



# Flood Insurance Facts for Coastal Homeowners

If you own a home on the coast of North Carolina, or if you are planning to buy or build a new home, you are probably aware of the risk of damage from hurricanes, tropical storms, and nor'easters. To protect homeowners and mortgage lenders from financial loss caused by such damaging storms, the National Flood Insurance Program (NFIP) makes flood insurance available in participating communities. This fact sheet provides answers to questions about how flood insurance premiums are determined and how they are affected when flood maps are updated.

## Am I required to purchase flood insurance?

If the purchase of your home was financed by a federally-backed mortgage loan, and your home is located in a high risk area where a Flood Insurance Rate Map (FIRM) shows that there is a **1% or greater annual chance of flooding**, your lender must require you to obtain flood insurance for the life of the loan. If the annual risk of flooding is less than 1% in your area, your lender has the option to require that you purchase flood insurance, but there is no federal requirement that the lender do so.

## How do I find the level of flood risk for the area where my home is located?

To inform homeowners, lenders, insurance agents, developers, state and local officials, and other interested parties about flood risks, the Federal Emergency Management Agency (FEMA) has produced FIRMs under a series of federal mandates dating back to 1968. In 2000, the State of North Carolina assumed responsibility for producing and maintaining the FIRMs for all North Carolina communities through a Cooperating Technical Partnership with FEMA.

FIRMs use zone designations to identify areas where there is a high (1% or greater), moderate (0.2% to 1%), or minimal (less than 0.2%) annual chance of flooding. In coastal areas, the high risk areas are designated as either AE Zones or VE Zones. Moderate and minimal risk areas are designated as X Zones on newer FIRMs and as B and C Zones on older FIRMs. For more information on how these risk areas are determined, please refer to the "Coastal Flood Studies" fact sheet.

## Where can I locate the FIRM that shows the flood risk zone for my home?

Every community that participates in the NFIP keeps one or more sets of the FIRM map panels currently in effect in a map repository where they are accessible to the public. To find out where the map repository for your community is located, contact the official designated as the local Floodplain Administrator (FPA) for your community. Your town or city clerk can help you contact the FPA for your municipality. If you live in an unincorporated area, contact your county manager's office to get this information.

You can also use the Internet to view current FIRMs. You should first check the North Carolina Floodplain Mapping Program website ([www.ncfloodmaps.com/status](http://www.ncfloodmaps.com/status)) to see if an updated FIRM has been produced for your community. If not, or if the website shows that the updated FIRM is preliminary and not valid for insurance rating purposes, go to FEMA's Map Service Center website (<http://store.msc.fema.gov>) where you can view the currently effective FIRM produced by FEMA. Both websites have an address locator feature that allows you to type in a property address and have the website take you directly to the appropriate FIRM panel.

## How much will I have to pay for flood insurance?

Several factors determine premiums for NFIP flood insurance coverage, including the amount of coverage purchased; the deductible; the age, occupancy, and type of building; and the level of flood risk where the building is located, as indicated by the zone designation shown on the FIRM. In high risk AE and VE Zones, another major factor affecting insurance premiums is the elevation of the lowest floor of the building relative to the predicted elevation of flood waters and possibly wave action during the 1% annual chance flood event. This predicted flood height is called the **Base Flood Elevation (BFE)**. On FIRMs for coastal areas, BFEs are shown in parentheses after or below the zone designation. For instance, ZONE AE (EL 12) on the FIRM indicates that the area is in the AE risk zone and the BFE is 12 feet above mean sea level.

## Are NFIP premium amounts higher in VE Zones than in AE Zones?

Yes. In VE Zones, the “V” stands for “velocity wave action”, indicating that flooding in these areas is caused by a combination of rising water and storm waves three feet high or higher. In the adjacent coastal AE zones, waves caused by a 1% annual chance storm will be less than three feet high. The greater risk of damage in VE Zones is reflected in the higher insurance rates that are charged for a similar amount of insurance coverage in AE Zones.

