





FEMA

W-17023

August 28, 2017

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

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

  
Shalini Benson  
Assistant Administrator for Funds Management  
Federal Insurance and Mitigation Administration

SUBJECT: Guidance on the Letter of Credit (LOC) Process

The Federal Emergency Management Agency (FEMA) works closely with Write Your Own (WYO) Companies and the National Flood Insurance Program Direct Servicing Agent (NFIP Direct) to efficiently manage NFIP claims in a fair and policyholder-centric manner as part of its normal business practices. Under the Letter of Credit (LOC) process, FEMA covers certain authorized expenses under the NFIP when premium receipts are insufficient to meet WYO or NFIP Direct needs. In order to ensure that the WYOs and NFIP Direct have the funding needed to pay claims in a timely fashion, FEMA is providing guidance on the LOC process.

This guidance supercedes all prior LOC guidance to date.

## 1. Goal

To provide guidance to ensure that FEMA provides funding needed for the WYOs and NFIP Direct to pay insureds' claims as soon as possible.

## 2. Process Narrative

The attached LOC Process Narrative provides increased transparency of the process, describing the steps and estimating timelines for each step, to assist WYOs and NFIP Direct with forecasting LOC needs and, ultimately, to accelerate payments to policyholders.

### **3. Required Documentation and Review Process**

WYO Companies and NFIP Direct are not constrained by funding request limitations as long as requests are justified through supporting documentation. Justification includes the following:

- Amount required to pay claims, premium refunds, adjuster expenses, etc.;
- Current LOC balance, if any;
- Company reserves report; and
- Any other supporting documentation, as requested.

*Note:* Please do not provide any personally identifiable information (PII) or sensitive information on policyholders with your request.

Once supporting documentation is provided, the Federal Insurance and Mitigation Administration (FIMA) LOC Team reviews the LOC application for completeness and requests additional documentation, as needed. If the application is complete, the team reviews the request for reasonableness. The team reviews the current LOC balance, the last LOC request, and the frequency of draw-downs in the Health and Human Services (HHS) Payment Management System (PMS). If the request is reasonable, the FIMA LOC Team proceeds to prepare the LOC package.

This guidance highlights that WYO Companies and NFIP Direct are not limited by funding constraints when they can justify their LOC requests. This guidance intends to help streamline the process and allow the LOC Team to focus more efforts on facilitating review and approval of the requests.

### **4. Forecasting LOC Requests into Future**

WYOs and NFIP Direct should forecast out their financial needs to ensure adequate (e.g., advance payments), but appropriate, funding on hand to process claims. To the best of your ability, especially in catastrophic events, WYOs and NFIP Direct should project out at least *two (2) weeks* of anticipated monetary payouts and associated funds requested from FEMA.

### **5. LOC Request Submission Times**

Requests submitted after 3:30 p.m. EST may not begin to be processed until the next business day (Monday-Friday, excluding Federal holidays). Please allow extra time for processing around Federal holidays.

### **6. LOC Process Timeframes**

Detailed information about each step in the LOC process may be found in the attached LOC Process Narrative. These are guidelines and may vary, particularly during a catastrophic event. In general, LOC requests may take 1 to 3 business days, depending on the time a request is received and the required approval authorities.

LOC requests should be appropriate, scaled to the scope and magnitude of the event, take into consideration the amount of WYO funds on hand, and the anticipated number of claimants per Company. The larger the monetary request, the additional levels of review required to process the request; therefore adding to the approval timeline.

Beginning in November 2005, the U.S. Treasury requested that FEMA provide at least five (5) business days notice whenever a total daily draw-down would be likely to approach \$500 million. The FIMA LOC Team will review cumulative LOC requests to comply with the U.S. Treasury requirement.

## **7. Communication on LOC Requests**

Normal LOC request processing takes between 1 and 3 business days. If at the end of the 3rd business day your funds still have not posted, please communicate directly with Kelly Bronowicz, Chief of the Industry Management Branch at [Kelly.Bronowicz@fema.dhs.gov](mailto:Kelly.Bronowicz@fema.dhs.gov). For NFIP Direct LOC requests, please communicate directly with Freda Copeland, Chief of the NFIP Direct Branch at [Freda.Copeland@fema.dhs.gov](mailto:Freda.Copeland@fema.dhs.gov).

