

# Flood Insurance



*Flood insurance is essential in helping people repair, recover, rebuild, and even install some retrofitting measures. Flood insurance has many advantages, especially for people in areas prone to shallower, localized flooding problems.*

- Homeowners, renters, businesses, and the local government can all purchase flood insurance, whether the property lies within the designated flood zones on the community's Flood Insurance Rate Map (FIRM) or lies outside of them, in an area subject only to localized flooding.
- Because localized flooding is unlikely to reach conditions severe enough for a Presidential disaster declaration, aid from the State or Federal government will be limited. In the absence of a disaster declaration, insurance may be the only source of assistance to help owners of damaged property pay for cleanup and repairs.
- Besides paying for flood damage, insurance payments can be used to cover part of the cost of mitigation measures required by the community's regulations (such as elevating the building above the base flood elevation). Increased Cost of Compliance (ICC) coverage of up to \$30,000 may be provided (in addition to the claim payment for flood damage up to the limits of the policy) to elevate, floodproof, demolish, or relocate the property.
- Coverage is available for the contents of a home or business as well as for the structure.
- Renters can buy contents coverage, even if the building owner does not buy coverage for the structure itself.

## **NFIP Flood Insurance**

Most standard homeowners insurance policies do not cover a property for damage caused by flooding. However, a business or homeowner can insure a building for damage by surface flooding through the National Flood Insurance Program (NFIP),

as long as the community in which the building is located participates in the program.

Flood insurance coverage is provided for buildings and their contents damaged by a “general condition of surface flooding” in the area. Flood insurance can be purchased for any eligible building in the community, even those outside the Special Flood Hazard Area (SFHA) shown on the community’s FIRM. Residents in B, C, and X Zones can purchase coverage and can be eligible for the less-expensive Preferred Risk Policy discussed below.

Under the NFIP rules, a “building” is a walled and roofed structure that is mostly above-ground and fixed to a permanent foundation (even a manufactured home). “Flooding” is a general and temporary condition during which the surface of normally dry land is partially or completely inundated, affecting two properties or at least two acres in the area.

Community participation in the NFIP allows local insurance agents to sell a separate flood insurance policy under rules and rates set by the Federal Emergency Management Agency (FEMA). Any local property insurance agent may sell a policy through one of the “Write Your Own” insurance companies or a direct policy through FEMA. Both approaches result in the issuance of a Standard Flood Insurance Policy that meets all the requirements and nationally uniform rates determined by FEMA. Some sample premiums are shown in the table on the facing page.

Under the NFIP, building coverage is limited to \$250,000 for residential dwellings and \$500,000 for non-residential buildings. Contents coverage is available for up to \$100,000 for a residence and \$500,000 for a business.

**Preferred Risk Policies.** Preferred Risk Policies can be obtained for most residential or commercial buildings in B, C, or X Zones that have not had multiple flood insurance claims or disaster assistance payments. The policy offers different levels of building and contents coverage (contents-only coverage for renters) for a fixed premium. A sample rate is shown in the table on the facing page.

The Preferred Risk Policy has the same provisions as the Standard Flood Insurance Policy, and also includes the additional ICC coverage, as explained on page 11-6.

**Claims.** If an insured property is flooded, the property owner contacts his or her insurance agent. The agent arranges for an adjuster to review the damage and work with the insured to settle the claim. Property owners always work through their insurance agents; they do not deal directly with FEMA. Note that policy coverage details can change from year to year, and a purchaser should carefully read the policy when it is issued and renewed.

### ***Building Coverage***

For NFIP flood insurance, a building is defined as a walled and roofed structure. This includes manufactured homes, as long as they are principally above ground and affixed to a permanent site. Detached garages on a residential property are covered under the building coverage for up to 10% of the policy limits.

**Example NFIP Flood Insurance Premiums**

(as of May 1, 2005)

Annual premium for \$150,000 in building coverage and \$60,000 in contents coverage for a one-story house with no basement and a \$500 deductible.

