

---

---

# Floodplain – Shoreland Management Notes

---

---

August 1997

---

---

Articles in This Issue	Page
Special National Flood Insurance Program Issue	1
ICC Coverage Will Benefit Flood Victims	3
Insurance Reform Keeps Progressing	4
How To Request A Flood Determination Review	7
Announcing The LOMA Voicemail And Information Hotline	8

---

---

## Special National Flood Insurance Program Issue

Flooding has been on a lot of folks minds lately. The devastating floods on June 20-21 in southeast Wisconsin and the earlier floods in Minnesota and North Dakota have driven home the point that everyone, everywhere is susceptible to flooding. Whether you live on a river or lake, near a river or lake, or miles from a river or lake doesn't really matter. Experience (and statistics) have proven that destructive flooding is just as likely to occur outside of a mapped floodplain area as within one. A rapid thaw of ice and snow caused major flooding throughout the east coast. A broken water main caused three feet of floodwater to inundate New York city. Runoff from heavy rains has inundated the Midwest three times in the past four years. It was not a river rising or a tidal storm surge that caused the flooding, but simply too much water in one place at one time, which is classified as

water damage and excluded in most property owner's policy forms. As the flooding in southeast Wisconsin demonstrated, local drainage problems, heavy rains, increased runoff and poor siting decisions or structure design all influence who gets flooded and how severely they are affected.

Discussions with local officials in the affected communities pointed to all of the above as factors and highlighted the need for property owners to secure the protection they need - by purchasing flood insurance. When talking to property owners that were recently flooded, it was apparent that many were confused about the role of the National Flood Insurance Program (NFIP) and the relationships between this program, the Federal Emergency Management Agency, the Wisconsin Department of Natural Resources and local officials.

To address some of these issues, we have decided to reprint several brochures explaining how the NFIP works, what consumers and local officials need to know about the program, common myths and the real facts about flood insurance and some information targeted to lenders and insurance agents but of definite interest to anyone who owns property and is at risk of a flood (which is everyone!).

---

---

One of the most frustrating and continually revisited problems is sewer backup. Flood insurance does not cover sewer backup since flooding is defined as the inundation of normally dry land by the overflow or rise of inland waters or the accumulation of stormwater runoff. It is also not covered under a standard homeowners insurance policy. It is typically a low-cost rider available through most companies, but it may not be offered to property owners when purchasing coverage if they don't ask for it. It is the consumer's responsibility to ask for the coverage, but local outreach efforts are valuable, especially after a major flood event has put flood insurance on the front burner for everyone.

Flood insurance through the NFIP pays for direct physical losses to covered property. Buildings and contents can be insured, but the limitations of the policy must be understood. A standard property owner's policy contains numerous extensions for contents, business property and worldwide coverage for personal property. This policy also covers living expenses when the policy holder is forced out of the covered property because of damage. None of these extensions apply to flood insurance.

The standard flood insurance policy covers a single building. Only one extension is made for other structures. Detached garages may use 10 percent of the amount of coverage, thereby reducing the dwelling coverage by a comparable amount. All other structures, such as sheds, boathouses or garage apartments must be insured by a second policy. Personal property inside the dwelling is insured, but business property or property stored at another location requires another policy. Personal property in the open, in a basement or under an elevated floor is not covered at all. There is currently a proposal to offer coverage for basement

contents, but it will be very expensive even if approved.

The flood policy has no coverage for indirect loss. Loss or rental income, loss of use and additional living expenses are not covered as they are under a standard property owner's policy. The financial consequences of water damage can be considerable and must be borne entirely by the insured.

Another vexing problem is "insurance to value." Unfortunately, many property owners are woefully underinsured for flood damages. It is typical for an owner to only insure a \$100,000 home for \$40,000 in flood coverage, reasoning that flood damage will be limited to the first floor of their home. An owner with this type of coverage, unfortunately, would not be reimbursed for the full cost of repairing or replacing flood damages, since underinsured structures are subject to a deduction for the depreciated cost of the damaged items.

