

NATIONAL FLOOD INSURANCE

I GENERAL:

A Authority. This Instruction prescribes the policies and procedures to be followed in implementing the National Flood Insurance Act of 1968 as amended by the Flood Disaster Protection Act of 1973. The provisions of these Acts are applicable to Rural Development and Farm Service Agency, herein referred to as the "Agency", authorities permitting financing of: (1) buildings of any type now located in or to be located in special flood or mudslide-prone areas as designated by the Federal Insurance Administration (FIA) of the Department of Housing and Urban Development (HUD), and (2) any machinery, equipment, fixtures, and furnishings contained or to be contained therein.

B Background. The Congress has found that annual losses throughout the nation caused by floods and mudslides are increasing at an alarming rate, largely as a result of the accelerated development and concentration of populations in areas subject to floods and mudslides. The availability of Federal funds in the form of loans, grants, guarantees, insurance, and other forms of financial assistance are often determining factors in the utilization of land and the location and construction of industrial, commercial, and residential facilities. The National Flood Insurance Program (the program) was authorized and created because the private insurance industry has been unable to provide insurance coverage at reasonable prices for such natural disasters as floods and mudslides. Subsidized and affordable insurance has been made available under the Act through an agreement between the FIA and the National Flood Insurers Association.

II AREAS OF RESPONSIBILITY:

A FIA. FIA is responsible for:

1 Identifying and publishing information with respect to all areas in the country which are subject to floods and mudslides and designating those areas on Flood Hazard Boundary maps.

2 Notifying affected communities of their designations and encouraging them to adopt and enforce land use and other control measures and to adopt ordinances or laws which will regulate and control construction in areas designated as having special flood or mudslide hazards.

DISTRIBUTION: W, S, C.

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3 Making flood insurance available at reasonable rates and in sufficient amounts, within the statutory limits, to adequately protect owners against loss to their buildings and contents when those buildings are located in or will be located in designated special flood and mudslide-prone areas in communities participating in the National Flood Insurance Program.

B The Agency. The State Director, after being notified by the National Office or FIA of designated flood or mudslide hazard areas and receiving flood hazard boundary maps identifying the hazard areas, FIA insurance rate charts, or other information concerning the program, will inform the appropriate County Supervisors and provide them the maps, rate charts, and other relevant information concerning the program in areas they serve. Permanent records indicating the date a community was notified as containing identified flood hazard areas, communities participating in the program, and communities eligible to participate but not participating in the program will be maintained in the State Office. County Supervisors will notify, in writing, those borrowers whose insurable buildings are located in designated flood or mudslide hazard areas of the availability of National flood insurance and encourage them to obtain flood insurance to protect their and the Government's financial interest.

C Community. Communities are required to participate in the National Flood Insurance Program within 1 year after notification of its formal identification as a community containing one or more special flood and mudslide-prone areas, or by July 1, 1975, whichever is later, or be denied Federal financial assistance, or Federally-related financial assistance for acquisition or construction purposes in such areas. Communities wishing to qualify for the program may submit a completed application to: Administrator, Federal Insurance Administration, Department of Housing and Urban Development, 451 Seventh Street, S.W., Washington, DC 20410.

D Lender. The lender must determine whether real property is located in an area identified as having special flood or mudslide hazards and cannot discharge that responsibility merely by obtaining self-certification from the applicant that the property is not located in an area having special flood hazards.

III DEFINITIONS: For the purpose of the Instruction, the following definitions apply:

A Financial assistance means any form of direct, insured, or guaranteed loan, including reamortization and assumption on new terms of any loan; any form of grant; or any other form of direct or indirect assistance extended by the Agency.

B Financial assistance for acquisition or construction purposes means any form of Federal financial assistance which is intended in whole or in part for the acquisition, construction, reconstruction, or substantial improvement

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of any building, and for any machinery, equipment, fixtures, and furnishings contained or to be contained in such buildings.

C Community means any state, or political subdivision thereof, such as county, parish, township, city or other local government, which has zoning and building code jurisdiction over a particular area having special flood hazards.

D Eligible community means a community in which the Administrator of FIA has authorized the sale of flood insurance under the program.

E Designated special flood or mudslide-prone area means those areas in a community subject to flood or mudslide which have been identified by flood hazard boundary maps or those areas not identified by maps but where, due to emergency, the FIA Administrator has authorized the sale of flood insurance.

