

About the Mandatory Purchase of Flood Insurance Requirement

NFIP: This community participates in the National Flood Insurance Program (NFIP), which makes federally backed flood insurance available for all eligible buildings, whether they are in a floodplain or not. Flood insurance covers direct losses caused by surface flooding, including a river flowing over its banks, a lake or ocean storm, and local drainage problems.

The NFIP insures buildings, including mobile homes, with two types of coverage: building and contents. Building coverage is for the walls, floors, insulation, furnace, and other items permanently attached to the structure. Contents coverage may be purchased separately, if the contents are in an insurable building.

Mandatory Purchase Requirement: The Flood Disaster Protection Act of 1973 and the National Flood Insurance Reform Act of 1994 made the purchase of flood insurance mandatory for federally backed mortgages on buildings located in Special Flood Hazard Areas (SFHAs). It also affects all forms of Federal or Federally related financial assistance for buildings located in SFHAs. The SFHA is the base (100-year) floodplain mapped on a Flood Insurance Rate Map (FIRM). It is shown as one or more zones that begin with the letter "A" or "V."

The rule applies to secured mortgage loans from such financial institutions as commercial lenders, savings and loan associations, savings banks, and credit unions that are regulated, supervised, or insured by Federal agencies such as the Federal Deposit Insurance Corporation and the Office of Thrift Supervision. It also applies to all mortgage loans purchased by Fannie Mae or Freddie Mac in the secondary mortgage market.

Federal financial assistance programs affected by the laws include loans and grants from agencies such as the Department of Veterans Affairs, Farmers Home Administration, Federal Housing Administration, Small Business Administration, and the Department of Homeland Security's Federal Emergency Management Agency (FEMA).

How it Works: Lenders are required to complete a Standard Flood Hazard Determination (SFHD) form whenever they make, increase, extend or renew a mortgage, home equity, home improvement, commercial, or farm credit loan to determine if the building or manufactured (mobile) home is in an SFHA. It is the Federal agency's or the lender's responsibility to check the current Flood Insurance Rate Map (FIRM) to determine if the building is in an SFHA. Copies of the FIRM are available for review in most local government building or planning departments. Lenders may also have copies or they use a flood zone determination company to provide the SFHD form.

If the building is in a SFHA, the Federal agency or lender is required by law to require the recipient to purchase a flood insurance policy on the building. Federal regulations require building coverage equal to the amount of the loan (excluding appraised value of the land) or the maximum amount of insurance available from the NFIP, whichever is less. The maximum amount available for a single-family residence is \$250,000. Government sponsored enterprises, such as Freddie Mac and Fannie Mae, have stricter requirements.

The mandatory purchase requirement does not affect loans or financial assistance for items that are not covered by a flood insurance policy, such as vehicles, business expenses, landscaping, and vacant lots. It does not affect loans for buildings that are not in an SFHA, even though a portion of the lot may be. While not mandated by law, a lender may require a flood insurance policy, as a condition of a loan, for a property in any zone on a FIRM.

If a person feels that a SFHD form incorrectly places the property in the SFHA, he or she may request a Letter of Determination Review from FEMA. This must be submitted within 45 days of the determination. More information can be found at http://www.fema.gov/plan/prevent/fhm/fq_gen11.shtm.

Figure 320-1. Handout on mandatory purchase of flood insurance.

3. If the community has a map that shows the coastal A Zone or Coastal Barrier Resources System, the service must check on the following and report the findings to the inquirer:
 - a. Whether the property is in a coastal A Zone. If so, the inquirer must be advised that waves and velocity from coastal storms and hurricanes can cause significant damage to a structure that is not properly elevated on an open foundation and protected from erosion and scour.
 - b. Whether the property is in an "undeveloped coastal barrier" or "otherwise protected area" of the Coastal Barrier Resources System. If so, the community must advise the inquirer that flood insurance, federal disaster assistance, and other types of federal financial assistance are not available for buildings constructed or substantially improved after the effective date of designation, as shown on the FIRM.
4. The map used for this service must be kept updated at least annually to reflect new subdivisions, annexations, flood insurance restudies, map revisions, and map amendments (including Letters of Map Amendment (LOMAs) and Letters of Map Revision (LOMRs)). The community must also maintain copies of all FIRMs that have been in effect since 1999 or the date the community applied for this credit, whichever is later.
5. The service must be publicized at least once a year. If the community uses a website for its services, the site's address or URL must be publicized. The publicity must state that the community also has copies of elevation certificates for some properties in the floodplain.
6. If the community is receiving CRS credit for mapping and regulating one of the special hazard areas described in Section 401, inquirers must be advised if the property falls within a special hazard area and what precautions should be taken when developing or improving the property.
7. The service must provide an opportunity for the inquirer to talk to community staff about map and floodplain management questions.

There are many benefits to providing FIRM information. Residents and businesses that are aware of the potential flood hazard can take steps to avoid problems and/or reduce their exposure to flooding. Communities are the best source of map information because they can often supplement and clarify the FIRM with complementary maps, and with information on additional hazards, flooding outside mapped areas, development regulations that affect floodplain properties, flood insurance, and property protection measures. *NOTE: For compliance with the mandatory purchase requirement, the current FIRM (or Letter of Map Change) is the only legal document allowed to be used by lenders or third party vendors.*

Acceptable methods of providing map information include, but are not limited to:

- Reading the FIRM in response to a telephone call;
- Helping a person who walks into the office read the FIRM;