



Chatham County, GA
Department of
Engineering



About the Mandatory Purchase of Flood Insurance

The NFIP: The National Flood Insurance Program (NFIP) is a federal program enabling property owners in participating communities to purchase flood insurance on eligible buildings and contents, whether they are in or out of a floodplain. This community participates in the NFIP, making federally backed flood insurance available to its property owners.

The NFIP insures most walled and roofed buildings that are principally above ground on a permanent foundation, including mobile homes, and buildings in the course of construction. Property owners can purchase building and contents coverage from any local property and casualty insurance agent. To find a local insurance agent that writes flood insurance in your area visit www.floodsmart.gov.

Mandatory Purchase Requirement: Pursuant to the Flood Disaster Protection Act of 1973 and the National Flood Insurance Reform Act of 1994, the purchase of flood insurance is mandatory for all federal or federally related financial assistance for the acquisition and/or construction of buildings in Special Flood Hazard Areas (SFHAs). An SFHA is defined as any A or V flood zone on a Federal Emergency Management Agency (FEMA) Flood Insurance Rate Map (FIRM).

The mandatory purchase requirement also applies to secured 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 Reserve, the Federal Deposit Insurance Corporation, the Comptroller of Currency, the Farm Credit Administration, the Office of Thrift Supervision, and the National Credit Union Administration. It further applies to all 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 FEMA disaster assistance.

How it Works: When making, increasing, renewing, or extending any type of federally backed loan, lenders are required to conduct a flood zone determination using the most current FEMA FIRM to determine if any part of the building is located in an SFHA. If the building is in an SFHA, the federal agency or lender is required by law to provide written notification to the borrower that flood insurance is mandatory as a condition of the loan. Even though a portion of real property on which a building is located may lie within an SFHA, the purchase and notification requirements do not apply unless the building itself, or some part of the building, is in the SFHA. However, lenders, on their own initiative, may require the purchase of flood insurance even if a building is located outside an SFHA. Up to 25% of all NFIP flood losses arise from outside SFHAs (B, C, and X Zones).

Under federal regulations, the required coverage must equal 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 of coverage available for a single-family residence is \$250,000 and for non-residential (commercial) buildings is \$500,000. Federal agencies and regulators, including government-sponsored enterprises, such as Freddie Mac and Fannie Mae, may have stricter requirements.

Challenging the Lender's Map Determination

Communities should be aware that the ultimate decision on whether flood insurance is required rests with the lender. Lenders are permitted to rely on third-party vendors for flood zone determinations provided that those vendors guarantee the accuracy of their determinations. Communities are not considered third-party vendors nor are they expected to assume the lender's responsibility.

However, if there is a flood zone discrepancy among the parties involved, community officials often are contacted to provide assistance and documentation to clarify the flood zone for the building in question. The CRS encourages communities to help their residents. The community staff that provides the map information service should be familiar with the mandatory purchase requirements and the following processes available to property owners to resolve a flood zone dispute.

- 1) Talk to the lender—The first step should always be to talk to the lender and demonstrate that the building is not in the Special Flood Hazard Area (SFHA). The community can help, by supplying a printout of the FIRM showing the building's location. If the lender's decision is based on information from a flood zone determination company, the inquirer can ask the lender to request a manual determination. Often determinations are made by a computer, so a manual determination may result in a different finding.
- 2) Letter of Map Amendment—Out as Shown (LOMA—OAS) —Occasionally, a parcel or individual structure may be incorrectly determined to be located within the SFHA because of imprecise map delineations. A property owner may submit property and elevation materials to FEMA in support of a request for a LOMA. Where the FIRM is based on an aerial photograph and the building is clearly shown as outside the SFHA, this can be a relatively simple approach.
- 3) Letter of Determination Review (LODR)—This process is meant to be used to determine whether the FIRM was read correctly. The borrower and lender can jointly submit a review request to FEMA during the 45-day period after the borrower is notified that flood insurance is required. After reviewing the required supporting technical documentation, within 45 days after receiving the completed package, FEMA will issue a written determination, a LODR, indicating its concurrence or disagreement with the original determination made by the lender or third party, and stating whether the FIRM indicates that the subject building is in the SFHA. FEMA will assess a flat fee to cover the costs of this review.
- 4) Letter of Map Amendment (LOMA)—Sometimes the flood map will show a structure as clearly being within an SFHA, even though the building on the property is on ground that is above the base flood elevation. FIRMs may not reflect every rise in terrain, so there may be instances of "natural islands" of high ground that are advertently included in the SFHAs. A property owner may submit property and elevation materials in support of a request for a LOMA to remove the property from the SFHA.

More details about these letters can be found at www.fema.gov/letter-map-amendment-letter-map-revision-based-fill-process.