F Flood means a general and temporary condition of partial or complete inundation of normally dry land areas from: (a) the overflow of streams, rivers, or other inland water, (b) the collapse or subsidence of land along the shore of a lake or other body of water as a result of erosion or undermining caused by waves or currents of water exceeding anticipated cyclical levels, or (c) abnormally high tidal water or rising coastal waters resulting from severe storms, hurricanes, or tidal waves resulting from volcano eruptions or earthquakes.

G Mudslide or mudflow means a major occurrence involving the appearance of a large river, or flow, of "liquid mud" down a hillside, usually as a result of earlier brushfires followed by heavy rains over a widespread area.

H Flood insurance means insurance coverage for floods and/or mudslides under the program or otherwise acceptable to FIA.

I Building means any walled and roofed structure, other than a gas or liquid storage tank, that is Principally above ground and affixed to a permanent site. Residential and most types of industrial, commercial and agricultural buildings, such as lumber sheds, machinery storage sheds, grain storage bins, and silos, are included in this definition.

J Substantial improvement means any repair, reconstruction, or improvement of a structure, the cost of which equals or exceeds 50 percent of the actual cash value of the structure either, (a) before the improvement is started, or (b) if the structure has been damaged and is being restored, before the damage occurred.

IV ELIGIBILITY: In addition to an applicant meeting the requirements for the type of financial assistance requested, the following requirements

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for eligibility of applicants for financial assistance for acquisition and construction purposes in designated special flood and mudslide-prone areas must be met:

A If flood insurance is available, to be eligible after March 1, 1974, the applicant must have purchased a flood insurance policy at the time the loan or grant is closed.

B Applicants will not receive financial assistance in those communities that have been notified as having special flood and mudslide-prone areas and where flood insurance is not available within 1 year after such notification, or by July 1, 1975, whichever is later.

V CONDITIONS: The Agency financial assistance may be extended to eligible applicants meeting the eligibility requirements of paragraph IV of this Instruction provided the following conditions are also met:

A Dwellings and Multi-Unit Housing Facilities.

1 If the financial assistance is to buy a dwelling or multi-unit housing facility:

a The first floor elevation of the habitable space of the dwelling or housing unit must be above the 100-year flood level, and

b The housing must be served by public utilities and facilities, such as sewer, gas, electrical, and water systems that are located and constructed to minimize or eliminate flood damage or have an onsite water supply system and waste disposal system located so as to avoid impairment of such systems and contamination from the waste disposal system to the water supply system from flooding.

2 If the financial assistance is to build or provide substantial improvement, the requirements of paragraph V A 1 of this Instruction must be met, all construction must meet requirements of the applicable development standards, and: (Revised 5-12-87, SPECIAL PN.)

a A building permit must be issued by the appropriate governing officials having jurisdiction in the area and compliance must be had with the zoning code or other established legal requirements of the area for reducing or eliminating flood or mudslide damage.

b The structure must be designed and anchored to prevent flotation, collapse, or lateral movement of the structure.

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c Construction materials and utility equipment that are resistant to flood damage must be used, and

d Construction methods and practices that will minimize flood damage must be followed.

3 If the financial assistance is to make minor repairs, the conditions of paragraphs V A 1 and 2 of this Instruction must be met or the building must have existed on the site prior to the date the area was identified as having special flood or mudslide hazards and, the loan approval official must determine that the dwelling is suitable as a residence.

4 When applications for financial assistance are received in areas identified as having special flood and mudslide hazards, the loan approval official will consider the expected severity and frequency of floods and mudslides in determining whether any housing loans should be made in the area. He should be sure, if loans are made, that the objectives of the loans can be accomplished and that the Government's financial interest will be adequately protected.

B Nonresidential Buildings. Construction plans and specifications for new buildings or improvements to existing buildings must comply with flood plain area management or control laws, regulations, or ordinances.

C Flood Insurance Coverage.

1 Any property on which flood insurance is required must be covered by such insurance during its anticipated economic and useful life in an amount at least equal to its development or replacement cost (except estimated land cost) or to the maximum limit of coverage made available with respect to the particular type of property under the National Flood Insurance Program, whichever is less. However, if the financial assistance provided is in the form of a loan, the amount of flood insurance required need not exceed the outstanding principal balance of the loan and need not be required beyond the term of the loan.

2 The contents of a building must be insured separately from a building, but coverage cannot be written on the contents of a three-walled machinery shed or similar type open building.

3 Flood insurance shall not be required on any state-owned property that is covered under an adequate state policy or self-insurance satisfactory to the Secretary of HUD, who will publish a list of states with such policies.

