter **L** to list files. (You will be downloading the monthly financial statistical variance reports. The filename will include an abbreviated version of your Company name followed by "VAR.WQ1".)
2. Enter **E** to list all files. Press Enter to scroll through the list of files until you see the appropriate filename.
3. Enter **D** for download.
4. **File #1?** (Type in the file name and press Enter.)
5. **Enter up to 99 files. Press [Enter] alone to stop.** (Press Enter.)
6. **Automatically logoff after download? [N]** (Press Enter.)

Here the download may automatically begin if your system is set up to do so, or you must invoke the receive command through your communication software.

Follow the prompts of your communication software to receive the file.

At this point, the prompts will vary for the different types of communication software.

You may be prompted for a protocol and/or a file destination path.

After you respond to all prompts, the download will begin. When it is complete, you will receive a "transfer complete" message.

After the download is completed, the file can be retrieved from its assigned destination path. The spreadsheet should be intact with working formulas (if not, you may have to save the file with a different extension, e.g, .WK1 for Lotus).

If you have any questions or need assistance, please call the NFIP Bureau and Statistical Agent's accounting staff on 301-731-5300, extension 750.

◆PART H

CREDIT CARD PROCESSING

To assist in the dual goals of simplifying "doing business with the NFIP" and "promoting policies/contracts growth," the FIA has approved use of credit cards to pay for flood policies.

To encourage your Company's use of the credit card payment mechanism, the major expense, (all bank service charges associated with credit transactions), will be paid by FIA. All other expenses will be borne by your Company.

I. CREDIT CARD PRINCIPLES

- FIA will absorb all bank service charges. All other charges for hardware and software will be borne by the WYO Company.
- The credit card authorization and processing bank will be NationsBank. All credit card processing software and hardware will be provided by Unified Merchant Services (A First Data/NationsBank venture) and can be purchased directly from a Unified Merchant Services representative.
- Assistance in equipment selection and configurations will also be provided by Unified Merchant Services representatives. Many options are available, from "point of sale" processing to "batch" processing at one central location.
- Training in the use of credit card authorization and processing software will also be provided at **no charge** by a Unified Merchant Services representative.
- The only approved charge cards for use are VISA and Master Card.

II. PROCESSING PROCEDURES

- To charge the purchase of a flood insurance policy to a credit card, the following billing information is required:
 - Date of charge
 - Name of cardholder
 - Account number
 - Card expiration date
 - Dollar amount of charge
 - Cardholder's signature

If a credit card charge is taken by telephone, the cardholder's signature is not required. The billing information should be attached to the application or included with the renewal update. It is the Company's decision as to how this billing information is obtained.

- Billing information must be retained for at least 3 years for billing dispute purposes and for the creation of an audit trail.
- In addition, the following cancellation disclaimer must be placed not more than one quarter of an inch below the cardholder's signature line. The disclaimer reads:

"This policy is not subject to cancellation for reasons other than those set forth in the National Flood Insurance Program rules and regulations. In matters involving billing disputes, cancellation is not available other than for billing processing error or fraud."

For credit card charges taken by telephone, the cancellation disclaimer must be read to the caller.

- Monies generated through the credit card payment mechanism will be sent directly to the U.S. Treasury and not to the Company's restricted account. The U.S. Treasury will receive the gross amount of the policy premium and the Federal Policy Fee.
- There will be a 2-day delay before the U.S. Treasury receives NationsBank's payment for an approved credit card transaction. For example, the funds for a transaction approved on Monday will not be received by the U.S. Treasury until Wednesday.
- Reports for all credit card approval and payment transactions will be provided on a daily basis by NationsBank.

- New business, renewal, and endorsement premiums can be paid **partially** by credit card and by check/cash.
- Cancellation or endorsement refunds should be made by check according to your standard refund processing procedures. However, if the customer insists, the refund should be applied to his/her credit card.

III. FINANCIAL AND STATISTICAL REPORTING REQUIREMENTS

- For financial statement reporting, use Exhibit VIII-C entitled "Credit Card Payments to NFIP" to report all credit payment transactions. This is the only additional financial statement reporting requirement.
- For *Transaction Record and Reporting Processing (TRRP) Plan* statistical reporting, there are two requirements.
 - The "New/Rollover Indicator" data element has been eliminated and a new data element, "Premium Payment Indicator," has taken its place. This special indicator (C) must be used to identify only those flood policies which have been paid by credit card.
 - Use a special cancellation code (70) if the policy is cancelled due to credit card processing error or fraud.
- Since credit card payments will be sent directly to the U.S. Treasury, WYO Companies and vendors will have to build a mechanism to post credit card payments to their general ledger.

NOTE: If your Company or vendor is interested in implementing the credit card payment mechanism or requires further information, please contact your Account Executive.

900-022E(9/97)