

# National Flood Insurance Program (NFIP)

## Myths and Facts

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Who needs flood insurance? *Everyone.* And everyone in a participating community of the National Flood Insurance Program (NFIP) can buy flood insurance. Nationwide, more than 19,000 communities have joined the program. In some instances, people have been told that they cannot buy flood insurance because of where they live. To clear up this and other misconceptions about Federal flood insurance, the NFIP has compiled the following list of common myths about the program, and the real facts behind them, to give you the full story about this valuable protection.

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### **Myth: You can't buy flood insurance if you are located in a high-risk flood area.**

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**Fact:** You can buy Federal flood insurance no matter where you live if your community participates in the NFIP, except in the Coastal Barrier Resources System (CBRS) areas and if your building is in violation of state or local floodplain management codes. In 1968, flood insurance coverage was virtually unavailable in the private sector. Through the National Flood Insurance Act of 1968, Congress authorized the National Flood Insurance Program, which provided an opportunity for property owners to purchase flood insurance protection made available by the Federal Government for structures and contents. The under Flood Disaster Protection Act of 1973, lenders must require borrowers whose property is located with an SFHA to purchase flood insurance as a condition of receiving a Federally backed mortgage loan. Federally regulated lenders are obligated to notify borrowers that their property is located in an SFHA and that Federal flood insurance is required.

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### **Myth: You can't buy flood insurance immediately before or during a flood.**

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**Fact:** You can purchase flood coverage at any time. There is a 30-day waiting period after you've applied and paid the premium before the policy is effective, with the following exceptions: 1) If the initial purchase of flood insurance is in connection with the making, increasing, extending, or renewing of a loan, there is no waiting period. The coverage becomes effective at the time of the loan, provided application and presentment of premium are made at or prior to loan closing. 2) If the initial purchase of flood insurance is made during the 1-year period following the issuance of a revised flood map for a community, there is a 1-day waiting period. The policy does not cover a "loss in progress," defined by the NFIP as a loss occurring as of 12:01 a.m. on the first day of the policy term. In addition, you cannot increase the amount of insurance coverage you have during a loss in progress.

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### **Myth: Homeowners' insurance policies cover flooding.**

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**Fact:** Unfortunately, many homeowners do not find out until it is too late that their homeowners' policies do not cover flooding. Federal flood insurance protects your most valuable assets—your homes and belongings.

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### **Myth: Flood insurance is only available for homeowners.**

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**Fact:** Flood insurance is available to protect homes, condominiums, apartments, and nonresidential buildings, including commercial structures. A maximum of \$250,000 of building coverage is available for single-family residential buildings; \$250,000 per unit for multifamily residences. The limit for contents coverage on all residential buildings is \$100,000, which is also available to renters. Owners of commercial structures can purchase up to \$500,000 building and \$500,000 contents, coverage. The amount of coverage is always subject to the insurable value of the property.

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### **Myth: You can't buy flood insurance if your property has been flooded.**

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**Fact:** It doesn't matter how many times your home, apartment, or business has flooded. You are still eligible to purchase flood insurance, provided that your community is participating in the NFIP.

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### **Myth: Only residents of high-risk flood zones need to insure their property.**

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**Fact:** All areas are susceptible to flooding, although to varying degrees. It is advisable to purchase flood insurance to protect properties located in the low-to-moderate risk areas. Over 25% of the NFIP's claims occur in low-to-moderate risk areas. The annual premium for NFIP's Preferred Risk Policy, can start at as little as \$106 and is designed for residential properties located in low-to-moderate flood risk zones.

# National Flood Insurance Program (NFIP)

## Myths and Facts (Continued)

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**Myth:** The NFIP does not offer any type of basement coverage.

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**Fact:** Yes it does. The NFIP defines a basement as any area of a building with a floor that is *sub grade*, or below ground level on all sides. Basement coverage under an NFIP policy includes cleanup expenses and items used to service the building, such as elevators, furnaces, water heaters, washers, dryers, air conditioners, freezers, utility connections, circuit-breaker boxes, pumps, and tanks used in solar energy systems. The policy does not cover the contents of a finished basement and improvements such as finished walls, floors, or ceilings.

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**Myth:** Federal disaster assistance will pay for flood damage.

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**Fact:** Before a community is eligible for disaster assistance, it must be declared a Federal disaster area. Federal disaster assistance declarations are awarded in less than 50 percent of flooding incidents. The annual premium for an NFIP policy, averaging about \$300 per year, is less expensive than interest on Federal disaster loans, even though they are always granted on favorable terms. Furthermore, if your building is located in a SFHA and you receive Federal disaster assistance after a flood, you must purchase flood insurance to be eligible for future disaster assistance for housing repair or replacement.

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**Myth:** The NFIP encourages coastal development.

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**Fact:** One of the NFIP's primary objectives is to guide development away from high-risk flood areas. NFIP regulations minimize the impact of structures that are built in SFHAs by requiring them not to cause obstructions to the natural flow of floodwaters. Also, as a condition of community participation in the NFIP, those structures built within SFHAs must adhere to strict floodplain management regulations. In addition, the Coastal Barrier Resources Act (CBRA) of 1982 relies on the NFIP to discourage building in the fragile coastal areas covered by CBRA by prohibiting the sale of flood insurance in designated CBRA areas. These laws do not prohibit property owners from building along coastal areas; however, they do transfer the financial risk of such building from Federal taxpayers to those who choose to live or invest in these areas.

**Myth:** Federal flood insurance can only be purchased through the NFIP directly.

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**Fact:** Federal flood insurance is sold and serviced directly through the NFIP or through a Write Your Own (WYO) company. WYO companies write and service policies on a nonrisk-bearing basis through a special arrangement.

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**Myth:** The NFIP does not cover flooding resulting from hurricanes or the overflow of rivers or tidal waters.

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**Fact:** The Standard Flood Insurance Policy defines flood as:

1. A general and temporary condition of partial or complete inundation of two or more acres of normally dry land area or of two or more properties (at least one of which is your property) from:

- a. Overflow of inland or tidal waters;
- b. Unusual and rapid accumulation or runoff of surface waters from any source;
- c. Mudflow.

2. The collapse or subsidence of land along the shore of a lake or similar body of water as a result of erosion or undermining caused by waves or currents of water exceeding anticipated cyclical levels that result in a flood as defined in A.1.a. above.

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**Myth:** Wind-driven rain is considered flooding.

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**Fact:** No it isn't. Rain entering through wind-damaged windows, doors, or a hole in a wall or the roof, resulting in standing water or puddles, is considered windstorm, rather than flood damage. Federal flood insurance only covers damage caused by the general condition of flooding (defined above), typically caused by storm surge, wave wash, tidal waves, or the overflow of any body of water above normal, cyclical levels. Buildings that sustain this type of damage usually have a watermark, showing how high the water has risen before it subsides. Although the Standard Flood Insurance Policy (SFIP) specifically excludes wind and hail coverage, most homeowners' policies provide coverage.

*For more information about the NFIP, ask your insurance agent or company, or call the NFIP's toll-free number at 1-800-611-6123, extension 29.*