

Flood Insurance 101

Are you covered?

Let's say the river near your home overflows its banks after an excessive rainfall, causing severe damage to your home and its contents. Your homeowners insurance takes care of all related costs, yes or no? **Answer: Not at all!** *Why?* Damages caused by floods are specifically excluded from all homeowner's policies. **You need to have a separate flood insurance policy in order to be covered.**

Flood insurance is a very necessary coverage for those who live in flood prone areas, and even for those in low-to-moderate risk areas. However, it is important to understand that while homeowners insurance is designed to bring your home and its contents back to the same condition it was in before a loss; flood insurance is only meant to get you back on your feet.

First, contact our agency. We can help you determine if you need flood insurance. Throughout the United States, more than 20,000 communities participate in the Federal Emergency Management Agency's National Flood Insurance Program, which offers flood insurance. An NFIP policy typically includes coverage for: removing contents; sandbagging (to reduce damage); repairing flood damage and rebuilding; clearing away debris and mud; and compensating for personal belongings and business inventories. In addition, lending institutions may require flood insurance as a condition of securing a mortgage, home improvement loan, home equity loan, commercial loan, etc. Flood insurance also is a prerequisite for receiving federal disaster assistance when property is located in a special hazard area.

Background information

In the not too distant past, flood insurance was unavailable because it was too costly for private insurers to offer. The national response to flood disasters was generally limited to constructing flood control works such as dams, levees, sea walls, etc. If you were a flood victim, the only recourse you had was the remote possibility of disaster relief.

In 1968, Congress established the National Flood Insurance Program (NFIP) with two objectives in mind. The first goal was to give property owners the opportunity to purchase insurance protection for flood losses. The second goal was to encourage communities to implement and enforce measures to reduce future flood risks in Special Flood Hazard Areas (SFHAs).

Today, individuals who reside in communities that make the effort to reduce flood risks can receive insurance as a financial protection against flood losses. And the government has been able to lower its financial risk by having local governments take responsibility and steps to limit the chances (and the resulting devastation) of floods.

What is a flood?

"Flood" is defined as a general and temporary condition of partial or complete inundation of normally dry land areas from:

- overflow of inland or tidal waters,
- the unusual and rapid accumulation or runoff of surface waters from any source, or
- mudflows caused by flooding.

Do I need flood insurance?

Don't let the fact that you don't own beach-front property lull you into a sense of false security. The fact is that beach-front structures only account for 3% of all flood losses. Homeowners who live in high hazard flood areas should seriously contemplate purchasing flood insurance... especially when you consider that they have a 26% chance of having a flood loss over the course of a 30 year mortgage! Often, flood insurance is required as a condition of granting a mortgage if your lender determines that your home is in a high hazard flood area.

Even if you live in a low hazard flood area your property may still be at risk. Each year, about 25% of all flood claims paid are for property located outside high-risk areas. The good news is that there is a Preferred Risk program that offers substantial premium discounts for homes located in low hazard areas.

If you think your home is at risk, you might want to consider contacting DiMatteo Insurance. Or you can check out special flood insurance maps published by FEMA (the Federal Emergency Management Agency). These maps (which indicate a community's flood hazard areas and the associated degree of risk) are usually kept on file at your local town hall or county building and are available for your review.

Waiting period rules

Don't wait until the water's rising to decide that you need Flood Insurance! There is a standard 30-day waiting period for new applications and endorsements to increase coverage. The effective date of the new policy will be 12:01 a.m. local time on the 30th calendar day following the application and premium payment date. The exception is for insurance purchased as a condition for a mortgage loan. In that case, the flood insurance is effective on the date of the closing.

Coverage availability/limits

Flood insurance is catastrophic insurance, which means there are limits on how much insurance will be provided. For example, residential buildings can only receive up to \$250,000 in coverage, non-residential buildings only \$500,000. Contents within the home are also limited up to \$100,000 for residential (\$500,000 for non-residential) locations.

What's covered?

Direct physical losses by flood are covered. Also covered are losses resulting from flood-related erosion caused by excessive waters accompanied by a severe storm, flash flood, abnormal tidal surge or the like, which result in flooding. Damages due to mudflows, if caused by flooding, are also covered.

Coverage is provided for flood damage to the building itself. This includes foundation elements, as well as posts, pilings, piers or other support systems for elevated buildings. Coverage is excluded for:

- Most buildings located entirely over water (like boat houses),
- Structures other than buildings (such as fences, retaining walls, swimming pools, underground structures), and
- Items like walkways, decks, driveways and patios located outside the building.

Coverage is also available on an actual cash value basis for the contents (your personal possessions) located inside the building. However, it's very important that you know that coverage on valuable items (such as artwork, rare books, jewelry and furs) and personal property used in business is limited to only \$2500. A Valuable Items Policy will protect your most treasured possessions from many perils, including floods.