To guarantee full replacement cost coverage, a structure must be insured for at least 80 percent of its replacement value at the time of loss. The key word is replacement value, not market value. The market value of any structure may be far less than its replacement value. This of course is not just an issue for flood insurance. Hurricanes, tornadoes and other natural disasters have revealed the same problems with standard homeowners policies. If you don't have at least 80 percent insurance to replacement value, the value of your policy when you need it most is seriously diminished and the difference will come out of your pocket.

Owners can determine replacement value by having their property professionally appraised. The home must also be the policy holder's principal dwelling - meaning

---

---

the owner must have lived in it for 80 percent of the calendar year immediately preceding the loss or for 80 percent of the period of ownership of the dwelling.

A recent study concluded that 67 percent of U.S. homes are under-insured by an average of 31 percent. Based on national experience with flood disasters, it's a good bet that both of those figures would be higher for flood insurance policies. A major marketing campaign by the NFIP to increase awareness of flood insurance and provide more incentives for agents to sell it has been under way for several years now. Regardless of its success, it doesn't relieve property owners of the obligation to look out for their own self-interest. This means determining their flooding risk - including riverine and local drainage flooding, making sure they have a sewer backup rider, and taking the necessary steps to purchase a flood insurance policy that covers the replacement value of their structure and will enable them to rebuild not only their home, but their lives.

---

---

### **ICC Coverage Will Benefit Flood Victims**

Property owners who make sure they have a sewer backup rider and purchase a replacement-value flood insurance policy may still face financial burdens if current floodplain regulations require them to meet more restrictive development standards when rebuilding their structure. Under state and federal laws, a structure which is "substantially damaged" (damages equal or exceed 50 percent of its current equalized assessed value) must meet current standards when rebuilding. For example, an older house which was built below the regional flood elevation (RFE) and was substantially damaged must be placed on fill one foot

above the RFE and the first floor would have to be at least two feet above the RFE when rebuilt.

A standard flood insurance policy will not pay for meeting these development standards. To support local efforts to properly floodproof or relocate floodplain structures, the National Flood Insurance Reform Act of 1994 includes a new flood insurance mitigation tool, called "Increased Cost of Compliance" (ICC). This new mandatory coverage policy will provide benefits to home owners who are interested either in relocating or protecting their property against further flood damage.

ICC will provide insurance monies to pay for the costs of complying with state and federally-required land use and development standards for floodplain properties. This coverage will fund projects such as relocation or elevation, floodproofing walls and other structural components, or floodproofing utilities and mechanical equipment.

There are three ways a structure can qualify for this coverage: if flood damages are 50 percent or more of the structure's equalized assessed value; if it is a repetitive loss structure (where two losses within 10 years have caused damages equaling or exceeding 50 percent of its equalized assessed value); or if it has sustained repeated flood damages and FEMA determines that it is in the best interests of the program and the property owner to bring the structure into compliance. This last criteria has not been approved for use at this time and it will likely be at least several years before it is.

A community must also adopt ordinance language addressing repetitive losses and cumulative substantial damage/improvements. FEMA will provide

---

---

model ordinance language for local adoption.

The maximum coverage under ICC is \$15,000. Yearly premiums range from \$4.00 to \$75.00, but most structures will be at the upper end of that range. Only Standard Flood Insurance Policies (SFIP) with building coverage will be covered. Appurtenant structures (storage sheds, detached garages, boathouses, etc.) are not eligible. The maximum amount collectible under the SFIP for both regular coverage and ICC cannot exceed the \$250,000 maximum for a single-family dwelling. Only structures in regular program communities are eligible for ICC coverage.

While only flood-damaged structures are eligible for this coverage, remember that this includes riverine and stormwater flooding, flooding caused by ice jams, water main breaks and sewer backup caused by surface flooding. However, the damaged structure must be in a mapped Special Flood Hazard Area. There is no separate deductible for this coverage. ICC also covers nonresidential structures for floodproofing costs.