4 It will be emphasized that under the terms of the security instrument it is the borrower's responsibility to provide and maintain proper flood insurance coverage. If flood insurance is not provided on any property for which it is required, the flood insurance premium will be paid to protect the Government's security interest. For borrowers required to escrow for flood insurance, payment of the premium will be handled in accordance with paragraph VIII of this instruction. Existing borrowers required to escrow will be notified by letter at least 90 days prior to initiating escrowing for flood insurance. If the Agency pays the flood insurance premium for borrowers not required to escrow, the cost will be charged to the borrower's account as a recoverable cost. Failure to provide flood insurance is a nonmonetary default and will be a consideration in determining if the loan is to be continued.
(Added 03-25-91, SPECIAL PN.)

VI COVERAGE AND PREMIUM RATES: Exhibit A sets forth limits of coverage and chargeable premium rates under the program. Insurance policies under the program can be obtained from any licensed property insurance agent or broker serving the eligible community or from the National Flood Insurers Association Servicing Company (Servicing Company) for the state. The Servicing Company for each state is shown in Exhibit B.

VII ACCEPTABLE POLICIES AND SERVICING: The general acceptance of policies and servicing of insurance will be performed in accordance with RD Instruction 426.1. Any unusual situations that may arise with respect to obtaining or servicing flood insurance should be referred to the State Director. The State Director will attempt to resolve any problems concerning the flood insurance program in the state with the Servicing Company. Flood hazard boundary maps, insurance rate tables, the insurability of specific structures, and other information concerning the program may be obtained from the Servicing Company. Difficulties in administering the program which the State Director is unable to resolve should be referred to the National Office for assistance.

VIII BORROWERS REQUIRED TO ESCROW. For borrowers required to use escrow accounts for the payment of real estate taxes and insurance, the flood insurance premium will be paid when due from funds contained in the escrow account. If the escrow account contains insufficient funds to pay the flood insurance premium when due, the County Supervisor will request the borrower to pay an amount equal to the difference between the premium due and the escrow balance in a lump sum within 30 days after notification. If the borrower fails to remit the amount requested, the amount will be advanced and charged to the borrower's account as a recoverable cost. The amortization period for an advance due to an escrow shortage will be one year. Amortization of the charge will be handled in accordance with 7 CFR part 3550. When a borrower has more than one loan secured by the real estate on which the flood insurance premium is being paid, the advance will be charged to the initial or lowest numbered loan. (Revised 01-23-03, SPECIAL PN.)

ATTACHMENTS: Exhibits A and B

I The following table sets forth the limits of coverage available under the program.

Type of Structure	Structure Coverage		Contents Coverage /4	
	Subsidized	Total/3	Subsidized	Total
Single Family, residential /1	\$ 35,000	\$ 70,000	\$ 10,000	\$ 20,000
All other, residential /1	100,000	200,000	10,000	20,000
All non-residential /2	100,000	200,000	100,000	200,000

/1 For Alaska, Hawaii, and the Virgin Islands, the following limits of coverages apply: Structure coverage for one family residential is \$50,000 subsidized and \$100,000 total coverage, and structure coverage for other residential, is \$150,000 subsidized and \$300,000 total coverage.

/2 Includes hotels and motels with normal occupancy of less than 6 months.

/3 Coverage in amounts exceeding the subsidized limits is available only after an actuarial cost has been established and flood insurance rate map issued.

/4 Contents of a building must be insured separately from the building. However, coverage is applicable to contents only while in an enclosed building. Therefore, coverage cannot be written on the contents of a three-walled machinery shed or a similar type open building.

II The following table sets forth the applicable premium rates:

Type of structure	Rates Per \$100 of coverage (Subsidized only)	
	Structures	Contents
All residential	\$0.25 /1	\$0.35
All non-residential	0.40 /1	0.75

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Exhibit A

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/1 Actuarial (non-subsidized) rates are applicable to any structure, the construction or substantial improvement of which started after December 31, 1974, or the date on which the initial rate map was issued, whichever is later, in identified areas having special flood or mudslide hazards.

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SERVICING COMPANY

The Servicing Company Office to be contacted for information relative to the availability of coverage under the National Flood Insurance Program, flood hazard boundary maps, insurance rate tables, and related material.

E.D.S. Federal Corporation
National Flood Insurance
Post Office Box 34294
Bethesda, MD 20034
Phone Toll Free: 800-638-6620
Commercial Phone: (301) 898-5900

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