Correcting Inaccurate Flood Zone Determinations

by Dan Freudenthal

In 1968, the United States Congress established the National Flood Insurance Program (NFIP) to help mitigate disaster relief costs resulting from flood damage. The Federal Insurance and Mitigation Administration (FIMA), which is part of the Federal Emergency Management Agency (FEMA), administers the NFIP.

By adopting NFIP codes and standards, communities formally agree to regulate the use and development of flood-prone lands, also known as Special Flood Hazard Areas, or SFHAs. In return, FIMA agrees to provide flood insurance coverage for any property located in flood zones. FIMA uses flood insurance rate maps to determine which properties are located in SFHAs. These same maps are also used by underwriters and agents to determine premiums, and by lenders to determine insurance-purchasing requirements.

NFIP regulations require that all federally regulated lending institutions perform flood zone determinations on properties before granting loans. If a property is within an SFHA, the lender must require that the borrower maintain flood insurance on all buildings within the SFHA for the loan period.

Most insurance underwriters raise the deductible for flood coverage for an SFHA property from the usual $25,000, which typically satisfies a lender's requirement, to $250,000 or more. This forces owners and operators to buy down the deductible by purchasing policies available through the NFIP or an alternative source.

Where Technology Is Not Working

In theory, these laws are fair and just. The premiums generated by SFHA insurance requirements help pay for the disaster relief costs that flood zones so often necessitate. The problem, however, lies within the flood zone determination procedures used to implement the laws. For all participating communities, the NFIP establishes base flood elevations—below which there is significant exposure to flood damage caused by a hundred-year flood—by comparing federally determined flood-danger elevation to the elevation of buildings located within the SFHA.

Over time, flood zone determination companies have streamlined their process from manually comparing several types of relevant property information with flood insurance rate maps to instant computer searches that cross reference street addresses with digital maps. The gains in speed and cost reduction, however, have been achieved at the expense of accuracy.

Recalculations

Inaccurate flood zone determinations cause lenders to impose unwarranted flood insurance requirements on real estate companies, which in turn must spend millions annually to protect buildings that are not really located within an SFHA.

Owners and operators should perform an individual flood risk analysis on all of their properties that are encumbered by flood insurance requirements. Gather and evaluate documentation, including deeds, plot maps, surveys, elevation certificates, flood insurance rate maps, flood zone determinations and flood-proofing certifications. Assess the flood claim history of the property, property improvements since documentation was prepared (e.g., construction, landscaping, flood-proofing) and conduct site visits.

If you believe that your buildings suffer unwarranted flood insurance requirements, ask FEMA to reevaluate the current determination using the information you provide in conjunction with FEMA's information. If it agrees with you, FEMA will remove your property or buildings from the SFHA determination.

Once the federal requirement has been lifted, negotiate with your lender to waive its flood insurance requirement. Simultaneously, notify your insurance underwriter of the change in flood zone classification and request the flood deductible normally afforded to properties not located within an SFHA.

The decision of whether or not to cancel NFIP coverage is up to you. There are many factors to consider before canceling coverage, so be sure to consider all of your options first.

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