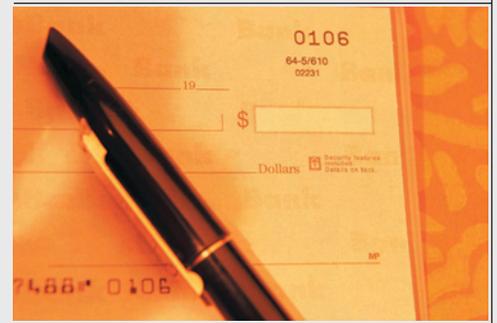


Understanding Flood Map Modernization

MORTGAGE LENDERS



IDENTIFYING THE RISK

Because flooding is the number one natural disaster in the U.S., it is important that property owners know their flood risk. The Federal Emergency Management Agency's (FEMA's) flood hazard maps, known as Flood Insurance Rate Maps (FIRMs), are an important tool for identifying flood risks and guiding communities in their floodplain management decisions.

FEMA's Flood Map Modernization (Map Mod) program is an effort to transform the Nation's flood maps into a more reliable, easier-to-use, and readily available product. As a result, more up-to-date flood hazard mapping data will be available to assist communities in land development decisions. This information also enables businesses and home owners to make more informed financial decisions to protect their property.

UNDERSTANDING THE EFFECTS OF CHANGES

Lending institutions play an important role in educating borrowers about Map Mod, the risks associated with flooding, and the Federal flood insurance requirement. It is important for lenders to understand the effects new FIRMs may have on the level of flood risk and flood insurance requirements.

Notifying Borrowers in a High-Risk Flood Zone

When a real estate secured loan is applied for through a federally regulated or insured lender, the lender must use the effective FIRM to determine the property's flood risk¹. If the property is located in a high-risk area (known as a Special Flood Hazard Area [SFHA] and shown on the flood maps with letters beginning with "A" or "V"), flood insurance is required prior to or at closing.

When a community's Flood Insurance Study (FIS) is completed, and a new FIRM becomes effective, the flood insurance requirements may change on properties within a lender's portfolio. Lenders need to track these changes and send notifications to affected borrowers if there has been a change in requirements.

Before the new FIRMs become effective, originating lenders and borrowers should stay informed about any impending map changes. Lenders or borrowers must determine, prior to closing, what possible changes to the flood risk and Federal flood insurance requirement will occur and when the changes will take effect. This will help ensure that any changes in flood insurance requirements are known in advance and provide for a smoother closing. If flood insurance is required at closing and the insurance agent has determined that the property qualifies to be "grandfathered" per the National Flood Insurance Program's underwriting rules,

FLOOD RISKS ARE CHANGING: KNOW THE INSURANCE OPTIONS

When making, increasing, renewing or extending a loan, any bank, savings and loan association, credit union, Farm Credit System Institution, or similar institution that is supervised, regulated, or insured by a Federal entity for lending regulations must ensure that all loans on properties in high-risk flood zones are protected with flood insurance. It is important that the Federal flood insurance requirement is based on flood zone determinations using current effective maps and not preliminary maps that may be issued as a community goes through a remapping.

¹ This requirement also applies when increasing, renewing, or extending a loan.



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FLOOD RISKS ARE CHANGING: KNOW THE INSURANCE OPTIONS

When properties are mapped into high-risk zones and flood insurance is required, the property may qualify to be rated for insurance using the National Flood Insurance Program (NFIP) “grandfathering” rules, and result in lower insurance costs to the borrower.

When properties are mapped into low- or moderate-risk zones, flood insurance becomes optional; but it should still be recommended as the risk has only been reduced, not eliminated. In fact, in 2006, over 30 percent of all flood claims occurred in these zones. The NFIP provides for an easy conversion of an existing policy to a lower-cost Preferred Risk Policy.

² Lenders have the right to continue to require flood insurance, even if it is not federally required.

³ Assuming that the community passes an ordinance that adopts the new flood maps before the proposed effective date of the map.

the borrower can provide a policy that is not rated in an “A” or “V” zone.

Notifying Borrowers Mapped into a Low- or Moderate Risk Zone

When FIRMs become effective, some properties may be mapped into a lower risk flood zone where flood insurance is not required². While the requirement has been removed, the risk has not; it has only been reduced. When lenders notify the borrower of this change, they are encouraged to urge the borrower to consider maintaining coverage. Many borrowers, through their insurance agent, can easily convert their existing coverage to a lower-cost Preferred Risk Policy.

STAYING INFORMED

If lenders know when and where map changes are occurring, they are properly prepared to explain to current and potential borrowers what the flood risk is (or what the changes may be), the related insurance requirements, and that there are insurance options (an insurance agent can always provide greater detail on coverages and costs). This information will allow both parties to be better prepared at closing or during the life of the loan. To stay informed about local map changes, local lenders should stay in contact with community officials as the community goes through the remapping (FIS) process.

FEMA provides updated monthly listings of all communities that have received a

Letter of Final Determination (LFD), which is a document that states a community’s new flood map will become effective in six months³, and therefore, changes in insurance requirements may take place.

- For a copy of an LFD listing, visit: http://www.fema.gov/plan/prevent/fhm/st_hot.shtm#2.
- For more information about Map Modernization, visit: http://www.fema.gov/plan/prevent/fhm/mm_main.shtm.
- To learn more about flood insurance, visit <http://www.floodsmart.gov>.
- For National Flood Insurance Program information specifically for lenders, including information about the mandatory purchase of flood insurance guidelines, go to: <http://www.fema.gov/business/nfip/infol.shtm>.
- A copy of the mandatory purchase flood insurance guidelines can be obtained by visiting: <http://www.fema.gov/library/viewRecord.do?id=2954>.

The Department of Homeland Security’s Federal Emergency Management Agency (FEMA) is responsible for administering the National Flood Insurance Program (NFIP). FEMA and its partners provide flood hazard data and maps in support of the NFIP. Up-to-date flood hazard information and maps are needed to support the purchase and rating of flood insurance, enable community-based floodplain management, and increase the Nation’s flood hazard awareness.

