

# Levees and Flood Insurance

## Information for Mortgage Lenders

### LEVEES: PROTECTION WITH RISK

The United States has thousands of miles of levees—usually earthen embankments—constructed along rivers, lakes, and coastlines to provide protection from flooding. However, no levee provides full protection from all flood events. Levees are designed to provide a *specific level of protection*. They decay over time and can be overtopped or fail during larger events. The result can be catastrophic.

Many levees are designed and constructed to provide protection from a flood with a 1-percent chance of occurrence in any year (also known as the “1-percent-annual-chance flood”), which is a high-risk flood. Even levees built to the National Flood Insurance Program (NFIP) standard require regular maintenance to retain their intended level of flood protection. Federal, State, and local government agencies and levee owners are examining levees nationwide and have already identified hundreds of inadequately maintained levees.

For these reasons, you’ll want to take into account the unique flood risks associated with levees when making or servicing loans.

### UPDATED FLOOD HAZARD MAPS SHOW THE RISKS

Flood risks are identified on flood hazard maps, also known as Flood Insurance Rate Maps, or FIRMs. FIRMs display high-risk areas as Special Flood Hazard Areas, or

SFHAs. Flood insurance is required in high-risk flood areas as a condition of any Federal financial assistance, including loans secured for structures located in SFHAs from regulated or insured lending institutions. FIRMs also show low- to moderate-risk areas, where flood insurance is optional, but encouraged. Many property owners in these areas will qualify for lower-cost coverage.

### LEVEES AND FLOOD RISKS

Maps are being updated nationwide to reflect the most current data on flood risks. As part of the process, levee status must be assessed. The maps will indicate a levee as providing protection from the 1-percent-annual-chance flood if a community or levee owner can document that the levee meets NFIP regulatory requirements.

Eligible levee owners are being allowed up to 24 months to provide the needed documentation. During that time, the levee will be shown on the map as *provisionally accredited* and the area behind the levee will be shown as having a moderate flood risk. After 24 months, if the levee cannot be shown as meeting NFIP criteria, the area behind the levee will be shown as an SFHA. At that time, lenders will need to notify their clients of the requirement for insurance protection.

When lending in communities with levees, pay special attention to changing risk levels and related insurance requirements and options. Access to current information concerning levees will speed loan closings and protect loan collateral.

### LENDERS AND FLOOD INSURANCE

Federal law requires that federally regulated or insured lenders meet mandatory flood insurance purchase requirements applicable to structures securing loans located in Special Flood Hazard Areas (or SFHAs).

Whenever you make, increase, extend, or renew a mortgage, home equity, home improvement, non-residential or farm credit loan in an SFHA, you are required to make sure the property is covered with flood insurance to close that loan.

Areas behind levees that can no longer be shown to meet current flood protection standards will be designated as SFHAs and flood insurance will be required.

Civil monetary penalties may be assessed by regulatory authorities against non-compliant lenders.





## PROTECTING EVERY PROPERTY

Your customers' flood risk doesn't end at a line on a flood map. Your lending institution may choose to require flood insurance on *all loans*, even those outside the SFHAs. Remind customers behind accredited or Provisionally Accredited levees that their risk is reduced, not removed, and that Preferred Risk Policies can start as low as \$112 a year.

If your customers live behind a levee, you should recommend the following steps to help them reduce the impact of flood events:

- **Understand your risk.** Local officials can provide more information about the flood risk based on the location of the property.
- **Plan for evacuation.** Plan and practice a flood evacuation route, and ask someone out of state to be a “family contact” in an emergency.
- **Consider purchasing flood insurance.** Flood insurance can financially protect a home, and is available regardless of the status of the levee.

The chart below shows how FEMA designates risks on flood maps and the requirements and options for flood insurance behind levees.

IF THE LEVEE...	THE FEMA FLOOD MAP WILL SHOW THIS FLOOD RISK...	AND THESE FLOOD INSURANCE REQUIREMENTS AND OPTIONS WILL APPLY
<b>Is not currently shown as providing protection</b> from the 1-percent-annual- chance flood. (Not Accredited)	<b>High flood risk</b> , with areas behind levees shown as being in a Special Flood Hazard Area (shown as Zones A, AE, AH, AO).	<b>Flood insurance is required</b> in high-risk areas as a condition of any Federal financial assistance, including loans secured by buildings located in SFHAs from regulated or insured lending institutions. Your customers should be aware that Insurance rates may rise to reflect higher flood risk in these areas.
<b>Provides protection</b> from the 1-percent-annual- chance flood. (Accredited)	<b>Moderate flood risk</b> , but flooding is still possible (shown as Zones B, C, X, or X (shaded) on the map).	<b>The mandatory flood insurance purchase requirements of the NFIP do not apply</b> in Zones B, C, X, or X (shaded), but flood insurance is strongly recommended. <b>Lower-cost Preferred Risk Policies (PRP) are available</b> for most buildings in Zones B, C, X, or X (shaded).
<b>No longer meets the minimum standards</b> to be shown as providing protection from the 1-percent-annual- chance flood. (De-Accredited)	<b>High flood risk</b> , with areas behind levees shown as being in a Special Flood Hazard Area (shown as Zones A, AE, AH, AO).	<b>Flood insurance is required</b> in high-risk areas as a condition of any federal financial assistance, including loans secured by buildings located in SFHAs from regulated or insured lending institutions. <b>Grandfathering can save your customers money.</b> Buildings covered by flood insurance before the effective date of new maps can be grandfathered in at the current flood zone designation, as long as there is no lapse in coverage. Note: this coverage can be transferred.
<b>Is temporarily shown as providing protection</b> from the 1-percent-annual-chance flood while additional documentation is being gathered. (Provisionally Accredited)	<b>Moderate flood risk.</b> Areas behind levees are shown as being behind a Provisionally Accredited Levee, or PAL (shown as a Zone X (shaded) on the map pending accreditation).	<b>The mandatory flood insurance purchase requirements of the NFIP do not apply</b> in Zones B, C, X, or X (shaded), but <b>flood insurance is strongly recommended. Lower-cost Preferred Risk flood insurance is available</b> for most buildings in Zones B, C, X, or X (shaded).

\*For more detailed information about levees and flood risk zones, visit [www.fema.gov/plan/prevent/fhm/lv\\_intro.shtm](http://www.fema.gov/plan/prevent/fhm/lv_intro.shtm).