

Considering Buying Flood Insurance

What is the NFIP?

The U.S Congress established the National Flood Insurance Program (NFIP) with the passage of the National Flood Insurance Act of 1968. The NFIP is a federal program enabling property owners in participating communities to purchase insurance as protection against flood losses in exchange for state and community floodplain management regulations that reduce future flood damages. This is purchased at a guaranteed rate.

Participation in the NFIP is based on an agreement between communities and the federal government. If a community adopts and enforces a floodplain management ordinance to reduce future flood risk to new construction in floodplains, the federal government will make flood insurance available within the community as a financial protection against flood losses. This insurance is designed to provide an insurance alternative to disaster assistance to reduce the escalating costs of repairing damage to buildings and their contents caused by floods.

Doesn't my homeowners insurance policy cover flooding?

No. Flood damage is not typically covered by a homeowners insurance policy.

Am I eligible for flood insurance?

You must live in a community that participates in the National Flood Insurance Program (NFIP) to qualify for National Flood Insurance.

Can I get flood insurance if I'm renting a property?

If you live in a community that participates in the NFIP, you can get flood insurance to cover the contents of your home or business.



If my home is flooded, won't federal disaster assistance pay for my damages?

No. Federal disaster assistance often comes in the form of a low interest loan to help cover flood damage, not compensation for your losses. Even then, those loans are only available if the President formally declares a disaster.

Who decides flood risk levels?

In June of 2008 the Federal Emergency Management Agency (FEMA) is expected to release flood insurance maps that will outline high, moderate and low risk areas. These maps will be finalized in 2009.

So I'm high risk. Why does my mortgage lender require me to buy flood insurance?

Under federal law, the purchase of flood insurance is mandatory for all federal or federally related financial assistance for the acquisition and/or construction of buildings in high-risk flood areas (Special Flood Hazard Areas or SFHAs).

The amount of flood insurance coverage required by the Flood Disaster Protection Act of 1973, as amended by the National Flood Insurance Reform Act of 1994, is the lesser of the following:

- The maximum amount of NFIP coverage available for the particular property type,
- The outstanding principal balance of the loan, or
- The insurable value of the structure.

If the property is not in a high-risk area, but instead in a low-to-moderate risk area, federal law does not require flood insurance; however, it is recommended since historically about one-in-four flood claims come from these low-to-moderate risk areas. Note that if during the life of the loan the maps are revised and the property is now in the high-risk area, your lender will notify you that you must purchase flood insurance.



I live in a low-risk flood zone. Do I really need flood insurance?

Most likely, yes. It's a good idea to buy flood insurance even if you live in a low- or moderate-risk area. Almost 25 percent of all flood insurance claims come from areas with low-to-moderate flood risk. You may qualify for the Preferred Risk Policy (a lower-cost flood insurance policy) that provides contents coverage and building plus contents coverage.

Why do I need flood insurance, even though my community has never been flooded?

Flooding occurs in low-to-moderate risk areas as well as in high-risk areas. Poor drainage systems, rapid accumulation of rainfall, snowmelt, and broken water mains can all result in flooding. Properties on a hillside can be damaged by mudflow, a covered peril under the Standard Flood Insurance Policy.

Structures located in high-risk flood areas have a significant chance (26 percent) of suffering flood damage during the term of a 30-year mortgage. A home mapped in a high-risk area is five times more likely to suffer damage from a flood than a fire in the lifetime of a typical mortgage!

For these reasons, flood insurance is required by law for buildings in high-risk flood areas as a condition of receiving a mortgage from a federally regulated or insured lender.

Is there a policy for homes in low-to-moderate risk areas?

Yes. The Preferred Risk Policy is available in low-to-moderate risk areas.

I live in a high-risk risk area. After my home was damaged in a flood, I received federal disaster assistance. Do I need to purchase flood insurance now?

Yes. If you live in an SFHA and have received disaster assistance in the form of a federal grant or loan, you must cover the building for flood insurance for as long as you own it. Should you sell the building, you are required to inform the new owner of the necessity to purchase and maintain flood insurance. Failure to carry flood insurance could result in the denial of future federal disaster assistance.

Who do I contact if I want to purchase a flood insurance policy?

The National Flood Insurance Program has an arrangement with private insurance companies to sell and service flood insurance policies. A list of private insurance companies that sell and service NFIP flood insurance policies is available to you (www.floodsmart.gov).

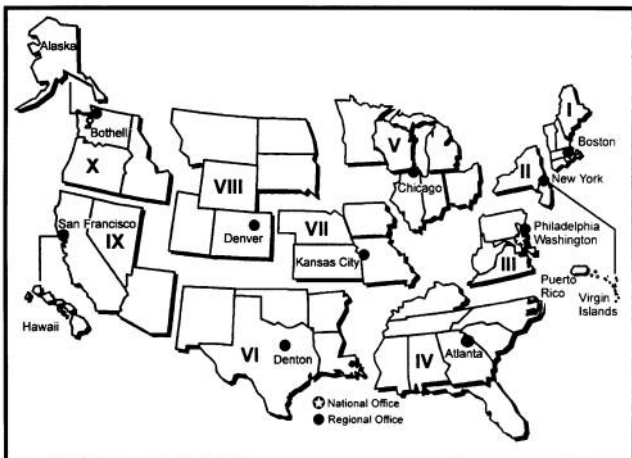
You may also contact your insurance agent or company to find out more about federal flood insurance or find an agent serving your area.



What if I want to purchase more insurance than the NFIP offers?

Many private insurance companies offer Excess Flood Protection, which provides limits over and above those of the NFIP. For more information, contact your insurance agent or company, or find an agent serving your area by filling out the Flood Risk Profile located at www.floodsmart.gov.

Source: www.floodsmart.gov



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