*Note that premiums are lower in CRS communities.*

Policy/Building Exposure	Premium
<i>Outside the SFHA:</i>	
Standard Flood Insurance Policy	\$794
Preferred Risk Policy	\$264
<i>Within the SFHA:</i>	
Pre-FIRM (“subsidized”) rate	\$1,372
Post-FIRM (actuarial) rates	
2 feet above base flood elevation	\$400
1 foot above base flood elevation	\$577
At base flood elevation	\$924
1 foot below base flood elevation	\$3,288

Building coverage is for the structure itself and all the things that usually stay with the building when it changes ownership, including:

- Utility equipment, such as a furnace, air conditioner, or water heater;
- Permanent flooring materials installed over unfinished flooring;
- Built-in appliances; and
- Wallpaper and paneling.

Coverage for items of property in a building enclosure below the elevated floor of an elevated post-FIRM building or in a basement is limited to a specific list of items described in the policy.

**Contents Coverage**

Contents coverage for flooding may be purchased separately from the building policy. If flood insurance is in force for a particular building because it was required by the lender when the mortgage was received, contents coverage may not have been purchased at that time, and the property owner should check to verify what coverage is in place. Insurance coverage is not required by most lenders for properties outside the SFHA, but some lenders do require it to protect their interest in the structure.



FEMA News Photo

*Local flooding, with shallow, slow-moving floodwaters, damages carpeting, furniture, and other contents as much as it damages the structure. Contents coverage is highly recommended in areas subject to localized flooding.*

Contents coverage is for the removable items inside the building, such as furniture, household items, and clothing. Renters can buy contents coverage, even if the owner does not buy structural coverage on the building.

Certain contents are not insurable or are subject to coverage limits, such as:

- Jewelry, artwork, furs, and similar items (coverage is limited to \$2,500);
- Money or valuable papers;
- Animals and livestock; and
- Licensed vehicles.

### **Other Coverage**

The standard NFIP policy also provides coverage for other expenses or damage related to a flood. These include certain costs associated with the removal of debris and measures taken to protect the property, such as sandbagging, purchasing pumps, and/or expenses related to removing insured items to safety.

### **Waiting Period**

Policy owners should be aware that in most cases there is a 30-day waiting period after the purchase of an NFIP policy before it goes into effect. This rule encourages people to keep a policy in force at all times, rather than wait until there is a flood threat. A community should publicize the availability of flood insurance so residents can have their insurance protection in place by the time a flood comes.

## About the Mandatory Purchase of Flood Insurance 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 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 FIRM. It is shown as one or more zones that begin with the letter “A” or “V.”

The requirement applies to secured mortgage loans from financial institutions, such 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 FEMA.

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 FIRM to determine if the building is in an SFHA. Lenders may read the FIRM themselves or they may use a flood zone determination company to provide the SFHD form.

If the building is in an 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 within the zone. 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 an SFHD form incorrectly determines that the property is within 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/fhm/fq\\_gen11\\_shtm](http://www.fema.gov/fhm/fq_gen11_shtm).

Note that even if a property is not in the SFHA or if FEMA issues a letter confirming that status, the lender may still require a flood insurance policy. Many areas of known local flooding are not in the SFHA, and having flood insurance is highly recommended. People in areas of local flooding should discuss building coverage, contents coverage, and Preferred Risk Policies with their insurance agents.

### **Mandatory Purchase Requirement**

Although having a flood insurance policy is always a good idea, owners or renters of buildings subject to localized flooding that are outside the SFHA as shown on the community’s FIRM are not required to have insurance as a condition of receiving Federal assistance, including federally backed mortgages. However, if the area is remapped and a building previously outside the SFHA becomes included within it,

the mandatory purchase requirement (see previous page) will be triggered if the mortgage is refinanced or the owner takes out a home improvement loan.