ICC coverage took effect for new or renewal policies on June 1, 1997. Because policies are written on one or three-year terms, full coverage won't be in effect for all policy holders until May 31, 2000. FEMA estimates that 3,000 to 4,000 claims will be made each year to bring flood-damaged structures into compliance with state or local floodplain management laws or ordinances.

Because claims are currently limited to either substantial damage or repetitive loss structures, most claims will be made and paid in such states as Florida, Louisiana, Texas and California which already bear the brunt of flood damages and receive the lion's

share of flood insurance claims payouts. Until the third criteria for making ICC claims is enacted, most Wisconsin flood damage victims will be paying premiums for this coverage, but not seeing any of the benefits. FEMA estimates it will be at least two years before the program is evaluated and decisions made on whether to add the third criteria to the program. We'll keep you posted.

---

---

## **Insurance Reform Keeps Progressing**

The National Flood Insurance Reform Act of 1994 (NFIRA) signaled the most sweeping revisions to the program since the Flood Disaster Protection Act of 1973. In the two and a half years since the Act was signed into law, all major components have been implemented, the last two being the Flood Mitigation Assistance Program and the Increased Cost of Compliance.

Many public and private organizations have worked together in true partnership to develop workable programs that meet the requirements of the Act, provide needed and effective flood insurance and other financial aid to qualified participants, and encourage and finance the development of locally-based flood mitigation plans and the long-term development of sustainable communities.

A summary of the major activities and detailed actions taken to implement the Act are highlighted below. If you would like a copy of the Act - Public Law 103-325 - write to:

United States House of Representatives  
Document Room  
Washington, D.C. 20515

---

---

You may also call (202) 225-3456 or fax (202) 226-4362.

If you have any questions or comments about the Act, please send them to Bill Lesser or Verna Riggs in the Federal Insurance Administration at:

Federal Emergency Management Agency  
500 "C" Street, SW  
Washington, D.C. 20472  
FAX: (202) 646-3689

### Summary

#### **Increased Lender Compliance**

This section applies to all mortgaged properties which fall under one of the following three criteria: the owner is applying for a federally-backed (VA, FHA, etc.) loan; the lending institution is federally regulated; or the loan will be sold on the secondary market to a Government Sponsored Enterprise (GSE) such as Fannie Mae or Freddie Mac. This comprises well over 95% of all mortgage loans made each year.

The lender must first determine whether the structure is in a Special Flood Hazard Area (SFHA). This must be done using an approved Standard Flood Hazard Determination Form (SFHDF). These forms are available through the National Flood Insurance Program FAX document service at (202) 646-FEMA.

For all properties in a SFHA, lenders must require flood insurance when making, increasing, extending or renewing a loan. This requirement only applies when the structure is in the SFHA, not the lot. Lenders must ensure that this coverage remains in effect for the life of the loan. GSE's such as Fannie Mae or Freddie Mac

must ensure that any loans they purchase have flood insurance if required.

If a loan has escrows for taxes, insurance or for any other reason, the lender must then escrow for flood insurance too. Lenders are required to notify borrowers if their building is in a SFHA and that they have 45 days to purchase flood insurance. After 45 days, lenders have the statutory authority to forceplace flood insurance. If a borrower believes the flood zone determination was in error, the borrower and the lender must jointly request a review from FEMA, with appropriate supporting technical information.

Civil penalties may be imposed on federally-regulated lenders and GSE's for violation of the above requirements. The penalties are \$350 per offense, up to a maximum of \$100,000 per year. The penalties will be used to help fund the Flood Mitigation Assistance Program. Federal banking agencies and the National Credit Union Administration must assess lender compliance during scheduled inspections and must report their findings to Congress biennially for the next four years.

#### **Community Rating System**

NFIRA codifies the Community Rating System (CRS), establishes program objectives, and directs that credits be given to communities that implement measures to protect natural and beneficial floodplain functions and manage erosion hazards. The CRS is an incentive program that ranks communities in 10 classes for purposes of granting reductions in flood insurance premiums for all policy holders in that community. The reductions, in 5% increments, range from 5% for class nine communities to 45% for class one communities. The top ranked communities

---

---

nationally are class five. There are currently 10 Wisconsin communities participating, all at the class nine level. Program rating points are offered in four different areas, including public information, mapping and regulations, flood damage reduction, and flood preparedness. For more information on CRS, call (317) 848-2898.

