

Flood Insurance

What You and Your Clients Should Know Before Closing (Document created July 2016)

Flooding is the Nation's number 1 natural disaster. Yet the risk of flooding is not always top of mind among home buyers. Flood risks have changed over time, and the costs and consequences of flooding are rising. Related changes to the National Flood Insurance Program make it more important than ever to understand a building's flood risk and flood insurance requirements. Knowing and disclosing those requirements will help you complete a sale with fewer unwelcome surprises.

What to Know

New owners don't have to be in a high-risk area to obtain flood insurance—or to be at risk for flooding. Flood insurance is available nearly everywhere. Your clients may qualify for a low-cost Preferred Risk Policy. Have them check with their insurance agents for details.

In high-risk areas, most mortgage lenders will require flood insurance. Federal law mandates that federally regulated or insured lenders require flood insurance coverage to the amount of the loan in high-risk areas. These areas are shown as zones beginning with the letters "A" or "V" on Flood Insurance Rate Maps (FIRMs).

In high-risk areas, most property owners pay flood insurance rates that correlate with the risk of flooding showing on the FIRM. Premiums vary based on building elevation, the amount of coverage, the deductible chosen, and other factors. Insurance costs for buildings in coastal areas subject to wave action are likely to be higher. Your clients can call an insurance agent for an exact quote.

In high-risk areas, some properties will continue to qualify for lower subsidized rates. However, rates will increase over time. The subsidies apply to older homes and businesses built before the community's first FIRM became effective and related local building standards were passed. These buildings are called "pre-FIRM." Some pre-FIRM subsidized rates are being phased out through annual increases of up to 25 percent.

Calculating the full-risk rate usually requires an Elevation Certificate. It tells the height of the building's lowest floor in relation to the height floodwaters are estimated to reach or exceed in a major flood. The current owner may already have one, or the community or county may have one on file.

New flood maps issued nationwide will show some risks have changed. If new maps are planned for your community, you'll want to stay abreast of the schedule and the extent of the changes. The grandfathering option continues to be in effect. It allows a property shown at higher risk on the new map to retain its previous flood insurance rating classification—and allows the rating to convey to the new owner. For more information about grandfathering, please visit [FEMA.gov/media-library/assets/documents/16686](https://www.fema.gov/media-library/assets/documents/16686).

Flood Risks and Insurance Requirements Make Good Business Sense

- > **It protects your seller.** Flood risk should be disclosed—and many states require it.
- > **It protects the buyer.** Insurance requirements are a real factor in calculating the cost of purchase.
- > **It protects you.** The last thing you want is a derailed closing or a client who is confused about the level of coverage.

You can find the flood zone for a specific address at [msc.fema.gov](https://www.msc.fema.gov). Learn more about flood insurance at [FloodSmart.gov](https://www.floodsmart.gov).

How to Help Sellers and Buyers

- 1. Know the flood risk.** Ask your seller, or check online at [msc.FEMA.gov](https://www.msc.FEMA.gov). Encourage buyers to request such information. Check with the local community if new flood maps are planned and, if so, when they may become effective.
- 2. Share the information early.** Encourage your sellers to disclose what they know about the property's flood risk, including the property's Elevation Certificate and whether they have a policy that could convey.
- 3. Stress the value of flood insurance.** Flood insurance is an important component in a property owner's financial security. Flooding is a risk any new owner will want to address. In moderate- to low-risk areas, the Preferred Risk Policy offers peace of mind at a low annual price.

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