### **ICC Coverage**

There is a special coverage provision in the NFIP for insured buildings that have been substantially or repetitively damaged by a flood. ICC coverage provides up to \$30,000 to pay for the cost to comply with floodplain management regulations after a flood. If the building has been declared by the State or community to be substantially damaged or is repetitively damaged (as defined in the policy) the ICC coverage may be triggered. This payment is in addition to the damage claim payment that would be made under the regular flood insurance policy coverage. However, the total payments combined can not exceed the policy's amount of coverage.

Although a building subject to shallow localized flooding may be unlikely to be substantially damaged, it could become repetitively damaged by floods. In certain cases, an ICC claim can be paid if the building is repetitively flooded and has had two or more claims averaging 25 percent or more of the building's value within a 10-year period, provided the community requires that the property comply with its floodplain management ordinance.

ICC will pay up to \$30,000 to help cover elevation, relocation, demolition, and (for nonresidential buildings) floodproofing. ICC is available for any flood insurance claim and, therefore, is not dependent on the community's receiving a disaster declaration.

Coverage under the ICC does have limitations:

- It covers only damage caused by a flood;
- The building's flood insurance policy must have been in effect during the flood;
- ICC payments are limited to \$30,000 per structure; and
- Claims must be accompanied by a substantial or repetitive damage determination made by the local floodplain administrator.

A community that is serious about reducing its repetitive local flooding problems should learn the details of ICC coverage. Proper enforcement and an informed property owner can greatly facilitate the claims process and help fund mitigation measures for flood-prone buildings.

### **The Community's Role**

NFIP flood insurance is available only in communities that participate in the NFIP. Communities must enforce their floodplain management regulations on new development in the SFHA (as discussed in Chapter 4) and stay in compliance with FEMA's rules and regulations. Failure to fully enforce these regulations could result in the community's residents having to pay a \$50 probation surcharge or, if the community is suspended from the program, losing their flood insurance policies.

A community can help protect properties subject to localized flooding in the following ways:

- It can participate in the Community Rating System (CRS) to lower the cost of insurance for its residents and businesses. The CRS is discussed in Chapter 2.
- It can encourage its citizens and businesses to purchase flood insurance coverage. Local public information activities are discussed in Chapter 5.
- It should purchase insurance on its own public buildings.

### **Insurance for Public Property**

If a local government's public buildings or facilities lie in any area that is prone to flooding, flood insurance should be obtained. Policies are available for public property through the NFIP, and local governments have other options as well.

A local government can set a good example for the rest of the community by obtaining flood insurance for its public buildings and facilities, even if they are not in the SFHA. Furthermore, a community with an array of public buildings both in and out of the floodplain should insure all of them. If a major flood occurs and many public buildings are damaged, the claims paid on the insured structures and contents will free up other local government funds that will be needed to repair and rebuild things that were not insurable. Furthermore, Federal disaster assistance will be reduced by the amount of insurance that the community should have had on its flood-prone buildings.

Larger local governments often self-insure against flooding simply by absorbing the cost of the damage. The expense of repair and rebuilding then comes out of the community's general fund. This avoids annual outlays in premium payments. However, if many properties or facilities are exposed to damage, self-insurance can be a major drain on the local treasury. Some communities essentially self-insure for part of the anticipated losses by specifying a higher deductible on their commercial property insurance policy, or by purchasing coverage on properties in flood-prone areas but not on others.

### **NFIP Insurance**

Flood insurance is available under the NFIP for public buildings and contents anywhere in the community, just as it is for privately owned buildings. In general, there is an overall per-building limit for non-residential buildings of \$500,000 for the structure and \$500,000 for the contents.

### **Commercial Insurance Policies**

Local governments can purchase commercial property insurance policies or join a local government insurance pool to protect their public buildings from perils such as flood, earthquake, and hail. Such policies have a couple of advantages:

#### **A community that participates in the CRS earns reduced**

**premiums** for its residents who buy NFIP coverage, even those who are out of the designated SFHA. More than 1,000 communities across the United States now participate in the CRS. Their flood insurance policyholders outside the mapped SFHA receive reductions in their annual premiums of 5–10 percent, while policyholders in the SFHA receive reductions of up to 45 percent.