### **Flood Mitigation Assistance Program**

This program replaces the section 1362 Property Purchase Program for the acquisition of substantially and repetitively flood-damaged structures. FEMA will award annual grants to states on a 75/25 percent matching basis for developing flood mitigation plans, providing technical assistance and carrying out mitigation projects. Eligible project activities include acquisition, elevation, floodproofing, demolition and small structural projects that do not duplicate other agencies' programs. States and communities must have an approved flood mitigation plan before they can receive grants. Planning and technical grants will be awarded through FEMA's annual grant program. Project grants will be awarded as applications are approved. Copies of the final regulations are available on the FEMA Fax line.

### **Increased Flood Insurance Coverage Limits**

All residential dwellings, including single and multiple family units, individual condo units and condo master policies, can now be covered for up to \$250,000 in building and \$100,000 in contents coverage. The limits for commercial and manufacturing (including small business) was increased to \$500,000 for both coverages. As mentioned in the previous article on ICC, the maximum \$15,000 coverage under that program would reduce the maximum regular coverage to

\$235,000 because the total coverage cannot exceed \$250,000. Property owners are urged to purchase insurance-to-value and make sure they have a reasonable deductible that will help them when faced with minor flood damage.

### **Updating Flood Insurance Maps**

FEMA is required to identify FIRM update and restudy needs and prioritize those needs against budgetary constraints. The process includes an initial screening of communities to identify all needs, verifying whether the needs are valid, and prioritizing and ranking the needs. Within five years, a national inventory of all map update needs will be developed.

This inventory will determine the cost of accurately displaying all special flood hazard areas and to improve the reliability and ease-of-use for all future map editions. Inventory data will provide a logical process for budgeting mapping dollars by region and to schedule future mapping updates to mesh with mitigation, disaster and insurance initiatives.

A policy for funding the update requirements is currently being developed. FEMA is now identifying and prioritizing the mapping needs of 10 percent of the total mapped communities, with an additional 20 percent to be completed by the end of fiscal year 1997. The entire process should be done by 1999. FEMA has also convened a Technical Mapping Advisory Council to gather information and provide suggestions on improving the quality and useability of mapping products. The possibilities and practicalities of digital products and techniques is a major focus.

---

---

## Evaluation of Erosion Hazards

FEMA will be conducting an economic impact analysis of erosion hazards on the NFIP, its policyholders and communities prone to erosion. A representative sample of erosion hazard areas throughout the United States, including coastal, Great Lakes and possibly riverine areas will be studied.

Phase one will map 27 coastal and Great Lakes counties, including Racine, Ozaukee and Manitowoc Counties in Wisconsin. Phase two will inventory structures in mapped erosion hazard areas and conduct an economic impact analysis of mapping erosion hazards. The Wisconsin DNR is working with the Coastal Zone Management program at DOA on the local study. The entire process should be completed by 1999.

## Insurance Policy Waiting Periods

Flood insurance applicants must now wait 30 days after a completed application and premium payment are received before coverage is effective. The previous waiting period was five days, but this led to problems with people waiting to buy flood insurance (especially along the Mississippi River) until the last minute, based on government flood height predictions.

There are two exceptions. There is no waiting period for the initial purchase of flood insurance when making, increasing, extending or renewing a loan. For the initial purchase of flood insurance within one year of a map revision, the coverage would be effective the day after the application and premium are received.

## Prohibitions on Flood Disaster Assistance

Disaster aid recipients in SFHA's must purchase and maintain flood insurance. If

they fail to do so or do not maintain coverage, they cannot receive any further disaster assistance. This requirement stays with the structure. The current owner (the disaster recipient) must inform the buyer of the coverage requirement. If the buyer is not notified and subsequently suffers uninsured flood damages and receives disaster assistance, the seller may be required to repay the government for this aid.

