

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.

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.