

The National Flood Insurance Program was created by the National Flood Insurance Act of 1968. Two subsequent laws, the Flood Disaster Protection Act of 1973 and the National Flood Insurance Reform Act of 1994, have made the purchase of flood insurance mandatory for Federal or Federally related financial assistance for acquisition or construction of buildings in Special Flood Hazard Areas.

These top ten facts apply to lenders that are supervised by the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of Thrift Supervision, Farm Credit Administration, and National Credit Union Administration, as well as Government Sponsored Enterprises Freddie Mac and Fannie Mae and Federal agency lenders.

For more information,  
call the National Flood Insurance Program  
toll free at  
**1-800-427-4661**  
<http://www.fema.gov/business/nfip/>



*National Flood Insurance Program*  
**Top Ten Facts  
for Lenders**



**FEMA**

# Top Ten Facts

every LENDER needs to know about the National Flood Insurance Program (NFIP).

## **1 Flood insurance is mandatory for buildings in FEMA-identified high-risk flood areas, which are called Special Flood Hazard Areas (SFHAs).**

This requirement applies to buildings located in SFHAs on FEMA's flood maps including loans for manufactured (mobile) homes and commercial buildings. Whenever you make, increase, extend, or renew a mortgage, home equity, home improvement, commercial, or farm credit loan in an SFHA, you must require flood insurance.

You may require flood insurance on all loans, even those outside SFHAs.

## **2 Ensure that flood insurance coverage is maintained for the term of all the loans on a building.**

Escrowing flood insurance premiums can help make sure you meet this requirement, and it helps protect you and your borrowers from uninsured flood losses.

## **3 Flood zone determinations are required to establish whether a building is located in an SFHA. Document your findings on the required Standard Flood Hazard Determination Form (SFHDF).**

The SFHDF is available on the FEMA web site at <http://www.fema.gov/pdf/nfip/sfhdf.pdf>.

## **4 Know the amount of flood insurance coverage to require.**

The required coverage is the lesser of the following:

1. The maximum amount of NFIP flood insurance coverage available,
2. The outstanding principal balance of the loan, or
3. The value of the building only. (Land and land values are not covered under the NFIP.)

## **5 Notify borrowers in writing of the requirement to buy flood insurance for new and existing loans.**

**New Loans:** If you determine that a home or business is in an SFHA before loan closing, you are required to notify the borrower within a reasonable time (defined by Federal regulation as at least 10 days) prior to the loan closing.

**Existing Loans:** If you determine that an existing loan for a home or business is in a Special Flood Hazard Area, you are also required to notify the borrower within a reasonable time. The law provides for force placement of flood insurance 45 days after the borrower is notified of deficient flood insurance coverage. The National Flood Insurance Program's Mortgage Portfolio Protection Program (MPPP) helps you force place flood insurance when necessary.

## **6 Escrow flood insurance premiums.**

The law requires you to escrow flood insurance premiums for homes in SFHAs when taxes, other forms of insurance, or any other payments are escrowed. To help maintain flood coverage for you and your borrower, consider escrowing flood insurance premiums for all loans, including loans on non-residential improved real estate.

## **7 There is no waiting period for flood insurance to go into effect when it is purchased in connection with making, increasing, renewing, or extending a loan.**

In most other instances, there is a 30-day waiting period before flood insurance goes into effect. For more information about the waiting period and its exceptions, see Policy Issuance 5-98 on the FEMA web site at <http://www.fema.gov/nfip/pi598.shtm>.

## **8 Notify the insurance company or agent when the lender or servicer of a loan changes.**

Notification of a change of lender or servicer must be made to the insurance company or agent who wrote the flood insurance policy within 60 days after the effective date of the change.

## **9 For more information about the mandatory purchase of flood insurance requirements, and other related topics, read the Mandatory Purchase of Flood Insurance Guidelines.**

For a copy, call 1-800-480-2520 and request document F-083, or access the book on the FEMA web site at <http://www.fema.gov/nfip/mpurfi.shtm>.

## **10 Flood insurance and the mandatory purchase laws help protect your investments as well as your borrowers' against uninsured flood losses.**

Floods happen all over the country. Make sure you and your borrowers are protected from uninsured flood losses for their homes, businesses, and belongings by following these requirements. It's just good business.