
CHAPTER 7. MANDATORY FLOOD INSURANCE REQUIREMENT IN SPECIAL
FLOOD HAZARD AREAS - HOME MORTGAGE PROGRAMS,
EXISTING AND PROPOSED CONSTRUCTION

- 7-1. PURPOSE. When a property is located in an area designated by the Federal Insurance Administrator as a special flood hazard area, it shall be required by special condition on the conditional or firm commitment that the mortgagor and mortgagee must obtain and maintain, where available, NFIP (National Flood Insurance Program) flood insurance coverage on the property during such time as the mortgage is insured. Such insurance is now required by law under the Flood Disaster Protection Act of 1973 with respect to FHA insured properties.
- 7-2. EXTENT OF FLOOD INSURANCE COVERAGE REQUIRED. The flood insurance to be maintained shall be in an amount at least equal to either the outstanding balance of the mortgage or the maximum amount of NFIP insurance available with respect to the property, whichever is less.
- 7-3. PROPERTIES AFFECTED. The flood insurance requirements affect all properties which are to be insured under any HPMC mortgage insurance program under the National Housing Act. The Flood Disaster Protection Act of 1973 requires that the Secretary formally identify all known flood-prone communities and notify them that they have been so designated by June 30, 1974. This will involve over 10,000 communities. Other communities may be so identified and notified later.
- 7-4. DESIGNATION OF SPECIAL FLOOD HAZARD AREAS. The Federal Insurance Administrator (FIA) has been delegated, for the purposes of establishing flood insurance programs, the Secretary's authority for determining special flood hazard areas on a nationwide basis. The designation of these areas within a community is accomplished by the issuance by FIA of a Flood Hazard Boundary Map. Flood insurance shall be required on properties located in any designated flood hazard areas identified in a Flood Hazard Boundary Map.
- 7-5. AVAILABILITY OF FLOOD INSURANCE. Flood insurance, at a subsidized rate, is made available to all existing housing located within eligible communities, including properties located within special flood hazard areas at the time a Flood Hazard Boundary Map is issued. This includes properties under construction at the issuance date. The coverage for the subsidized insurance is limited to \$35,000 for single dwelling units and \$100,000 for structures containing two or more dwelling units or other properties.

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- a. Flood insurance at subsidized rates continues to be available for all existing structures and to all construction started in the special flood hazard areas through December 31, 1974, or up to the effective date of the Flood Insurance Rate Map for the community, whichever is later.
- b. Flood insurance, at actuarial rates, is available for new or substantially improved properties located within the special flood hazard area where construction is started after December 31, 1974, or the effective date of the Flood

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Rate Map, whichever is later. With the issuance of the rate map, flood insurance at the actuarial rate is made available for all properties, newly constructed as well as existing, located within the special flood hazard areas designated in the Flood Hazard Boundary and Rate Maps or elsewhere in the community.

- c. Flood insurance, at the subsidized rates, will continue to be available to owners of properties constructed or under construction on or before December 31, 1974, or after the

time

the Flood Hazard Boundary Map was issued, whichever is later and they will have the choice of buying the required

insurance

at the subsidized or the actuarial rate.

7-6. DISTRIBUTION OF FIA MAPS. The Federal Insurance Administrator will supply the Directors of the Field Offices involved with copies

of Flood Hazard Boundary Maps and Flood Insurance Rate Maps as they are issued, and with monthly eligibility listings of communities in which NFIP is available.

7-7. COMMITMENT REQUIREMENT. The requirement for flood insurance shall

be included as a condition of the conditional commitment in single

family programs and to any feasibility letters or commitments issued under the multifamily programs for properties located within designated flood hazard areas. The following language shall be added to the commitment: "This commitment is issued on the condition that the property will be covered by flood

insurance

provided under the National Flood Insurance Program (NFIP). The insurance shall be in an amount at least equal to either the outstanding balance of the mortgage or the maximum amount of NFIP insurance available, whichever is less. The mortgagor and mortgagee shall be obligated to maintain this insurance coverage during such time as the mortgage is insured and NFIP insurance is available."

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7-8. MORTGAGE PROVISIONS. The provision relating to hazard insurance in the standard HUD-FHA mortgage and deed of trust forms is sufficiently broad to require the monthly payments by the mortgagor

of amounts to be placed in escrow by the mortgagee for the purpose of paying the annual flood insurance premium, in cases where flood insurance is required. No change in the mortgage or deed of trust form is needed.

7-9. HPMC FLOOD HAZARD EXPOSURE STANDARDS. HPMC's flood hazard exposure standards outlined in References (4) thru (7) of the Foreword remain in effect. New properties that do not comply with the MPS will be ineligible for endorsement for mortgage insurance regardless of whether or not the property is, or will be, covered by flood insurance.

a. Existing construction will comply with the objectives as stated in the General paragraph 311-1 in Reference (5) of the Foreword.

b. The eligibility of existing properties located in an area designated as a special flood hazard area by FIA will be determined by market attitude and acceptance. Flood insurance will be required of those properties accepted for mortgage insurance within the designated flood hazard areas as determined by FIA.

c. Properties should be rejected if they are subject to frequently recurring flooding, or if there is any potential hazard to life or safety, or if escape from them to high ground would be infeasible during severe flooding.

7-10. EFFECTIVE DATE. The effective date of these instructions is

March 2, 1974. Single family conditional commitments issued and multifamily feasibility letters and commitments issued on or after that date on properties located in designated special flood hazard areas will be subject to the flood insurance requirement.

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7-11. OBTAINING NFIP FLOOD INSURANCE. Persons seeking advice as to the availability of NFIP flood insurance should be directed to any

state licensed property insurance broker or agent in the community,
or to the NFIA servicing company for the state or area, or to the Federal Insurance Administration in Washington or its Regional representative. Copies of rate tables should be made available to interested parties by the Field Offices having jurisdiction over communities that are participating in the flood insurance program.

7-12. PRODUCTION PLANNING. Where flood insurance is currently available

at subsidized rates, actuarial rates will be charged for flood insurance for all new or substantially improved properties on which construction commences after December 31, 1974, or after the

effective date of the Flood Insurance Rate Maps with elevations, whichever is later. Field offices should recognize that the housing market may be significantly affected by implementation of

actuarial rates in areas that are only partially developed. In developing areas, there may be a substantial financial advantage for units eligible for the subsidized premium rates as compared with housing started after the effective date of the flood insurance rate map, when actuarial rates will apply.

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