Remember, this section is not intended to be a complete description of coverage. Your policy, and DiMatteo Insurance, can provide you with complete provisions.

Coverage for basements and enclosed areas beneath the lowest floor

You need to be aware that flood insurance only provides limited coverage for these areas. Coverage is available for equipment necessary to the habitability of the building such as utility connections, sump pumps, well water tanks and pumps, fuel or water tanks, furnaces, clothes washers and dryers, food freezers and air conditioners. Clean up expenses are also covered. Likewise, basement dry walls (unpainted), sheet rock walls (including fiberglass insulation) and ceilings are covered.

However, finished structural elements (such as paneling and linoleum) and contents (such as rugs and furniture) in basements and enclosures are not covered.

Replacement cost versus actual cash value

Here's an extremely important point. Replacement cost coverage (which pays to replace or restore structure items) is only offered on a limited basis...and only for a single-family dwelling that is your principal residence. To receive replacement cost coverage on the structure, you must be insured for at least 80% of the building's replacement cost at the time of the loss or the maximum amount of coverage available, whichever is less.

Contents losses are always adjusted on an actual cash value basis. That means that you only receive what the item was worth as of day of the loss. For example, if you bought a \$300 color television two years ago and it was damaged in a flood, you might only receive about \$50 for it, if that is what the equipment was worth on the day of the flood. Your building loss would also be handled this way unless you qualified for replacement cost coverage.

Remember, flood insurance is not meant to restore your home to its original condition, just to get you back on your feet! And, it's much better than having no coverage at all.

Deductibles

A deductible is the amount you have to pay out of your own pocket before the insurance coverage kicks in. Standard flood deductibles are \$500 and \$750. Higher deductibles are available to reduce policy premiums. Please be aware that with flood insurance your deductible will be applied to both your building and its contents, even though they might be damaged by the same flood.

Flood Facts

On the eastern coast of the United States, flooding occurs mainly during hurricane season, which runs primarily from August through October. Hurricanes affect coastal and inland areas. These areas can be inundated by torrential rains that result in widespread flooding. The Federal Emergency Management Agency estimates that 75 percent of households located in federally designated special flood hazard areas carry no insurance.

Flood Insurance Q & A

Here are some frequently asked questions about the National Flood Insurance Program (NFIP).

Doesn't my homeowner's policy cover floods?

NO. Most major insurance companies do not offer flood protection as part of their homeowner's coverage. Catastrophic risks created by floods are just too costly and would raise homeowner's premiums too high. The NFIP is the only way for homeowners to address the risk of flood.

Can't I just wait until it starts raining to buy Flood Insurance coverage?

Not if you want to be covered. Under most circumstances you've got to wait 30 days from the time the premium and application are received to be covered. So you can buy the coverage when it starts raining, but it won't protect you until 30 days later. The only way to circumvent the 30-day waiting period is if your community has revised its flood map within the last year or this is your first purchase and it is required by a lending institution to close a loan.

Aren't the NFIP limits too low to matter?

Not anymore. The 1994 improvements to the National Flood Insurance Program bumped up the limits on single family residences to \$250,000 for the structure and \$100,000 for the structure's contents. Even commercial structures can be insured to a limit of \$500,000 for the building and \$500,000 for contents. Replacement cost coverage is available for structures on a limited basis for single-family dwellings that are primary residences.

I can't qualify for coverage because I'm not in the flood plain, right?

Wrong. Almost everyone in a participating community qualifies for coverage and almost every community participates in the program. Remember to set the policy limits to the full value of your structure and buy contents coverage too.

Isn't it too tough to sign up and not worth my time since I'm in a low to moderate risk area?

Today it is even easier for people in zones coded B, C, and X to secure coverage. And more than 25% of all NFIP flood claims come from these low to moderate risk areas.

Do I have to wait until a completed elevation certificate is issued to me?

No. With provisional rating, the carrier can make coverage available even before an elevation certificate is complete (required on homes built after December 31, 1974 in map zones coded A or V). So you won't need to delay closing on a loan or settlement of a property.

Is my basement covered?

NFIP policies have some coverage for basement elements: cleanup expense and items such as furnaces, water heaters, washers and dryers, air conditioners, freezers, utility connections, and pumps are included. Contents in a finished basement are excluded, as are a basement's finished walls, floors, and ceilings.

Can't I just hold out for federal disaster assistance?

Hardly. Federal disaster assistance is declared in less than half of all flooding incidents. Besides, the annual premium for a NFIP policy is less expensive than the interest on most federal disaster loans. The only real option is to get insured before the loss. Even if a federal grant or loan is awarded to you after a major flood, you'll probably be required to use part of the proceeds to purchase a NFIP policy.