



Mandatory Purchase of Flood Insurance Requirement

NFIP: Our community participates in the NFIP (National Flood Insurance Program), which makes federally backed flood insurance available for all eligible structures, whether they are in the Floodplain also known as the SFHA (Special Flood Hazard Area) 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 structures, 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 within the SFHA. 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 (Flood Insurance Rate Map). It is indicated 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 (SBA), 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 within the SFHA. Copies of the FIRM are available for review in the **Building Division**. Lenders may also have copies or use a flood zone determination company to provide the SFHD form.

If the structure is within the 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 Fannie Mae and Freddie Mac, 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 within the 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 you feel that a SFHD form incorrectly places your property within the SFHA, you 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.

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