




FEMA

W-17037

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MEMORANDUM FOR: Write Your Own (WYO) Company Principal Coordinators and the National Flood Insurance Program (NFIP) Direct Servicing Agent

FROM: 
David I. Maurstad
Assistant Administrator for Federal Insurance
Federal Insurance and Mitigation Administration

SUBJECT: Hurricane Harvey and Hurricane Irma Claim-Handling Process for Building Losses Insured under the Standard Flood Insurance Policy (SFIP) Dwelling Form and Building Losses Insured under Group Flood Insurance Policies

The catastrophic flooding from Hurricane Harvey and Hurricane Irma requires fast and accurate payments to all National Flood Insurance Program (NFIP) policyholders to help recovery occur. FEMA is committed to providing WYO Companies and the NFIP Direct with the flexibility necessary to achieve this objective. In accordance with the FICO dates of loss for Hurricane Harvey and Hurricane Irma claims, FEMA provides the following guidance to facilitate prompt post-inspection advance payments to policyholders for definite amounts of covered building loss.

Pre-Inspection Actions

FEMA requests that the WYO Companies, NFIP Direct, and their independent adjusters prioritize the assignments as efficiently as possible and offer policyholders an opportunity to request a pre-inspection advance payment as authorized in bulletins W-17024 and W-17031a.¹

Before adjusting losses, adjuster software should be properly calibrated for the geographic area where the loss occurred, taking into account post-disaster pricing factors, correct tax information, and property-specific issues. FEMA expects the WYO Companies and NFIP Direct to consistently document and pay all state and local sales tax on applicable goods or services, subject to applicable depreciation.

Prior to an inspection, FEMA encourages the WYO Companies and NFIP Direct to work with their adjusters to identify relevant publicly available information that can help prove the extent of the loss, such as information provided directly by FEMA (e.g., GIS products), from state or county

¹ Please see bulletin W-17024 (Aug. 29, 2017), available at <https://nfip-iservice.com/Stakeholder/pdf/bulletin/w-17024.pdf> and bulletin W-17031(a) (Sep. 4, 2017), available at <https://nfip-iservice.com/Stakeholder/pdf/bulletin/w-17031a.pdf> for additional information.

government websites (e.g., online community building property assessor pages), from publicly available information (e.g., online real estate listings), or from open-source map products that show the property in its pre-disaster condition.

Accelerated Payment Flexibilities

FEMA is aware of the challenges in accessing contractors and obtaining estimates after storms the size of Hurricane Harvey and Hurricane Irma. WYO Companies should implement their normal catastrophic claims procedures to adjust Harvey losses, particularly when adjusting properties experiencing a significant or major loss (damage above the floor on the wall up to or above four feet), or where the severity of building damages from flood will equal or exceed the coverage limits purchased.² If the WYO Company's normal catastrophic claims procedure does not address these types of loss, this bulletin sets forth an approach to ensure that policyholders quickly receive large post-inspection advance payments for definite amounts of covered loss.³

Option 1: Proprietary WYO Company Estimation Approach

Pursuant to this bulletin, all WYO Companies may use a proprietary adjustment approach for these categories of losses, consistent with the SFIPs.⁴ A WYO Company using this flexibility is not required to seek pre-approval.⁵ This flexibility may not broaden or change any coverage term within the SFIPs. As such, the WYO Company must document any deviations from normal FEMA processes and include a reference to the proprietary process in the claim file.

Option 2: Building Valuation Loss Assessment Approach (BVLA)

FEMA is employing the BVLA for the NFIP Direct and making it available to any WYO Company to use. BVLA is a quick and reliable method for adjusters to perform and document large post-inspection advance payments for definite amounts of covered loss. The BVLA is based on the adjuster's flood loss assessment and adjusting fundamentals. FEMA has attached an overview of the BVLA to this bulletin and will distribute the support materials necessary to the WYO Companies interested in its use.

² See 44 C.F.R. § 62.23(i)(4).

