Flood Insurance for Risk Managers

Basics of the National Flood Insurance Program

August 20, 2012

Susan W. Wilson

DHS/FEMA Region IV
NFIP – Created by National Flood Insurance Act of 1968

**THIS**
- Adopt a local program of floodplain management
- Program meets or exceeds NFIP Regulations (44 CFR Sec. 60.3)
- Floodplain management program enforced locally
- More than 21,000 participating communities nationwide

**THAT**
- Federally underwritten flood insurance coverage
- Available to eligible structures and contents throughout the participating community
- Flood insurance available from any state-licensed property and casualty insurance agent
NFIP – Participating

- To Participate a community must:
  - Submit an application to join the NFIP including:
    - An adopted Resolution of Intent
    - An adopted Floodplain Ordinance compliant with NFIP minimum criteria
What is a Community?

- An entity given the power by the state to adopt and enforce local laws and regulations
- An unincorporated county, incorporated municipality, Native American Tribe or Native Alaskan Village
NFIP Sanctions

- FIRM becomes effective
- SFHAs are identified
- Non-participating more than 1 year
- Sanctions apply
How to Determine if a Community Participates in the NFIP

Federal Emergency Management Agency
Community Status Book Report

GEORGIA

Communities Participating in the National Flood Program

<table>
<thead>
<tr>
<th>CID</th>
<th>Community Name</th>
<th>County</th>
<th>Init FHBM Identified</th>
<th>Init FIRM Identified</th>
<th>Curr Eff Map Date</th>
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www.fema.gov/fema/csb.shtm
How to Determine if Community is NFIP-Sanctioned

Federal Emergency Management Agency
Community Status Book Report
GEORGIA
Communities Not in the National Flood Program

<table>
<thead>
<tr>
<th>CID</th>
<th>Community Name</th>
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Effects of NFIP Non-Participation

- Inability to purchase federally guaranteed flood insurance
- No Federal grants or loans for building in identified flood hazard areas
- No Federal disaster assistance for permanent restorative construction or grants in identified flood hazard areas
Effects of Non-Participation – Continued

- No Federal mortgage insurance provided in identified flood hazard areas – FHA, VA, FmHA, Fannie Mae and Freddie Mac, etc.

- Local governments may be susceptible to liability by not participating in the NFIP

- The Flood Insurance Rate Map and actuarial rates go into effect regardless of whether or not a community participates in the NFIP
Definitions

- **Base Flood**
  - The flood having a 1% probability of being equaled or exceeded in any given year

- **Special Flood Hazard Area**
  - The area on a FHBM or a FIRM which is subject to the Base Flood
  - The darkly shaded areas are shown as zones A, AO, AH, A1-30, AE, A99, V, V1-30, and VE
Definitions

- **Flood**
  - “A general and temporary condition of partial or complete inundation of two or more acres of normally dry land areas or of two or more properties from (1) overflow of inland or tidal waters (2) unusual and rapid accumulation or runoff of surface waters (3) mudflows caused by flooding”
NFIP Insurable Interests

- Walled and roofed structures
  - Principally above ground
  - Not entirely over water
- Manufactured homes, travel trailers
  - Anchored to a permanent foundation
  - Attached to utilities
- Buildings in the course of construction
- Contents of an insurable structure
What’s Not NFIP Insurable

- Buildings over water or below ground
- Swimming pools, hot tubs and associated equipment
- Most motorized vehicles
- Unanchored manufactured homes
- Gas and liquid storage tanks
- Contents, machinery and equipment in the open
- Site improvements
Limited Coverage for Basements or Enclosures

- Foundation elements
- Specific items covered
  - Furnaces
  - Water heater
  - Circuit breaker boxes
  - Washers & dryers
  - Food freezers
  - Air conditioners
  - Heat pumps
  - Water softeners
Policy Differences

- **NFIP Flood Insurance**
  - Pays for direct flood damage to insured property
  - Covers flood damage to foundation
  - Does not cover ALE
  - Does not cover business interruption losses
  - Covers damage inside walls of RCBAP insured condo unit
  - One policy per building
  - Claims paid on ACV basis
  - Federally underwritten