Under Activity 330 (Outreach Projects), CRS credit is provided to communities that carry out local public information and awareness programs that explain flood insurance to property owners.



### Insurance Affects Disaster Assistance

It should be noted that Federal law expects public agencies to be fully insured as a condition of receiving Federal disaster assistance, and that such assistance will be reduced by the amount of insurance that the community should have had on its flood-prone buildings.

For example, if a city hall in the SFHA suffered \$600,000 in flood damage to the structure, Federal disaster assistance will assume that the city had \$500,000 in flood insurance coverage (the maximum coverage available under the NFIP for a non-residential building). The amount of disaster assistance would be 75 percent of the remaining \$100,000. This would not affect public buildings outside the SFHA.

- The community can obtain more coverage than under the NFIP.
- The policy can be customized to meet the needs of the local situation, with special endorsements, varying deductibles, and other provisions.

Communities should verify the specific coverage and limitations of their policies. Many local agencies find out too late that their “all risk” insurance policies or government pools do not cover flooding. Further, many such policies have a deductible of \$500,000, based on the assumption that the policy holder will get NFIP coverage for smaller flood losses.

### Basements

There is limited coverage for basements under NFIP flood insurance policies. The NFIP defines “basement” as “any area of the building, including any sunken room or sunken portion of a room, having its floor

below ground level (subgrade) on all sides.” This includes the below-grade floors of bi-level and tri-level homes.

In general, flood damage to the walls and floor of the basement area is covered by the standard flood insurance policy; this usually is the most expensive damage to the basement. However, flood insurance coverage for basements is limited in two ways: (1) what is covered, and (2) when it is covered.

1. In the basement or subgrade levels of a house, NFIP flood insurance will cover damage only to specific items needed for the operation of the building, such as the furnace, water heater, electrical components, and sump pumps. If the policy has contents coverage, the following items are covered if they are located in a basement: clothes washer, dryer, food freezer, or portable air conditioning unit. There is no coverage for finishings such as wallpaper, carpeting, furniture, or other contents located in a basement.
2. Flood insurance covers basement damage only when there is a general condition of surface flooding in the area, and the flood is the proximate cause of the damage. Damage that occurs when water gets into the basement from some other cause, such as sump pump overflow or sewer backup not caused by a general condition of flooding, is excluded from coverage.

### Sump Pump Failure

Many buildings in areas prone to localized flooding have sump pumps to automatically remove water that collects around the building foundation. Unfortunately, the pump may malfunction, or the electricity could go out, especially during a storm. NFIP flood insurance covers damage to the sump pump as a result of flooding, but does not cover water damage caused by sump pump failure (except in cases in which

there is general flooding in the area and that flooding is the proximate cause of the damage).

However, several private insurance companies offer coverage for water damage to a structure and its contents incurred if a sump pump fails. Each company has different amounts of coverage, exclusions, deductibles, and arrangements. Most such policies will not pay for damage from surface flooding that would be covered by the NFIP.

### Sewer Backup

During heavy rains, stormwater may overload a community's sanitary or storm sewer system. If the water levels in the receiving streams are high, the storm sewers cannot drain. The water backs up, usually into basements and other low-lying areas (see Chapter 10 for more information and illustrations).

### Flood Insurance Coverage for Basements

The NFIP has limited coverage for basements and the below-grade floors of bi-levels, split levels, split foyers, and other buildings that have their lowest floor below ground level. The NFIP defines "basement" as "any area of the building, including any sunken room or sunken portion of a room, having its floor below ground level (subgrade) on all sides." (Article II of the Standard Flood Insurance Policy, May 1, 2005.)