The difference in AE and VE Zone premiums depends on many factors including the amount of coverage that is purchased. For example, the annual premium for \$50,000 of “building” coverage in a VE Zone is about 30% higher than it would be on the same structure in an AE Zone.\* For \$250,000 of building coverage, the maximum residential building coverage, the VE Zone premium is more than 5 times the amount of a comparable AE Zone premium. The difference in premium amounts for “contents” coverage is similar, though not as dramatic, as the difference in building coverage premiums. This comparison does not take into account any discounts that may apply if a building’s lowest floor is elevated above the BFE. An insurance agent can provide detailed information on NFIP coverages and premium rates.

## My VE Zone house is elevated high above the ground on pilings. Will I qualify for a lower flood insurance rate?

The answer depends on the relation of the BFE for the area where the house is located and the height of the lowest floor system of the house. Insurance rates are discounted by an incremental amount for every foot that the lowest floor system is elevated above the BFE, up to a maximum of three feet. On the other hand, there is a steep increase in the rates if the lowest floor system is located below BFE. Rates may also increase if some or all of the area beneath the lowest floor is enclosed in some way.

Many communities require new and substantially improved structures built in AE and VE zones to be elevated an additional number of feet, above the minimum federal requirement of BFE shown on the effective FIRM (two feet is typical). This additional height requirement is called **freeboard**. Freeboard provides additional protection to a home and ensures that the homeowners will qualify for a substantial flood insurance premium discount. A house located in a VE Zone that is elevated two feet above BFE qualifies for a 46% premium discount on building coverage and a 62% premium discount on contents coverage\*.

For your home to be properly rated, you will need to hire a licensed surveyor to determine the floor heights and other relevant details and complete an Elevation Certificate form. The Elevation Certificate provides all of the information needed by an insurance agent to properly rate your home for the flood insurance coverage you request.

## How is my flood insurance premium affected if I enclose the space below the lowest floor of my VE Zone house?

Your premium will stay the same if the enclosure is constructed of either insect screening or open wood lattice. But if solid walls are used, there will be a substantial increase in the premium amount. For example, the annual premium for a properly elevated house with \$100,000 of building coverage and \$25,000 of contents coverage would increase by 30% as long as less than 300 square feet of area is enclosed by non-supporting, breakaway walls.\* If the enclosed area is 300 square feet or more or if non-breakaway walls are used, the policy would have to be submitted to FEMA Headquarters for flood insurance rating. Annual premiums for “Submit-for-Rate” policies are extremely expensive due to the high damage risk caused by improper flood zone construction.

Please consult with your local building officials before enclosing any of the space below your lowest floor. According to the minimum NFIP standards for VE Zone construction, an enclosure below the lowest floor must be constructed of flood resistant materials and can only be used for parking of vehicles, building access, and/or limited storage – utilities and human habitation are not allowed. Non-supporting breakaway walls must be designed and certified to collapse under wind and water loads without causing structural damage to the elevated portion of the building or its foundation system. You will need certification by an engineer or architect that breakaway walls are properly designed prior to obtaining a local permit to construct an enclosure. And some coastal communities have gone above the NFIP minimum standards by adopting standards that limit or totally prohibit below-BFE enclosures.

### **Are premium discounts also available for houses located in AE Zones?**

Yes. In AE Zones, insurance policies are rated based on the elevation of the lowest floor relative to the BFE. The elevation is measured to the top of the floor. However, if ductwork for the heating and air conditioning system is installed below the floor, the elevation is measured to the bottom of the ductwork. Discounts for elevation to two feet above BFE range from 54% to 70% on building coverage and 45% to 65% on contents coverage, depending on the coverage amount\*.