Please direct any general questions, comments, or concerns regarding the LOC processing to the Fund Management Directorate at [femalocincreaserequest@fema.dhs.gov](mailto:femalocincreaserequest@fema.dhs.gov).

### **Attachments:**

LOC Process Narrative

LOC Flow Chart

cc: Vendors, Government Technical Representative

Required Routing: Finance

# FEMA Letter of Credit (LOC) Process Narrative

Step and Description	Timeline
<b>1. Write Your Own (WYO) initiates request</b> <ul style="list-style-type: none"> <li>WYO submits request via email, on company letterhead, to the FIMA LOC team.</li> <li>Using the FIMA template, the request includes: <ul style="list-style-type: none"> <li>Name of Company making request</li> <li>Name of flooding event</li> <li>States affected</li> <li>Reason for LOC request</li> <li>Supporting documentation</li> </ul> </li> <li>Requests must include an authentication letter, signed by an Accounting Supervisor or higher. Supporting documentation includes: <ul style="list-style-type: none"> <li>Amount required to pay claims, premium refunds, adjuster expenses, etc.</li> <li>Current LOC balance, if any</li> <li>Company reserves report</li> <li>Any other documentation, as requested</li> </ul> </li> <li><b>NOTE:</b> Please do not provide any Personally Identifiable Information (PII) or Sensitive information on policyholders with your request (i.e. policyholder address or other information).</li> </ul>	----
<b>2. FIMA LOC team reviews the request</b> <ul style="list-style-type: none"> <li>FIMA LOC team reviews the application for completeness, and requests additional documentation via email as needed.</li> <li>If the application is complete, the team reviews the request for reasonableness. The team reviews the current LOC balance, the last LOC request, and the frequency of draw-downs in the Health &amp; Human Services (HHS) Payment Management System (PMS). <ul style="list-style-type: none"> <li>If the request is reasonable, the FIMA LOC team proceeds to prepare the LOC package. If information in the PMS system indicates any areas of concern, the LOC team will engage with the WYO to resolve the issue and/or obtain additional supporting documentation.</li> </ul> </li> </ul>	Average –1 Hour
<b>3. FIMA LOC team prepares the LOC package</b> <ul style="list-style-type: none"> <li>Prepare FEMA Form 20-7 (Request for Issuing, Amending, or Revoking SmartLink II) and cover page.</li> <li>Generate a reconciliation review of the aggregate LOC balance from daily drawdown reports from HHS PMS to monitor financial position of NFIP Treasury Fund Balance. Report incorporates fund balance with Treasury and any NFIP obligations that could impact the NFIP Treasury Fund Balance to help inform Finance Director if funds will have to be borrowed. The reconciliation report is included in the LOC package to be reviewed by Fund Management and FIMA Deputy Administrator.</li> </ul>	Average –1 to 2 Hours
<b>4. FIMA LOC Team obtains required approvals</b> <ul style="list-style-type: none"> <li>In general, LOC requests may take 1-3 business days, depending on the time a request is received and the required approval authorities.</li> <li>LOC requests should be appropriate, scaled to the scope and magnitude of the event, take into consideration the amount of WYO funds on hand, and the</li> </ul>	Average - 1–3 business days



Step and Description	Timeline
anticipated number of claimants per company. The larger the monetary request, the additional levels of review required to process the request, therefore it may add to the approval timeline.	
<b>5. FEMA OCFO processes request</b>	<b>Average –1 to 2 Hours</b>
<ul style="list-style-type: none"> <li>The FEMA OCFO reviews the information in the package and verifies the information in HHS PMS.</li> <li>Any discrepancies are resolved with the LOC teams, as required.</li> <li>When information is verified, FEMA Finance Center posts the funds and notifies FIMA of the transaction via email.</li> </ul>	Requests received after 3:30 PM EST on Fridays may not be processed until the following business day.
<b>6. FIMA LOC team notifies WYO of funds posting</b>	<b>Average – 1 hour</b>
<ul style="list-style-type: none"> <li>When funds have posted, the LOC team notifies the WYO via email, and the process is complete.</li> </ul> <p>NOTE: Check with our bank to determine how soon the funds will be available for draw down.</p>	