Coverage under building or structural coverage is limited to:

- a. Any of the following items, if installed in their functioning locations and, if necessary for operation, connected to a power source:
  1. Central air conditioners;
  2. Cisterns and the water in them;
  3. Drywall for walls and ceilings in a basement and the cost of labor to nail it, unfinished and unfloats and not taped, to the framing;
  4. Electrical junction and circuit breaker boxes;
  5. Electrical outlets and switches;
  6. Elevators, dumbwaiters, and related equipment, except for related equipment installed below the base flood elevation after September 30, 1987;
  7. Fuel tanks and the fuel in them;
  8. Furnaces and hot water heaters;

9. Heat pumps;
10. Nonflammable insulation in a basement;
11. Pumps and tanks used in solar energy systems;
12. Stairways and staircases attached to the building, not separated from it by elevated walkways;
13. Sump pumps;
14. Water softeners and the chemicals in them, water filters, and faucets installed as an integral part of the plumbing system;
15. Well water tanks and pumps;
16. Required utility connections for any item in this list; and
17. Footings, foundations, posts, pilings, piers, or other foundation walls and anchorage systems required to support a building.

- b. Clean-up. (Article III. Section A.8.)

Coverage under personal property (contents) coverage is limited to the following items, if installed in their functioning locations and, if necessary for operation, connected to a power source:

- a. Air conditioning units, portable or window type;
- b. Clothes washers and dryers; and
- c. Food freezers, other than walk-in, and food in any freezer. (Article III. Section B.3.)

### **Sewer backups can be costly, but sewer backup insurance is not!**

All insurance companies writing homeowner policies in Virginia offer special coverage for damage resulting from backups of drains and sewers, and this additional protection is available at very reasonable rates. For information on obtaining sewer backup coverage, contact your insurance company.

The Town's insurance carrier rarely approves claims resulting from sewer backups unless negligence in maintaining the system can be shown. Therefore, residents are encouraged to protect their property by obtaining sewer backup insurance.

**The Town of Vienna, Virginia**, has this notice on its Web site, letting residents know about the availability of sewer backup insurance and also that claims against the Town are not likely to result in payments. The notice is accompanied by links to sites that offer advice about preventing damage from sewer backup.

[http://www.ci.vienna.va.us/Town\\_Departments/backup\\_ins.htm](http://www.ci.vienna.va.us/Town_Departments/backup_ins.htm)

Policies under the NFIP can cover damage from sewer backup (even in the basement) if there are also general flood conditions in the area that caused the house and/or basement to get wet. If there is not a general condition of flooding in the area, an NFIP policy will not cover this damage. As noted on the previous page, there is still limited NFIP coverage for certain items in a basement, regardless of the cause of the flood.

However, several private insurance companies offer coverage for damage to a structure and its contents when sewer lines or a septic tank back up. Policy details will vary from company to company, but most of them will not pay for damage from surface flooding that would be covered by the NFIP. Each company has different amounts of coverage, exclusions, deductibles, and arrangements. Some endorsements on a homeowner's insurance policy are free; on others, the costs can range up to about \$75.

### **Where to Get Help**

- Local insurance agents have information on both the National Flood Insurance Program and private insurance for sump pump failure, sewer backup, and other related coverage.
- The State NFIP Coordinator can provide contacts for insurance and for the Community Rating System.
- The community's risk manager or finance office can provide information on whether community properties are adequately insured.
- The NFIP may be contacted directly at 1-800-CALL-FLOOD. This number can also refer callers to agents in the area who sell flood insurance.
- The NFIP Web site at <http://www.fema.gov/nfip/> has useful information, answers to questions, lists of insurance agents, links to and order forms for publications, and public information materials.
- Information on the NFIP Preferred Risk Policy for residential buildings can be found at <http://www.fema.gov/nfip/prphome.shtm> and for businesses at <http://www.fema.gov/nfip/prpbus.shtm>.
- The CRS Resource Center Web site has a collection of CRS materials, publications, and links to other insurance-related information at <http://training.fema.gov/emiweb/CRS/>.

Additional resources are listed in Appendixes A and B.