³ For many losses under the Dwelling Form (including, but not limited to, Post-FIRM elevated buildings; Pre-FIRM enclosures; partial or floor-only damage; exterior damage only; crawlspace only; mobile-home; condominium unit, etc.), an itemized room-by-room estimate will be the most appropriate method to adjust a claim and submit it for payment. In such instances, a focus on customer service is crucial, and adjusters should reinforce the message that they will be available to evaluate a policyholder's additional payment request, and if necessary, re-inspect the property. FEMA expects, in accordance with 44 C.F.R. § 62.23(i)(4), that WYO Companies and the NFIP Direct will use their normal catastrophe claims procedures to quickly handle flood claims and to do so as accurately as possible.

⁴ FEMA regulations permit Companies to adjust claims in accordance with general company standards, guided by NFIP Claims manuals. See 44 C.F.R. § 62.23(i)(2), (i)(10). The claims departments of the Companies must verify the correctness of the coverage interpretations, the reasonableness of the payments recommended by the adjusters, and appropriate documentation in the claims files. *Id.*

⁵ For audit purposes, FEMA will use the proprietary process established by the WYO Company to determine whether the initial payment was proper.

BVLA uses the building valuation, which the adjuster completes with existing industry tools; the adjuster simply inputs specific data from the building valuation into a pre-defined four-foot scope of repair, six-foot scope of repair, or eight-foot scope of repair. The method applies the appropriate portion of the loss to the building trade groups (such as flooring, plumbing, etc.), which is determined from the building valuation. The result is a damage estimate by trade, which documents a reliable and credible value necessary to issue a large post-inspection advance payment for definite amounts of loss, inclusive of any pre-inspection payment amount, that the policyholder may use to secure a contract to begin the recovery process.⁶

When the BVLA is larger than policy limits, the NFIP Direct and any WYO Company using this method can pay the claim. The adjuster will need to provide all elements other than the itemized room-by-room estimate in the final report.

Closing Claims

Whether or not a WYO Company uses these flexibilities, FEMA expects that adjusters will help the policyholder understand their coverage, and document and report the loss appropriately. Appropriate documentation will depend on the situation, but should be what is reasonable and necessary to show the loss.

For all claims, adjusters should help the policyholder finalize the claim following any advance or partial payments. As provided in bulletin W-15025 (June 1, 2015), an adjuster should present a complete, itemized, room-by-room estimate for the building to the policyholder, adjusted to the loss as applicable.⁷ The claim file should document the accurate scope of loss and provide notations for exceptional items, quantity, and quality. The pricing of the estimate should be reasonable and customary for the loss and location.

FEMA anticipates that many policyholders will show through appropriate documentation that their actual costs exceeded the estimated amounts (through presentation of receipts, invoices, and other documents showing actual costs incurred), and that the WYO Company, NFIP Direct, and the adjusters will review such requests for additional amounts and respond appropriately. Customer service is crucial, and adjusting firms and Companies must re-evaluate and re-inspect as needed.

WYO Companies and their assigned adjusters have the option of employing the flexibilities set forth in this bulletin. The WYO Companies and their adjusters remain in the best position to use their professional judgment for each assignment.

If a WYO Company issues an advance payment in accordance with the terms and conditions set forth in this bulletin to an insured suffering flood damage, FEMA will use these standards in all reviews or audits of files, including any reviews under the Arrangement or the *Improper Payments Information Act of 2002* (Public Law 107-300, 31 U.S.C. § 3321 note), as amended by the *Improper Payment Elimination and Recovery Act of 2010* (Public Law 111-204).

⁶ The BVLA is a mechanism to provide large advance payments for definite amounts of loss, but does not take the place of the proof of loss or an adjuster-prepared estimate.

⁷ <https://nfip-iservice.com/Stakeholder/pdf/bulletin/w-15025.pdf>

If a WYO Company makes an advance payment in accordance with the terms and conditions of this bulletin, FEMA will not hold the company responsible for ineligible payments. The WYO Company must make its best effort to recoup the funds, but if unable to do so, the recoupment will be referred to FEMA for appropriate action. However, if a WYO Company makes an advance payment that results in any unauthorized payment without complying with the terms and conditions set forth in this bulletin, the WYO Company will be responsible for the erroneous payment.

The WYO Companies and NFIP Direct must obtain accurate information regarding a temporary address from the policyholder or the policyholder's representative when the claim is reported. The WYO Companies and NFIP Direct should send an advance payment to the location of the policyholder, as requested, which may be a temporary address.

