

Flood Insurance: How It Works



Historically, flooding has brought damage and destruction to communities across the United States. In order to help alleviate the financial devastation caused by flooding, Congress created the National Flood Insurance Program (NFIP) in 1968. The NFIP, managed by the Federal Emergency Management Agency (FEMA), enables homeowners, business owners and renters in participating communities to purchase federally backed flood insurance. This insurance is designed to provide an insurance alternative to disaster assistance to meet the escalating costs of repairing flood damage to buildings and their contents.

NFIP PARTICIPATION AND PROTECTION

FloodSmart's awareness strategy promotes flood insurance nationwide — not only among those who live in high-risk areas, but also among those who live in lower risk areas as well. Everyone is at risk from flooding, and the FloodSmart Campaign reminds people in low- to moderate-risk areas that their risk is simply reduced, not removed, while simultaneously targeting high-risk areas with a greater and more consistent emphasis on the importance of flood preparedness and protection.

FLOOD INSURANCE BASICS

Consumers need to know that most homeowners policies do not cover flooding. Flood insurance is available to homeowners, business owners and renters. Homeowners, business owners and renters may purchase flood insurance for both a building and its contents.

There are limits to NFIP insurance. Homeowners can insure their home for up to \$250,000 and its contents for up to \$100,000. Renters can cover their belongings for up to \$100,000. Nonresidential property owners can insure a building and its contents for up to \$500,000 each. The average homeowners flood insurance premium is a little more than \$500 a year.

HOW TO PURCHASE FLOOD INSURANCE

Flood insurance is sold and serviced by about 90 private insurance companies in more than 20,200 communities nationwide. To purchase a policy, consumers are first encouraged to call their insurance agent. If they need to find an agent in their area, they can also visit FloodSmart.gov or call **1-800-427-2419**.

FLOOD INSURANCE REQUIREMENTS

Residents who live in a high-risk area (or Special Flood Hazard Area) are required to purchase flood insurance if they have a mortgage from a federally regulated lender, and they must carry the insurance for the life of the mortgage. Residents with a mortgage on a building outside high-risk areas can also purchase flood insurance, and they may be eligible for a lower cost policy (called a Preferred Risk Policy). The NFIP encourages all residents to learn their flood risk and consider protecting themselves with flood insurance. See the Flood Map Talking Points in this CD for more information about flood zones.

IMPORTANT FACTS

Property owners and renters **CAN** get flood insurance:

- If they live in a floodplain or high-flood-risk area
- If they live outside a floodplain or in a low-to-moderate flood-risk area — and at lower cost (as little as \$112 a year)
- If their house has been flooded before
- If their mortgage company doesn't require it
- From their local insurance agent



WAITING PERIOD

There is normally a 30-day waiting period when purchasing a new policy. If a policy is purchased in connection with a mortgage or at a set time period following the revision or update of a Flood Insurance Rate map, the waiting period does not apply.

WHAT IS AND IS NOT COVERED BY FLOOD INSURANCE

Generally, physical damage to your building or personal property “directly” caused by a flood is covered by your flood insurance policy. For example, damages caused by a sewer backup are covered if the backup is a direct result of flooding. However, if the backup is caused by some other problem, the damages are not covered. The following list provides general guidance on items covered by flood insurance. Refer to your policy for the complete list.

WHAT’S INSURED UNDER BUILDING PROPERTY COVERAGE

- The insured building and its foundation
- The electrical and plumbing systems
- Central air-conditioning equipment, furnaces and water heaters
- Refrigerators, cooking stoves and built-in appliances such as dishwashers
- Permanently installed carpeting over an unfinished floor
- Permanently installed paneling, wallboard, bookcases and cabinets
- Window blinds
- Detached garages (up to 10 percent of building property coverage); detached buildings (other than garages) require a separate building property policy
- Debris removal

WHAT’S INSURED UNDER PERSONAL PROPERTY COVERAGE

- Personal belongings such as clothing, furniture and electronic equipment
- Curtains
- Portable and window air conditioners
- Portable microwave ovens and portable dishwashers
- Carpets not included in building property coverage (see above)
- Clothes washers and dryers
- Food freezers and the food in them
- Certain valuable items such as original artwork and furs (up to \$2,500)

WHAT’S NOT INSURED BY EITHER BUILDING PROPERTY OR PERSONAL PROPERTY COVERAGE

- Damage caused by moisture, mildew or mold that could have been avoided by the property owner
- Currency, precious metals and valuable papers such as stock certificates
- Property and belongings outside of a building such as trees, plants, wells, septic systems, walks, decks, patios, fences, seawalls, hot tubs and swimming pools
- Living expenses such as temporary housing
- Basement improvements like finished walls, floors or ceilings, or personal belongings that may be kept in a basement, such as furniture and other contents
- There are also some exceptions for coverage in areas below the lowest elevated floor of your home
- Enclosed areas under the first floor used for storage; the contents will not be covered by flood insurance