

What To Do When Your Bank Requires You To Have Flood Insurance

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The man on the phone was looking for help. He and his wife had just received a letter from the bank saying they were now required to purchase flood insurance on their home. Their bank said they had a little over a month to get a flood policy in place - or they would have one forced on them.

The policy was going to cost them \$2,698 a year!

They had built their home and lived in it for about 5 years. They had never been required to purchase flood insurance before. More upsetting was that they had never seen any flooding. Not even during the severe storms and heavy rains that flooded other parts of the county in the last few years.

But that didn't matter.

Overnight the caller went from not needing flood insurance to needing a costly policy.

I wasn't surprised by the call. I have received dozens of others like this before.

This sort of thing happens all the time across the country. There are over 5 million home owners currently paying flood insurance in the United States. You may already be one of them. Or you might have just received a letter saying that you too must now get a policy.

How does this happen?

There is a simple reason for these unpleasant letters. In the U.S. all federally backed lenders are now required by law to check whether the home they are lending money on is in a flood plain. If the house is in a 100 year floodplain then the lender is also required to make the borrower carry flood insurance. Lenders can be severely fined if they don't follow the rules.

A little research showed that my caller received a letter from his bank because the official Flood Insurance Rate Map was recently updated. The new map shows his house inside the floodplain whereas the old map had shown his house outside.

What could he do in this situation? What could you do if this happens to you?
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There are 3 basic options.

1. Pay for the flood insurance without question.

If there has been flooding in the area in the past or if there is a stream nearby or if your home sits low and you are concerned about flooding then buy flood insurance. However if you purchase flood insurance, be aware that you should contact your own insurance company to get prices rather than get a policy forced on you by the bank. Banks will usually charge much higher rates than you can otherwise get direct from an insurance company. The national average policy premium is \$717 a year for approximately \$226,000 worth of coverage as of September 30, 2014.

2. Pay off the balance of the loan so there won't be a lender to require the policy.

If you can afford to pay off your mortgage and/or home equity loans you will not only be free of this debt and the monthly payments. You will get an added benefit. By not having a loan there won't be any lender requiring you to get flood insurance. You may still have an issue when selling the house, but that could be many years away.

3. Challenge the flood zone designation and provide documentation to get the requirement waived.

Do you think there is a chance that your home was mistakenly placed in the flood plain? The way to fight it is by calling a local land surveyor or civil engineer who is very familiar with these floodplain issues and can offer assistance.

Most homeowners won't be able to fight the bank by themselves on this. You can't use logic and say to them that the property hasn't flooded in 50 years. You can't say the house sits on a hill 20 feet higher than the creek.

The lenders aren't the logical types. This type of reasoning won't work for them. Their hands are tied too much by government rules.

Only one authority has enough clout to tell the bank that the property is outside the 100 year floodplain – FEMA. The Federal Emergency Management Agency.

And the surveyor/engineer is needed to get a letter from this only source that does matter.

FEMA manages the National Flood Insurance Program and publishes the floodplain maps. The National Flood Insurance Program is also the underwriter for all the basic flood insurance policies and pays all the claims. They simply sell the flood insurance through the network of private insurance companies.

I received this call because I work for a civil engineering / surveying consulting firm and have been helping property owners on this sort of problem for over ten years.

Messaging



The knowledgeable engineer/surveyor can take someone in this situation through FEMA's official process of Letter of Map Amendment, or LOMA. This letter will change the flood zone designation of a property from a high risk zone to a low risk zone. The LOMA is the official letter telling the bank the property has been removed from the high risk 100 year floodplain. The bank needs to see a LOMA before waiving their requirement for purchasing flood insurance.

In order to qualify for a LOMA a home must be properly measured. You will need to hire a licensed professional to do this. A surveyor is needed to perform the field measurements of the building elevations and compare them to the 100 year flood and certify them – in an Elevation Certificate.

There are a number of rules and nuances to qualify for a removal – after all, FEMA is a big government agency and the rules can be hard to understand if you don't work with them on a regular basis. To simplify things, if the house was built before the first floodplain map was published showing it in the high risk zone then the lowest ground touching the outside of the house needs to be at or above the elevation of the 100 year flood. In this case if the ground at the house is above the high water level from a 100-year flood then FEMA will consider the property to be low risk. They will then issue the LOMA officially removing the house from the 100 year floodplain.

The bank will only accept the official letter from FEMA as proof that the house doesn't need flood insurance.

And what if you get your property surveyed, and it is too low to get removed?

Then you are pretty much going to be stuck paying for insurance unless you sell your house or pay off the loans. Make sure that the surveyor provides you an Elevation Certificate that shows the elevations and information about the house that will allow it to be properly rated for flood insurance.

Keep in mind if your home is lower than the 100 year flood, then there is a 1% minimum chance that your house could be flooded in a given year. That sounds like a remote chance, and it is for any given year. But it needs to be considered over the long term. Statistically over a 30 year time period a home in this zone would have a 26% chance of experiencing a 100 year flood. This is 5 times more likely than having a fire. Who doesn't carry homeowner insurance on their home that protects against fire?

Let's go back to the caller from the beginning.

He hired our firm to do a survey and we found that his house was indeed higher than the 100 year flood elevation. We were able to obtain a LOMA removing it from the high risk zone. The bank then waived his flood insurance requirement and he no longer needed to purchase a policy.

This sort of result doesn't happen every time, but there are enough mistakes on the floodplain maps that it may be worth it to hire someone to survey your home to measure the

elevations and try to get a LOMA. FEMA processes approximately 10,000 of these cases annually. On May 8, 2018, we published revised versions of our [Privacy Policy](#), [User Agreement](#) and [Professional Community Policies](#). Please read these updated terms and take some time to understand

A knowledgeable professional will be able to guide you through the process. When looking for someone to help you in this situation ask how much experience he or she has in preparing Elevation Certificates and in obtaining LOMAs. Ask if they have done work for others in your area and what the results have been. Some areas have many errors on the maps that have resulted in many LOMAs being issued. Other areas the maps are very accurate. Experienced professionals will often have good working knowledge of the situation in your particular area and should be able to answer your questions.

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