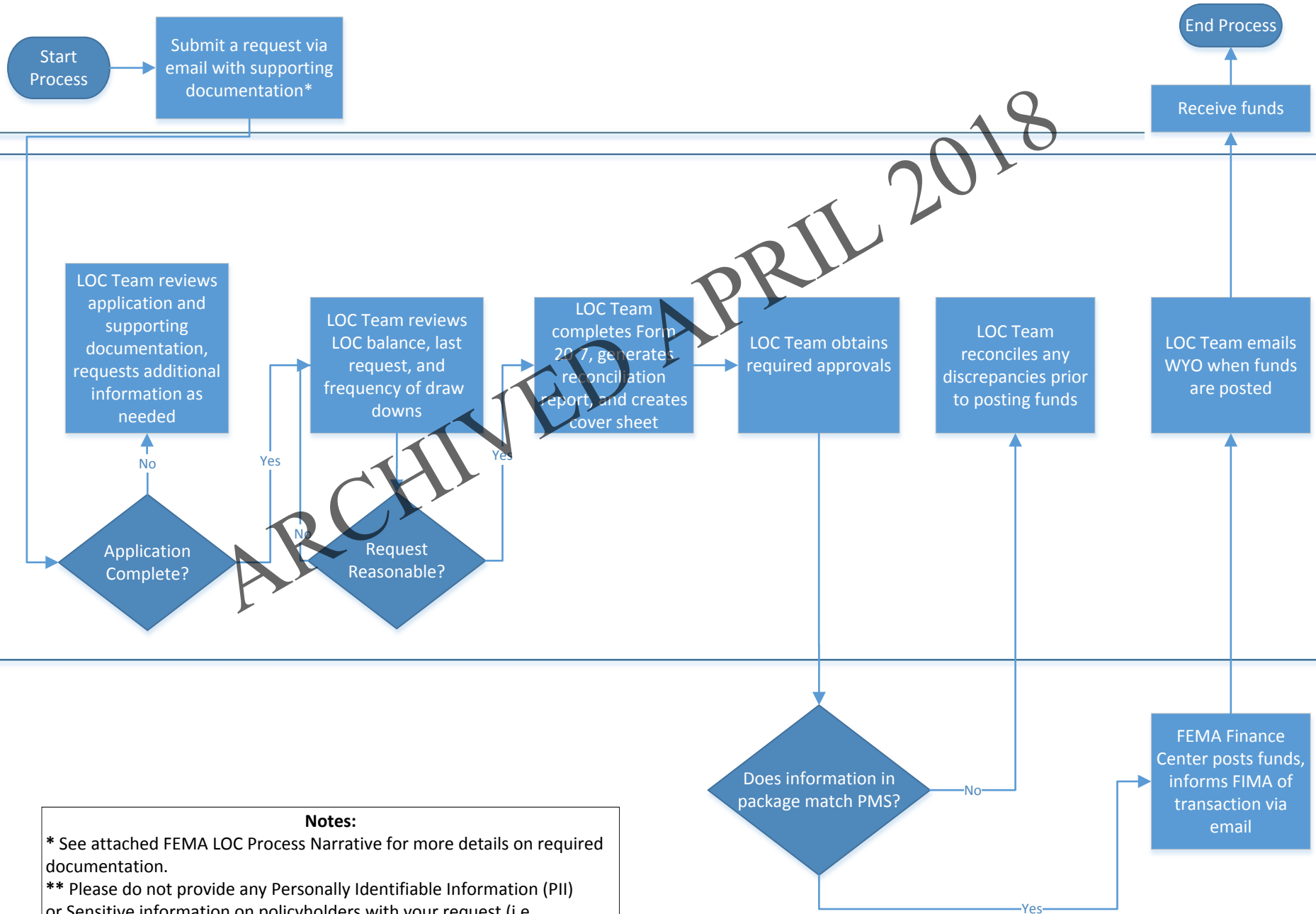
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# LETTER OF CREDIT (LOC) REQUEST PROCESS FLOW CHART

WYO

FIMA (LOC Team and Management)

FEMA OCFO



## Notes:

- \* See attached FEMA LOC Process Narrative for more details on required documentation.
- \*\* Please do not provide any Personally Identifiable Information (PII) or Sensitive information on policyholders with your request (i.e. policyholder information).