- **Other Hazard Insurance**
  - May pay to policy limits, if damage exceeds threshold
  - Often does not cover foundation damage
  - Often covers ALE
  - Often covers business interruption losses
  - Damage inside condo unit is owner’s responsibility
  - Policy may cover multiple buildings
  - Claims paid on RCV basis
  - Insurance company underwritten
Pre-FIRM Vs Post-FIRM

- Pre-FIRM: structure constructed prior to community’s initial flood insurance rate map (FIRM) or before 12/31/74
- Post-FIRM: structure built or substantially improved after the initial FIRM or after 12/31/74
Mandatory Purchase of Flood Insurance

- Flood Disaster Prevention Act of 1973
  - Flood insurance purchase is required to make, increase, extend or renew any loan secured by property located in a SFHA
  - Flood insurance required for the life of the loan

- Flood Insurance Reform Act of 1994
  - Established penalties for lender non-compliance
  - Requires lenders to review revised FIRMIs
  - Requires notification and mandatory purchase if revised FIRM shows structure in SFHA
  - If escrow account is established, requires escrow for flood insurance
Mandatory Purchase Tripwires

- Think M-I-R-E
- Making
- Increasing
- Renewing
- Extending
## NFIP Limits of Coverage

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<tr>
<th></th>
<th>Buildings</th>
<th>Emergency</th>
<th>Regular</th>
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<tr>
<th></th>
<th>Contents</th>
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<tr>
<td>Non-Residential</td>
<td>$100,000</td>
<td>$500,000</td>
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</table>
How Much Flood Coverage is Required?

- Outstanding principal balance of the loan
- Maximum available for the building type under the NFIP
- Full insurable value of the building, 100% RCV
- Whichever is less
Amount of Flood Insurance

Key points to remember:

- An NFIP policy will not cover an amount exceeding a building’s insurable value.
- Lenders may require more flood insurance coverage than the minimum required.
- A lender may not allow a borrower to use a high deductible to avoid mandatory purchase.
- Exemptions to Mandatory Purchase:
  - State-owned buildings.
  - Original loan balance $5K or less and term one year or less.
Flood Insurance Pays

- **Actual Cash Value (ACV)**
- **ACV** = Replacement Cost – Depreciation
- Contents claims are always ACV

**Exception**
- Primary residences insured to 80% or more of value have Replacement Cost Coverage (RCV)
- Claims payments for repair of flood damage to residence are not depreciated
Factors Used For Rating

- Lowest floor elevation/ base flood elevation
- Amount of insurance
- Location – flood zone
- Building type
- Foundation type
- Age of construction
Deductibles

- **Standard**
  - Pre-FIRM $2,000
  - Post-FIRM $1,000

- **Optional**
  - Up to $5,000
  - Reduces premium
  - Increase anytime
  - Decreased only at renewal
  - Increase must have lender’s approval
Policy Effective Dates

- No waiting period if required for loan
- 1 day wait if required by lender due to flood map change
- 30 day waiting period is standard

Note: limitations when a flood is in progress
Post-FIRM Residence in a Zone AE
$100,000 Building and $30,000 Contents

Annual Premium

➢ +3 Feet = $335
➢ +2 Feet = $425
➢ +1 Foot = $628
➢ At BFE = $1,349
Residential Buildings

- 1 – 4 family dwellings
- Apartments with > than 4 units
- Condominiums & cooperatives w/75% of floor area as residential
- Hotels or motels where normal occupancy is 6 months or longer
- Rooming houses w/more than 4 roomers
- Residential buildings w/permited incidental non-residential uses of less than 25% of sq ft; 75% of sq ft in residential use
Non-residential Buildings

- Small businesses, churches,
- Schools, farm buildings (including grain bins and silos),
- Pool house, clubhouses, recreational,
- Industrial structures, warehouses, mercantile buildings,
- Nursing homes, hotels (rental < 6 months)
- Mixed-use buildings with less than 75% residential square footage
Floodproofing

- Non-residential buildings in A-Zones only
- Floodproofing Certificate: Documents floodproofing level
- Floodplain Management: Floodproof to or above BFE
- Flood Insurance:
  - Requires 1 foot above BFE for at BFE rating
  - Requires human intervention to install closure devices
Group Flood Insurance Policy