This bulletin is an attempt to help and facilitate resolutions, and not to hinder or complicate matters. If there are issues or problems that arise from this bulletin, or any other guidance the agency has put forth, we ask that you please contact FEMA to make us aware of those issues so we can work those issues out.

This bulletin applies to all NFIP claims associated with the following FICO numbers:

- 682 (Texas)
- 683 (Louisiana)
- 684 (Florida)
- 362 (U.S. Virgin Islands)
- 363 (Puerto Rico)
- 364 (Alabama)
- 365 (Georgia)
- 366 (South Carolina)

This bulletin is authorized under the *National Flood Insurance Act* (NFIA), as amended, Pub. L. 90-448, § 1312, 42 U.S.C. § 4019; FEMA's implementing regulations 44 C.F.R. §§ 61.13(d), 62.23(k); 44 C.F.R. Pt. 61, App. A(1)-(3), respectively, SFIP Dwelling Form Article VII.D; SFIP General Property Form, Article VII.D; SFIP Residential Condominium Building Association Policy Form, Article VIII.D; and the WYO Financial Assistance/Subsidy Arrangement, Article II.G.1.

Please direct any questions regarding this bulletin to Anthony.Thorne@fema.dhs.gov.

Attachments

cc: Vendors, IBHS, Government Technical Representative

Required Routing: Claims, Underwriting, Adjusting Firms

ATTACHMENT

Building Valuation Loss Assessment (BVLA)

The first step in this method requires an accurate building valuation. An adjuster may perform this with any reputable residential building appraisal guide, computer or manually completed. From this valuation the adjuster pulls the total square footage for the first floor living space (affected SF), the square foot value (SF value), and the rate of depreciation.

Once the accurate building valuation is complete, the adjuster selects one of three scope of repair types which is certain to the loss:

1. A 4-foot interior scope of repair, such as a 4-foot flood cut for drywall and no greater;
2. A 6-foot interior scope of repair, a scope above 4-foot which does not include ceilings;
3. An 8-foot interior scope of repair, a scope to repair all floor surfaces, all finished wall, and all ceiling surfaces.

NOTE: When the adjuster, or examiner, determines the scope of repair is in between two scopes, the correct selection is the lower level scope. Similarly, if the scope selected by the adjuster is not completely representative to the actual scope to repair, the BVLA must be corrected to apply the lower level scope.

CAUTION: *If a loss does not fully meet the 4-foot interior scope, for example a partial or floor-only loss, BVLA may not be utilized.*

After selecting the scope of repair, the adjuster enters the affected square footage (SF) and SF value. The adjuster will also need to answer several loss specific questions. For example, with the 4-foot interior scope:

1. Is the dwelling's 1st floor a concrete slab or subfloor over frame? <slab or subfloor>
2. Are the wall outlets part of the scope to repair? <yes or no>
3. Is the HVAC ruined? <exterior, interior, both, or none>
4. Is the siding or sheathing ruined? <siding, sheathing, both, or none>

Next, BVLA requires the adjuster to input data for the following decisions:

1. SF unit-price for: floor flood cleanup, wall flood cleanup, application to treat against mold and mildew, and the policyholder allowance to perform building dry-out
2. Any local or municipal sales tax percentage rate (State sale tax rate is built-in)
3. Rate of depreciation from the building valuation
4. Coverage A building deductible
5. RC or ACV Loss Settlement <RC or ACV>

BVLA applies the appropriate portion of loss from the selected scope of repair, to the building trade groups, such as flooring, cabinetry, plumbing, etc., which are pre-defined to the building valuation. This method produces a damage estimate by trade, which documents a reliable and credible value necessary to issue a large undisputed loss payment prior to the completion of the claim. BVLA purposely excludes the value of foundation damage and garages. BVLA may only use a pre-flood SF value from the building valuation.

These measures, along with the certain scope of repair, help to ensure the BVLA value will not over-estimate. If completed as described, this method meets SFIP requirements, in that it documents the loss and justifies a post-inspection advance payment for the definite amount of covered loss. In cases

when the BVLA exceeds policy limits plus the deductible, the insurer may pay the policy limit with a complete adjuster report and promptly close the claim. In cases when the BVLA result is below the coverage limits purchased by the policyholder, the adjuster should obtain a copy of the signed contract to repair from the policyholder, when available, then complete an itemized estimate as normal. The BLVA is unrelated to the adjuster's itemized estimate or the proof of loss, as the purpose is only for providing an undisputed loss payment prior to completion of the claim.

