

## FEMA Flood Zone Changes and Implementation of

### The Biggert-Waters Act

#### Mortgage Lender Compliance and Property Owner Requirements

##### National Flood Insurance Program

- Three federal agencies work together in the nation's flood insurance program. The Federal Emergency Management Agency conducts flood hazard analysis and maps the results into flood zones; the National Flood Insurance Program issues and administers the insurance policies; and the Federal Deposit Insurance Corp. ensures compliance through banks and mortgage companies. NFIP offers flood insurance for homes and businesses.

##### The Basics

- Most flood insurance in the United States is offered through the National Flood Insurance Program. Policies in the NFIP are subsidized through the federal government, which buys most mortgages from private banks after they are made. Imagine a flood hits a property with a federally-backed mortgage and the home is destroyed. Without flood insurance, the homeowner has little incentive to continue paying the mortgage, because they are paying a mortgage for a house that doesn't exist. In these situations, it is federally-backed agencies, such as Fannie Mae, that are left holding the bag.

People who live in flood-prone areas may be required to carry flood insurance. Mortgage lenders or banks typically require flood insurance as a condition of the loan. The amount of coverage depends on several

factors, including the value of a home

## Policy Requirements

- Whenever a loan is obtained for a building or mobile home the lender is required to perform a flood hazard determination. This includes completing a Standard Flood Determination Form that is provided by the Federal Emergency Management Agency. Flood insurance will be required of the borrower if the building or mobile home is determined to be in a Special Flood Hazard Area.

## Coverage Amounts

- The amount of coverage needed for a flood insurance policy depends upon the value of the building and/or contents to be insured. Premiums are based on the amount of coverage and whether there is a basement or enclosure. Policies can be purchased for the building and contents or for the contents of a building only. The maximum amount of coverage that can be purchased for a flood insurance policy is \$250,000 for the building and \$100,000 for contents.

## Calculating Coverage

- Lenders can calculate the amount of flood insurance that is required in a variety of ways. One way in which a lender can calculate the amount of coverage that is needed to have an insurance company provide an estimate. The calculation of flood insurance should be the same as calculating the coverage that is needed for a homeowners insurance policy. This includes an estimate of rebuilding **costs** if a home is completely destroyed.

## Compliance Requirements

- The amount of flood insurance that is needed for compliance with federal law is based on the lowest value of various requirements. These include the outstanding balance of a loan or the maximum amount of coverage provided for a building by the National Flood

Insurance Program. Another requirement is using the replacement cost value of the building or its full insurable value. The market value of a building should not be used nor should the value of any land.

## Amendments

- Sometimes, an improved property may appear to lie within a special flood hazard area but actually resides on ground already at or above the base flood elevation. In this case, the property owner can apply to FEMA for a Letter of Map Amendment, or LOMA. If granted, the LOMA waives the federal requirement of flood insurance purchase, but the property owner's mortgage lender may still require it.
- If you are a homeowner and believe your property is not located in the designated 100-year floodplain [also known as a 1-percent-annual-chance floodplain, or Special Flood Hazard Area (SFHA)], as shown on the effective Flood Insurance Rate Map or Digital Flood Insurance Rate Map for your community and you would like the Federal Emergency Management Agency (FEMA) to make an official determination regarding the location of your property relative to the SFHA, you may request a Letter of Map Amendment (LOMA) or a Letter of Map Revision Based on Fill (LOMR-F).

The issuance of a LOMA or LOMR-F by FEMA eliminates the Federal flood insurance purchase requirement as a condition of Federal or federally backed financing. However, lenders retain the prerogative to require flood insurance as a condition of any loan as part of their standard business practices, regardless of the location of the structure.

Certain sections of the LOMA and LOMR-F application forms must be certified by a Registered Professional Engineer or Licensed Land Surveyor. Therefore, requesters may incur certain fees associated with obtaining data and hiring a Registered Professional Engineer or Licensed Land Surveyor to provide and certify certain information that must be submitted with LOMA and LOMR-F requests. Information about the required supporting information

## ***Audits***

- Federal law doesn't place the burden of making sure a home has flood insurance on homeowners. It places this burden on federally-regulated lenders and those that want to sell mortgages to government sponsored entities. These banks and underwriters face audits to determine compliance with federal law. Banks are also empowered to buy insurance on behalf of their customers and bill them if they fail to buy their own coverage.

## Forced Placement

- Lenders, such as banks or mortgage companies, that provide a loan to a borrower may need to force coverage placement on that borrower. This can occur when a borrower fails or refuses to obtain or maintain coverage for a flood insurance policy. When a lender is forced to purchase a flood insurance policy the premiums can be included in the payments that the borrowers makes for the loan. The same coverage calculations need to be used to determine the amount that is needed for a policy

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