- Included in Individual and Household Grant
- Group flood policy for three years
- Maximum coverage is the amount of the Individual and Household Grant
- After 3-year GFIP expires, if at same location, recipient must purchase and maintain flood insurance in order be eligible for future disaster assistance
Flood Insurance Is Available Outside SFHA

- 20-25% of claims come from lower flood risk zones
- Flood insurance is available when community participates
- Building and contents coverage is available
- Lender may require flood insurance in lower risk flood zones (B, C or X)
- Structures may be eligible for Preferred Risk flood policy
- Preferred Risk policy insures both structure and contents
Construction Loans

Option 1
- Make determination based on proposed site
- Require policy if in SFHA
- Policy rated from proposed elevation on plans

Option 2
- Require flood insurance at a particular draw-down or start of construction
- Requires close monitoring
Coverage Required for Multiple Structures on a Property

- Determine value of each structure on property
- Require flood insurance policy for each building
- Coverage may be allocated amongst the structures
- Recommend applying Mandatory Purchase to each structure
Residential Condominium Building Association Policy (RCBAP)

- Covers Building and Common Areas
- $250,000 X Number of Units
- Insure to 100% of Replacement Value
- Co-Insurance Provision applies if building is not insured to 80% or more of replacement value
- Coverage also available for individual units and contents
When to force-place?

- Lender determines **at any time** during the life of the loan that property securing the loan is located in SFHA;
- Flood insurance is available;
- Flood insurance is inadequate or does not exist;
- After required notice, borrower fails to purchase appropriate amount of coverage.

Diagram:
- Send 45-day letter
- Allow time for borrower to purchase flood insurance
- Force-Place
Map Grandfather Rule

- Allows a property owner to:
  
  1. “Lock” in a current flood zone
  
  2. “Lock” in a current Base Flood Elevation
Grandfathering and Zone Discrepancies

- Flood zone determination on SFHDF made using current FIRM
- Insurance may be rated based on earlier FIRM
- Lender is instructed to resolve the discrepancy and document reasons

Documentation must include:
- Date of construction
- Date of FIRM
- Zone on that FIRM
- Copy of FIRM panel showing building location
- Rating element to be grandfathered (i.e. flood zone, BFE, elevation difference)

Community officials, insurance agents, real estate agents, surveyors and appraisers may provide documentation
CBRA Zones and Flood Insurance

- CBRA zones and designation dates are on FIRM
- No NFIP coverage for new or substantially improved structures
- Structures permitted and built before CBRA designation are eligible for NFIP coverage until substantially improved
- Conventional loans may be made in CBRA zones with proper borrower notification
- Private flood insurance may be available
Increased Cost of Compliance (ICC)

- ICC coverage (up to $30,000; no deductible) is available to help property owners pay for mitigation measures to bring NFIP insured structures into compliance

- ICC Eligible structures:
  - NFIP insured and in an SFHA
  - Are noncompliant with floodplain ordinance at time of loss
  - Are substantially flood damaged
  - Have suffered repeat flood losses and community ordinance requires compliance
Increased Cost of Compliance (ICC)

- ICC Mitigation Measures:
  - Floodproofing (non-residential only)
  - Relocation
  - Elevation
  - Demolition
Community Rating System (CRS)

- CRS discounts the flood insurance premium rates of communities that exceed the minimum NFIP requirements.

- The three goals of the CRS are to:
  - Reduce flood losses
  - Facilitate accurate insurance rating
  - Promote the awareness of flood insurance

- Communities must be in full compliance with the NFIP and be in the Regular phase of the program.
CRS Classifications

- CRS premium class discounts in 5% increments
- A Class 1 community premium discount 45%; Class 9 premium discount 5%
- CRS classes are based on 18 creditable activities, organized under four categories:
  - Public Information
  - Mapping and Regulations
  - Flood Damage Reduction
  - Flood Preparedness
Resources

National Flood Insurance Program Home Page
www.fema.gov/business/nfip

Floodsmart Home Page
www.floodsmart.gov

Mandatory Purchase of Flood Insurance Guidelines
http://www.fema.gov/library/viewRecord.do?id=2954

Flood Insurance Manual
www.fema.gov/business/nfip/manual
Questions?

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