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Building Valuation Loss Assessment FAQ

What is Building Valuation Loss Assessment (“BVLA”)?

BVLA is a method to document a large post-inspection advance payment. It uses the building valuation prepared by the adjuster and compares it to one of three pre-defined scopes to repair. BVLA allocates a proportion of the building valuation to each standard building trade group. It identifies the appropriate percent of damage to each trade based on the scope to repair, and uses the value as the cost to repair that trade. For example, with a 4 foot scope to repair which includes wall outlets, BVLA will attribute approximately 25% of the entire value of the electrical trade group to account for the cost to remove and replace of all electrical wall outlets, CATV, phone and internet outlets, plus wire runs.

Why use BVLA? Isn't the policyholder already able to receive an advance payment?

With an advance payment supported by BVLA, the policyholder can hire a general contractor sooner and begin recovering after their loss. Often times, after performing building tear-out, cleanup, treatment, building dry-out and restoration of required utilities, any remaining funds from a standard advance payment are inadequate for the policyholder to hire a general contractor and give a down payment necessary to start repairs. With additional money the policyholder can secure a contractor. Once the policyholder secures a signed contract and estimate from the contractor, the policyholder can then forward it to the adjuster sooner. After preparing the itemized estimate, this provides the adjuster with the best chances to find an agreement, adjust the estimate, and promptly settle the claim. A policyholder who received a pre-inspection advance payment can still receive additional money through use of BVLA.

Table: Example Policyholder Experience

Sample: Policyholder with \$250,000 building limits and a \$2,000 deductible.

| Timing | Amount | Payments |
|--|-----------|----------|
| Pre-inspection advance payment | \$ 5,000 | \$ 5,000 |
| BVLA-supported (post-inspection) advance payment | \$ 70,000 | \$65,000 |
| Adjuster closing report | \$100,000 | \$28,000 |
| Total to policyholder (less deductible) | | \$98,000 |
| | | |

Will a new method introduced during a flood catastrophe cause confusion?

FEMA designed BVLA to use existing information in order to support making a large post-inspection advance payment. As a result, FEMA does not anticipate confusion because flood adjusters of all experience levels should find BVLA intuitive. BVLA includes just 10 decision points that adjusters of all experience levels should find familiar. The larger post-inspection advance payments supported by BVLA should facilitate a positive relationship between the adjuster and the policyholder and provide a solid foundation for discussion and settlement of the claim.

Can a BVLA be used on any flood claim?

No, adjusters should only use BVLA on losses insured under the Dwelling Form, which result in at least a 4 foot scope to repair on all walls in the affected floor level, flooring, cabinets, doors, and kitchen appliances. Due to other factors BVLA does not support the following Dwelling Form loss types: Post-FIRM elevated building or Pre-FIRM enclosure-only loss; partial floor level, partial wall, or floor-only damage; exterior-only, crawlspace-only, or basement-only loss; a mobile-home, condominium unit, or a 3 or more family residential dwelling.

What if we don't want to use BVLA? Does FEMA require it?

No, FEMA does not require a Write Your Own (WYO) Company, adjusting firm, or adjuster to use BVLA. Any claim operation or individual uncomfortable with BVLA, in whole or in part, should not use BVLA until they are ready to do so.

When should the adjuster perform and submit the BVLA?

An adjuster should perform BVLA on an eligible Dwelling Form loss as soon as possible, ideally with the Preliminary Report. The adjuster should first complete the inspection photograph sheets with annotations and an accurate building valuation. Once done, the adjuster performs and submits the BVLA with the Preliminary Report, photographs, and building valuation.

Is a large BVLA advance payment considered safe?

When performed properly a large BVLA amount as an advance is safe because BVLA:

- Uses pre-disaster pricing from the building valuation
- Applies a "location modifier" on losses where post-disaster pricing may not exist
- Applies a "size modifier" on the largest dwellings
- Does not consider the value of damage to the building's structure or foundation
- Does not include the cost to repair a garage, porch, basement, or attached exterior room
- Uses the "at least" scope to repair, the certain minimum, and considers the lesser valued option within its formulas.

