

Levees Systems and Flood Insurance

Information for Mortgage Lenders

LEVEE SYSTEMS: RISK REDUCTION, NOT RISK ELIMINATION

The United States has thousands of miles of levees—usually earthen embankments—designed and constructed in accordance with sound engineering practices to provide protection from temporary flooding along rivers, lakes, and coastlines. Many levee systems were first put in place to protect agricultural areas from frequent flooding. They date back as much as 150 years. Others were designed to protect urban areas, and were typically built to higher standards. However, no levee system provides full protection from all flood events.

All levee systems are designed and constructed to provide *a specific level of flood protection* and can be overtopped during larger flood events. This includes levee systems designed to provide protection from the “1-percent-annual-chance flood.” Levee systems require regular maintenance to retain their level of protection. Levee systems can and do decay over time, and maintenance can become a serious challenge. When levee systems do fail, or they are overtopped, the results are often catastrophic; the flood damage may be more significant than if the levee system had not been built.

For these reasons, mortgage lenders should take into account the unique flood risks associated with levee systems when making or servicing loans in levee-impacted areas.

FLOOD MAPS IDENTIFY RISKS

Flood risks are identified on flood hazard maps, also known as Flood Insurance Rate Maps (FIRMs). FIRMs display high-risk areas as Special Flood Hazard Areas (SFHAs). Flood insurance is required in high-risk flood areas as a condition of any mortgage that is federally backed, regulated, or insured. FIRMs also show low- to moderate-risk areas, where flood insurance is optional, but encouraged along with floodproofing and other mitigation measures. Many property owners in these areas will qualify for lower-cost Preferred Risk Policies (PRPs).

LEVEE SYSTEMS AND MODERNIZED FLOOD MAPS

FEMA is updating FIRMs nationwide to reflect current flood risk data. As part of the process, FEMA is collecting data and documentation from community officials and levee system owners to determine whether levee systems meet NFIP requirements for providing 1-percent-annual-chance flood protection.

Eligible levee system owners are allowed up to 24 months to submit required data and documentation. During that time, the levee system is shown on the map as *provisionally accredited* and the impacted area is shown on the modernized, digital map—the DFIRM—as having a moderate flood risk. If a levee system cannot be shown as meeting NFIP criteria within the time allowed, the levee-impacted area will be shown as an SFHA on the DFIRM and flood insurance requirements will apply.

LEVEE SYSTEMS AND FLOOD INSURANCE—THE LENDER'S ROLE

Federal law requires that federally regulated or insured lenders meet mandatory flood insurance purchase requirements applicable to structures securing loans located in Special Flood Hazard Areas (SFHAs).

Whenever you make, increase, extend, or renew a mortgage, home equity, home improvement, non-residential or farm credit loan in an SFHA, you must make sure the property is covered with flood insurance to close that loan.

Areas impacted by levee systems that longer meet NFIP regulations are designated as high-risk SFHAs, and flood insurance is required in these areas once the map becomes effective.

Civil monetary penalties may be assessed by regulatory authorities against non-compliant lenders.





PROTECTING EVERY PROPERTY—THE MORTGAGE LENDER’S ROLE

When a DFIRM shows SFHAs, you must notify affected clients about insurance requirements. When lending in communities with levee systems, you should pay special attention to changing risk levels and related insurance requirements. Access to current information concerning levee systems will speed loan closings and protect loan collateral. Your customers’ flood risk doesn’t end at a line on a flood map. Your lending institution may choose to require flood insurance on *all loans*, even those for buildings located outside the SFHAs.

If your customers live in a levee-impacted area, you should recommend the following steps to help them reduce the impact of flood events:

- **Understand the risk.** Local officials can provide more information about the flood risk for the property.
- **Plan for evacuation.** Plan and practice a flood evacuation route, and ask someone out of state to be a “family contact” in an emergency.
- **Consider purchasing flood insurance.** Flood insurance can protect a home or business financially, and it is available regardless of the accreditation status of a levee system.

The chart below shows how FEMA designates risks on FIRMs and DFIRMs and the requirements and options for flood insurance in levee-impacted areas.

IF THE LEVEE SYSTEM...	THE NFIP FLOOD MAP SHOWS THIS FLOOD RISK AS...	AND THESE FLOOD INSURANCE REQUIREMENTS AND OPTIONS APPLY
<p>Is not currently shown as providing protection from the 1-percent-annual-chance flood.</p> <p>(Not Accredited)</p>	<p>High flood risk, with levee-impacted areas shown as being in an SFHA (labeled as Zones A, AE, AH, AO) on the map.</p>	<p>Flood insurance is required in high-risk areas as a condition of any mortgage that is federally backed, regulated, or insured. Your customers should be aware that Insurance rates may rise to reflect higher flood risk in these areas.</p>
<p>Provides protection from the 1-percent-annual-chance flood.</p> <p>(Accredited)</p>	<p>Moderate flood risk, with levee-impacted areas shown as being in Zones B, C, X, or X (shaded) on the map.</p>	<p>The mandatory flood insurance purchase requirements of the NFIP do not apply in Zones B, C, X, or X (shaded), but flood insurance is strongly recommended. Lower-cost Preferred Risk Policies (PRPs) are available for most buildings in Zones B, C, X, or X (shaded).</p>
<p>No longer meets the minimum standards to be shown as providing protection from the 1-percent-annual-chance flood.</p> <p>(De-Accredited)</p>	<p>High flood risk, with levee-impacted areas shown as being in an SFHA (labeled as Zones A, AE, AH, AO) on the map.</p>	<p>Flood insurance is required in high-risk areas as a condition of any mortgage that is federally backed, regulated, or insured. Grandfathering can save your customers money. Buildings covered by flood insurance before the effective date of new maps can be grandfathered in at the current flood insurance risk zone designation, as long as there is no lapse in coverage. Note: This coverage can be transferred.</p>
<p>Is temporarily shown as providing protection from the 1-percent-annual-chance flood while additional documentation is being gathered.</p> <p>(Provisionally Accredited)</p>	<p>Moderate flood risk, with levee-impacted areas being shown as being behind a Provisionally Accredited Levee, or PAL (shown as a Zone X (shaded) on the map pending accreditation of the levee system).</p>	<p>The mandatory flood insurance purchase requirements of the NFIP do not apply in Zones B, C, X, or X (shaded), but flood insurance is strongly recommended. Lower-cost PRPs are available for most buildings in Zones B, C, X, or X (shaded).</p>

For more detailed information about levee systems and the flood insurance risk zones shown on FIRMs and DFIRMs, please visit the FEMA Web site at www.fema.gov/plan/prevent/fhm. The gateway to the FEMA-provided levee system information, which is organized by stakeholder group to assist community officials, property owners, lending industry professionals, and other stakeholders, is www.fema.gov/plan/prevent/fhm/lv_intro.shtm