Flood insurance

The National Flood Insurance Program (NFIP) was established in 1968 after a series of widespread and expensive floods. Initially it was a voluntary program, but because of low participation the Flood Disaster Protection Act was introduced in 1973. It required, as a condition for receiving any future federal disaster assistance, that all flood-prone states and communities join the NFIP and establish and implement adequate floodplain ordinances with effective enforcement procedures. These procedures had to be consistent with federal standards to reduce or avoid future flood losses. The NFIP also applies to areas affected by mudslides.

The Flood Disaster Protection Act determines that flood insurance is required if any of the following applies:

- Property is in a community that is enrolled in the NFIP.
- A FEMA map is in effect for the community.
- Improved real property is a security for a loan, or the subject of a federally insured or guaranteed loan is located in the FEMA-designated special flood hazard area.
- Property is financed through the federal government or a federally regulated lender.

Examples of federally related financial assistance are federal grants; Small Business Administration loans; Federal Housing Administration loans; Veterans Administration and Federal Housing Administration mortgages; and mortgages that are federally insured, regulated, or supervised, such as from banks that are insured through Federal Deposit Insurance Corporation (FDIC) or Federal Savings and Loan Insurance Corporation (FSLIC) or regulated by the Federal Home Loan Bank Board, credit unions insured by the National Credit Union Administration, and banks regulated by the Comptroller of the Currency of the Federal Reserve Board.

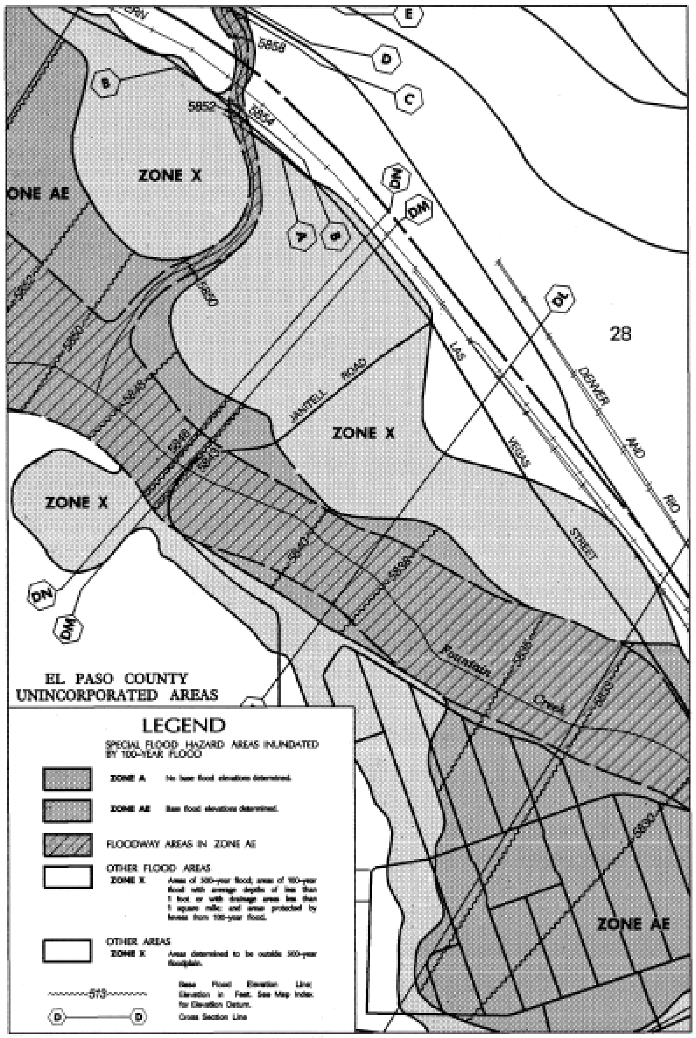

FIG. 7-5 An example of a FIRM panel for El Paso, Colorado, and incorporated area. *Zone AE*, 100-Year floodplain as determined by hydraulic models; *Zone A*, 100-year floodplain not determined by hydraulic model; *cross-hatched area*, floodway areas; *Zone X*, areas outside 500-year flood zone. (From Federal Emergency Management Agency: *Multi-hazard identification and risk assessment: a cornerstone of the national mitigation strategy*, Washington, DC, 1997, FEMA.)

The amount of flood insurance required by law is equal to the outstanding balance of a loan or the maximum required by law, whichever is less. In the emergency program the maximum amount of insurance available for a single-family dwelling is $35,000. In the regular program the maximum amount is $185,000. For an insurance policyholder to be eligible for full replacement cost coverage, the amount of insurance purchased has to equal 80% of the value of the insured building or the maximum available under the program, whichever is less. These rates apply only to an insured's principal residence, defined as where the insured has lived for 80% of the year or 80% of the period of ownership if less than a year. They do not apply to mobile homes. The lender is responsible for ensuring adequate coverage. The standard deductible is $500.

In some cases FEMA prefers to buy out owners of floodprone property because this may be less expensive than having to rescue and rebuild multiple times. The buyout procedure requires two calculations. The value of the property before the flood has to be determined, and that value must be compared with the amount it would cost to repair the building. If the repair costs are more than 50% of the estimated value of the property, the building becomes a candidate for buyout.

Elevating a structure does not qualify a property for exemption from the NFIP because it is the lowest point (foundation) of the house that determines whether a house is in the floodplain or not. The state DNR can advise landowners on ways to make their property less prone to flooding without displacing the water to other properties. Floodplains should not be changed without the prior consent of the DNR.

Regrettably, participation in the NFIP has remained low. Often no more than 20% to 30% of the insurable buildings in identified flood hazard zones are covered. In addition, for those that are insured there are often discrepancies in rates between those paying actuarial rates (current insurance premiums), which apply to buildings that were constructed after 1973, and those whose premiums are subsidized for their pre-1973 buildings.

Studies on why poor compliance has been common despite the federal mandate for insurance identified the following as some of the reasons:

- The federal government continued to offer extensive disaster assistance funding even to property owners who were not insured.
- Flood insurance could be purchased with only a 5-day waiting period. For cresting floods, people would wait until they were sure the flooding was going to affect them.
- Mortgage lenders were not diligent in requiring flood insurance on new mortgages or in enforcing annual renewals.
- Approximately 25% of houses were owned outright, and for these owners flood insurance is still voluntary.
- Insurance requirements can be enforced only if a loan is backed through federal resources.
- There appears to be a lack of knowledge about the program among policyholders.
- Often property owners who live in floodplains have low incomes and cannot afford the insurance premiums.