How does one avoid or check for an error in BVLA?

- **Affected square footage.** Make sure the square footage used is only the flooded finished first floor living area. Do not include a garage, an attached exterior room, porch, or basement.
- **Pre-disaster pricing only.** The adjuster must use pre-disaster pricing when completing the building valuation. When using BVLA, the adjuster must not consider any post-disaster factors which may increase the cost to repair. The adjuster will consider those factors when completing the itemized estimate and negotiating the settlement.
- **Dwelling quality type.** The adjuster must classify the dwelling to the quality class best representative to the building. If the wrong quality is selected to complete the building valuation, the BVLA will over-value or under-value the BVLA amount. When in doubt, err to the side of caution and chose the surest building quality type.
- **Select the proper scope to repair.** Adjusters must select the "at least" scope to repair: 4 foot, 6 foot, or 8 foot. The loss must fully meet the criteria of the selected scope. When the loss appears to be in between two defined scopes, choose the "at least" and certain scope.
- **Scope of damage information.** The adjuster should make sure the information entered in the scope of damage information section is accurate and supported by the photographs.
- **Prior loss.** When it comes to a prior loss, play it safe. Always ask the policyholder at the inspection what or how much was not repaired. Often time the policyholder cannot remember. Ask for a simple percentage amount of what was not repaired, add +10%, then multiply this percentage against the total paid in the prior. Input the resulting dollar amount in the BLVA as the estimated unrepaired amount paid for prior loss.

Example:

- The insurer paid \$100,000 to the policyholder after a loss in 2015
- Policyholder states they repaired 85% of damages

- 15% is the percentage of unrepaired value of damage
- Add 10% to the 15% for safety
- $\$100,000 \times 25\% = \$25,000$
- Enter \$25,000 as the unrepaired amount paid for in prior loss

What if BVLA exceeds the building policy limit?

After verifying the accuracy of the information entered into the BVLA, the adjuster should submit the closing report for processing, along with all of the normal documentation (minus the itemized estimate). If the insurer agrees with the accuracy of the BLVA, and the adjuster closing report includes the documentation which supports the loss and the BVLA amount, the insurer may pay and close the claim at policy limits.

What does the adjuster do after submitting BVLA which is less than policy limits?

The adjuster continues to handle the claim as normal. If the BVLA is in-line, the insurer will have issued a large advance payment to the policyholder. Request the policyholder to use the large advance to hire a local or state qualified contractor, and provide the contractor's signed estimate to the adjuster. The adjuster completes the itemized estimate as normal and negotiates the loss settlement with the policyholder. The adjuster provides the itemized estimate to the policyholder.

Does the adjuster use BVLA to negotiate or to settle the claim?

No. The BVLA exists solely to document a large post-inspection advance payment. Once the adjuster submits the BVLA and an advance is paid, the BVLA holds no bearing on the outcome of the policyholder's claim, the proof of loss, or any review of the adjuster's itemized estimate.

Is it possible that BVLA can result in an overpayment to the policyholder?

BVLA has safeguards to avoid over-evaluating the scope of repair and protect against an overpayment, while remaining large enough to document the quick closing of severely under-insured loss. If egregious enough, the following error type may result in an overpayment with BVLA.

1. **Non-eligible building type.** BVLA does not perform with condominium building, a non-residential building, a 3 or more family residential building, or a mobile-home dwelling.
2. **Non-eligible Dwelling loss type.** BLVA does not perform with a Dwelling Form loss, which does not meet the minimum criteria of a complete 4 foot scope to repair (walls to 4 feet, floors, doors, trim, cabinets, and kitchen appliances).
3. **Building quality.** If the building valuation grossly exaggerates in the dwelling's quality by two or more class levels, the net payable may approach or fall below the BVLA, if the adjuster correctly values the estimates to represent to the building quality.
4. **Square footage.** If the affected SF of the finished first floor living space is grossly inaccurate, the BVLA will be overvalued. For example if too large of a garage, basement, porch, an attached exterior room or an area which is under-construction is added to the BVLA, the adjuster's estimate may approach or fall below the BVLA.