

# The ABC's of Flood Insurance

A Home buyer's guide to  
Flood Insurance

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Congratulations on becoming a new home buyer! Statistics continue to show that one of the best ways to develop wealth and to enhance future retirement planning is by becoming a home owner. In order to protect this new asset, it is also very important that you place the correct type and amount of insurance on your new property. Bad things can happen and peace of mind comes with knowing that you have most eventualities considered and covered by insurance. One of those major considerations is protecting the home from the peril of flood loss. This guide was developed to hopefully answer the majority of questions you may have concerning purchasing this very important coverage.



## WHY SHOULD I CARRY FLOOD INSURANCE ON MY HOME?

The main reason for carrying flood insurance is because your home is located in a flood zone.....that's right, every home is in a flood zone. The risk of a home being damaged by flood is much greater than the risk of it being damaged by a fire or tornado. Statistics show that there is a one in four chance that a home will be damaged by flood during the course of a typical 30 year mortgage. And let's make sure we all understand one thing clearly, **YOUR HOMEOWNERS POLICY DOES NOT COVER LOSSES CAUSED BY FLOOD!!!**

## BUT I'M NOT IN A FLOOD ZONE....WHY DO I NEED TO BUY FLOOD INSURANCE?

As mentioned above, everyone is in a flood zone. When most people say that they aren't in a flood zone, what they really mean is that they are not in a high-risk flood zone. High-risk flood zones, known as Special Flood Hazard Areas (SFHA's), are those flood zones in which homeowners are required to purchase flood insurance in order to obtain a federally-backed mortgage. These SFHA's are shown on flood maps as those areas more likely to sustain flood damage and are generally found near bodies of water. These zones are called either "A" zones or "V" zones.

There are however also “X” zones, “B” zones, and “C” zones. These zones are areas with a moderate to minimal chance of suffering a flood loss. Having said this, annually about 25% of all flood losses occur in these lower risk zones. Because of this, every homeowner should consider purchasing flood insurance, even if they are not required to.

## OK, I’M IN A HIGH-RISK FLOOD ZONE....WHAT IS MY FLOOD INSURANCE GOING TO COST?

First, let me say this...there is no difference in flood insurance premiums through the National Flood Insurance Program (NFIP) regardless of which agency or which company writes the policy. If one company quotes one premium and another company quotes a different premium, one of them is wrong!! If your agent quotes you an incorrect lower premium, don’t feel comfortable. Flood insurance has a unique provision that says that you will always only get what you paid for and so if you paid a lower incorrect premium, at claim time, you will only get the coverages that that premium would have purchased if rated correctly. So it is important to make sure that you deal with an agent who understands the flood program and its many rules.

There are a couple of main factors that go into the rating of a policy on a home located in one of the two high-risk flood zones.

- How old is your home?
- What is the elevation difference between your lowest floor and the Base Flood Elevation (BFE)?

The first consideration is the age of your home...not really its age, but when it was constructed relative to the date of your community’s first Flood Insurance Rate Map (FIRM). If your home was built before the first FIRM was completed, your home is considered to be a Pre-FIRM home. Some Pre-FIRM homes, as of this writing, still qualify for subsidized rating by the NFIP. What this means is that the premium you pay probably will not reflect the true risk of your home flooding and in fact, will be less than it should be if it were rated according to its actual elevation.

To determine if your home is Pre-FIRM, you can ask your insurance agent, realtor, or community flood plain manager or you can go to <http://www.fema.gov/national-flood-insurance-program/national-flood-insurance-program-community-status-book> . This link will take you to a state by state listing of communities participating in the NFIP and the date of their original FIRM.

If your home was built after the date of the initial Flood Insurance Rate Map, it will be considered to be a Post-FIRM home. Post-FIRM homes follow a different set of rules when it comes to rating.

If your home is Post-FIRM, before getting a rate from an agent or company, you will be required to obtain an Elevation Certificate (EC). This is a document that is typically completed by a land surveyor, engineer or architect. Also, the community's flood plain manager may actually have a copy of an EC in their file, so ask them first. This document will actually show the elevation difference between your lowest floor (for rating purposes) and the Base Flood Elevation (BFE). The BFE is set by the actuaries at the National Flood Insurance Program and is that elevation below which your home is predicted to be damaged by a flood that exceeds the 100-year floodplain.

When the EC is completed, if your home is located at or above this BFE, the flood insurance rates will be affordable and maybe even low. On the other hand, if your home is located below the BFE, the flood insurance rates could be substantial. This should be a critical element in determining which home to buy or how much to offer for your home



## WHAT IS “GRANDFATHERING” AND CAN I TAKE ADVANTAGE OF IT?

When flood map changes occur, the National Flood Insurance Program (NFIP) provides a lower-cost flood insurance rating option known as “grandfathering.” It is available for property owners who:

- Already have flood insurance policies in effect when the new flood maps become effective and then maintain continuous coverage; or
- Have built in compliance with the FIRM in effect at the time of construction.

While grandfathering typically will provide cost savings to a property owner when the new FIRM takes effect, there may be cases when using the rating based on elevation will result in lower premiums. So both options should always be evaluated.

## “NEWLY MAPPED” PROVISION

Also, as of April 1, 2015, there is a new “Newly Mapped” provision that could help reduce your premiums, at least for a few years.

Buildings newly mapped into a high-risk flood zone may be eligible for a lower-cost Preferred Risk Policy (PRP) rate in the year following a map change. However, premiums may increase up to 18 percent each year as part of the premium rate revisions put in place by the Homeowner Flood Insurance Affordability Act (HFIAA) of 2014.

If your home was newly mapped into a SFHA after October 1, 2008, you have the option of using this Newly Mapped Provision if a flood policy is purchased prior to April 1, 2016.

## I'M NOT IN A HIGH-RISK FLOOD ZONE...HOW MUCH IS MY FLOOD INSURANCE GOING TO COST?

If your home is located in one of the lower risk flood zones (remember those are those zones labeled as “X”, “B”, or “C” zones), flood insurance is a little easier to get and also usually much less expensive.

To begin with, homes in these zones typically qualify for what is known as a Preferred Risk Policy (PRP). Assuming that your home has not had several flood losses in the past, this policy offers a combination building and contents package with rates beginning at around \$200 per year.

Secondly, homes in these areas are not required to get an elevation certificate in order to obtain coverage.

Remember that flooding losses can occur in any flood zone and so it is always advisable to obtain this very valuable coverage.

## SUMMARY

The NFIP Flood policy only covers one peril, and that of course, is loss by flood. Notwithstanding that, the actual policy is almost 50 pages long. It is important for the new homeowner to find an agent or company who understands this complex subject and can help them understand the many intricacies of the National Flood Insurance Program.

Good luck on your new home ownership venture.



S. Earl Aycock, Jr., CIC has been a licensed agent since 1976 and is the owner and founder of The Insurance Center of Meridian, LLC. Earl is also currently on the National Faculty of the National Alliance for Insurance Research and Education and teaches personal and commercial insurance nationwide. Particularly, Earl is the author of the Flood Insurance course offered by this organization in all 50 states. Please feel free to contact Earl at 601.693.4405 or email at [earl@inscentermdn.com](mailto:earl@inscentermdn.com). Thanks.