---

---

## How To Request A Flood Determination Review

The National Flood Insurance Reform Act of 1994 included a provision requiring FEMA to review disputed determinations and provide a final decision within 4 days. FEMA has now issued guidelines governing these reviews.

A key point is that *both* the borrower and the lender must jointly *request* the review.

## What To Submit

- a. A copy of the completed Standard Hazard Determination Form.
- b. A copy of the dated notification to the borrower that the property is in a SFHA.
- c. A copy of ALL material used by the lender or the lender's agent to make the determination.
- d. A letter to FEMA requesting the review signed jointly by the borrower and the lender.
- e. An \$80 check made payable to the National Flood Insurance Program.

---

---

## Where To Submit

For properties east of the Mississippi and in Minnesota:

Lender Determination Review  
Coordinator  
C/o Dewberry & Davis  
P.O. Box 2020  
Merrifield, VA 22116-2020

## When To Submit

Requests **MUST** be dated not later than 45 days following the date the lender notified the borrower that the property is in a SFHA. Requests received later than 45 days after determination will be returned without review.

## FEMA'S Response

Within 45 days of receipt of the request FEMA will respond in one of the following ways:

- a. Request postmarked more than 45 days following notification. All material and fee returned.
- b. Insufficient data and/or fee received. All material and fee returned.
- c. Incorrect map data used to locate property/structure. All material and fee returned.
- d. Sufficient information received. Structure(s) are either in or out of a SFHA.
- e. Insufficient information received to change determination. LOMA process suggested and technical data returned.

---

---

## Announcing The LOMA Voicemail And Information Hotline!!

The Letter of Map Amendment (LOMA) is a statement issued by the Federal Emergency Management Agency (FEMA)

that serves to remove a parcel or structure from the floodplain upon presentation of certain documents by a requester. The most important aspect of the LOMA application is elevation data for the parcel or structure. The LOMA is used by lenders in order to waive the federal requirement for flood insurance purchase for homes or businesses located in the so-called Special Flood Hazard Area as depicted on National Flood Insurance Program maps.

In recent years, the Region V office of FEMA has experienced a ten-fold increase in applications made for LOMA and similar statement known as the Letter of Map Revision based on Fill (LOMR-F). Due to this demand, a phone service has been established for responding to routine inquiries. The service, currently managed as a voicemail message center, is committed to returning calls within 24 hours.

To reach this service, call (703) 849-0375.

The LOMA Voicemail and Information Hotline will provide the following services:

- Guidance on the documentation requirements for LOMA and LOMR-F;
- Information on application fees (where applicable) and time frames;
- Mailing of application forms; and
- Status of applications received by FEMA. (Please allow four weeks for logging and the conduct of preliminary reviews.)

This service is provided by FEMA under a contract to Dewberry & Davis, Inc. in Fairfax, Virginia. FEMA envisions that the service will eventually be upgraded to include a toll-free number and full-time staff allocated for immediate, on-line assistance.



---

---

Please also be aware of the FEMA “Fax-Back” service available at (202) 646-FEMA.

Also not that FEMA maintains a popular web site at <http://www.fema.gov>.

---

---

Bureau of Water Regulation and Zoning  
Wisconsin Department of Natural Resources  
Box 7921  
Madison, Wisconsin 53707-7921

“Floodplain – Shoreland Management Notes” is published by the Wisconsin Department of Natural Resources’ Bureau of Water Regulation and Zoning. Our purpose is to inform local zoning officials and others concerned with state and federal floodplain management and flood insurance issues, shoreland and wetland management, and dam safety issues. Comments or contributions are welcome, call (608) 266-3093.

*“This newsletter was supported by funding through FEMA Cooperative Agreement No. EMC-92-K-1290 as part of the Community Assistance Program – State Support Services Element of the National Flood Insurance Program. The contents do not necessarily reflect the views and policies of the federal government.”*