



FEMA

W-09012

March 9, 2009

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

A handwritten signature in black ink, appearing to read "Edward L. Connor".

FROM: Edward L. Connor  
Acting Federal Insurance Administrator  
National Flood Insurance Program

SUBJECT: Revised Letter of Credit Procedures

Heavy flooding throughout the United States in 2008 resulted in a high claim year for the NFIP—total NFIP losses and loss expenses for last year will likely approach \$3 billion. As a result of the inability of premiums to keep pace with this high volume of claims, many WYO Companies and the NFIP Servicing Agent submitted an unusually large number of Letter of Credit (LOC) requests to FEMA in 2008. This memorandum is intended to address two deficiencies that have become apparent from a review of the current LOC process.

1. **Excessive balances in WYO Company LOC accounts**—FEMA found that some WYO Companies had long outstanding balances and did not even realize their size. In some cases, the Companies had changed vendors; others simply did not monitor their balances regularly. Other Companies maintained unnecessarily large balances because of their policy of covering their entire loss reserves with LOC balances. A Company's LOC balance is not intended to cover the entire reserve.

These situations are problematic for the NFIP because they overstate the outstanding liabilities of the fund, and they could compromise the ability of the NFIP to distribute funds fairly among all of the WYO Companies.

2. **Excessive submissions of LOC requests**—During periods of high claims volume, some Companies routinely submit LOC requests several times a week or even multiple times a day. FEMA has limited personnel resources assigned to process LOC requests, which involves reviewing, verifying, and submitting each request for approval. An excessive number of LOC requests places an undue burden on the staff handling this labor-intensive process.

FEMA expects the WYO Companies to be carefully reviewing their cash needs by closely monitoring (a) the aggregate dollar amounts of the checks being written, (b) the funds available from current premiums being received, and (c) their LOC balances. This level of monitoring should

enable Companies to more accurately judge their current cash needs and reduce the number and frequency of LOC requests. During most periods of claims activity, WYO Companies should make every effort to request LOC funds no more than once every two weeks.

FEMA understands that major flooding events can become very unpredictable and require constant reassessment of claims activity. We may relax the guidelines during those times of heavy claims activity, recognizing the difficulty that Companies face in adequately determining their current cash needs.

Please see the attachment to this memorandum for revised wording to address these situations in the *WYO Accounting Procedures Manual*. The changes are effective immediately.

Attachment

cc: Vendors, IBHS, FIPNC, Government Technical Representative

Suggested Routing: Claims, Marketing, Training, Underwriting

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**Attachment to WYO Bulletin W-09012**  
**March 9, 2009**  
**Revised Letter of Credit Procedures**

Part D of the *WYO Accounting Procedures Manual* provides the guidance for the Letter of Credit (LOC) process. Changes related to this process will be included in the next *Manual* update.

Effective immediately, the new wording for Section III, Operation of Smartlink, Paragraph E, on page D-3, is as follows:

E. Letter of Credit balances for Companies are normally kept at a "zero balance." During times of elevated claims activity, FEMA expects that Companies will need to maintain a certain level of "undrawn" LOC balance. However, a Company's LOC balance is not intended to cover a Company's entire reserve.

Companies should determine their current cash needs through regular monitoring of their aggregate outstanding checks, the funds available from current premium receipts, and the levels in their LOC accounts. The appropriate level for the LOC balance is a level adequate to cover outstanding checks plus the checks expected to be written over the coming two weeks, less funds available from premiums expected to be received over the same period. Companies should submit LOC requests necessary to maintain their undrawn LOC balance at that level. Companies should be able to judge their cash flow needs accurately enough so that they submit LOC requests no more frequently than once every two weeks.

When a Company needs to request an LOC, it must send a written request to the Mitigation Directorate and include the following documentation:

1. The actual amount needed to pay claims or premium refunds, including the amount of outstanding checks and the projected amount needed to cover checks written over the next two weeks less the available funds from projected premiums over the same period.
2. The current undrawn balance in the Company's LOC account.
3. The number and dollar amount of current Company reserves as adjusted by previous payments. (This information will help FEMA understand a Company's future LOC needs.)
4. Any other documentation that will support the request for additional funds.