### **My house was built in an AE Zone according to the FIRM in effect at the time of construction. On the updated FIRM for my community, the zone has been changed to Zone VE. What will happen to my NFIP insurance premium when the new map officially takes effect?**

If you can show that your house was built in compliance with the local flood map and local floodplain management regulations that were in effect at the time of construction, your property can continue to be rated as an AE Zone property under the NFIP "Grandfather rules" and your premium will not increase. Or, if you can show that your home has been continuously insured for flood since before the map change, your premium will not increase. However, if you cannot provide documentation to support one of these conditions, your policy will be re-rated when the new map takes effect using the VE Zone designation and the updated BFE, which will likely raise your premium.

### **My house qualifies for a Zone AE rating under the Grandfather rules even though the zone changed to Zone VE on the new FIRM. How long will I continue to receive this benefit?**

As long as your house is not altered in a way that causes your policy to be re-rated, you will continue to qualify for a Zone AE rating. Under NFIP rules, a house must be re-rated based on the newest effective FIRM if it is substantially improved. "Substantially improved" means any repair, rehabilitation, addition, or other improvement of a house, the cost of which exceeds 50% of the market value of the house before the start of construction. This term includes repairs to structures that are "substantially damaged" by any cause (fire, wind, flood, etc.) such that the cost of restoring the house to its pre-damaged condition would equal or exceed 50% of the market value of the house before it was damaged.

NFIP rules also require that a house that is substantially damaged or improved must be brought into compliance with the flood risk zone designation and BFE, and local ordinance requirements in effect at time of the repairs or improvements. When you apply for a building permit, your local building officials will be able to advise you whether the damage or improvement is considered "substantial" and, if so, what is required to bring the house into compliance.

### **What if I sell my house? Will the new owner's NFIP policy be rated based on the risk zone designation and BFE shown on the new map, or on the FIRM that was in effect when the house was built?**

If you have a flood insurance policy, it may be endorsed to the new owner at the closing, thus allowing coverage to be continuous. Otherwise, the NFIP Grandfather rules allow the new owner to obtain a flood policy based on the FIRM in effect when the house was constructed. However, the owner must provide proper documentation to the insurance company showing that the house was built in compliance with the FIRM and the local floodplain management regulations in effect when the house was built.

### **My house is shown as being in Zone VE on the current FIRM. On the new FIRM the zone designation is changed to Zone AE. What will happen to my flood insurance premium when the new FIRM official takes effect?**

You should contact your insurance agent to ensure that your flood policy is re-rated when the new FIRM officially takes effect. The change to a Zone AE designation will likely lower your premium. A new Elevation Certificate may be necessary to document the elevations used for rating, but the annual premium savings will justify the cost of the certificate.

## **The FIRM shows that my property is located in a COBRA Zone. What does that mean?**

**COBRA Zone** is the colloquial term for areas mapped and designated as Coastal Barrier Resources System (CBRS) units. The Coastal Barriers Resources Act (CBRA) of 1982 removed Federal government support for building and development in undeveloped portions of hazardous coastal areas. The Act includes a ban on sale of NFIP insurance for structures located in mapped COBRA Zones. Additional legislation in 1990 increased the area under CBRS protection and extended the ban on sale of NFIP insurance to "Otherwise Protected Areas" (**OPAs**), which are also shown on FIRMs. The U.S Department of Interior, Fish and Wildlife Service, is responsible for interpreting the boundaries of CBRS units and OPAs.

## **Can I purchase flood insurance if my property is located in a COBRA Zone or OPA?**

You may be able to purchase flood insurance if your house was built on the property before the date shown on the effective FIRM for the specific COBRA Zone or OPA where your property is located. If a house was newly built or substantially improved after the date of CBRA designation, NFIP flood insurance cannot be purchased, although a homeowner may be able to purchase flood insurance (usually at much higher rates) from private insurance providers.

## **My community participates in the Community Rating System (CRS). Do I qualify for a flood insurance premium discount?**

Yes. The NFIP created the CRS to provide lower flood insurance rates in communities that adopt additional floodplain management measures beyond the minimum NFIP criteria. For instance, communities that adopt a freeboard requirement in their Flood Damage Prevention ordinance are awarded 100 CRS points for every foot of additional building elevation required above BFE, up to a maximum of 300 points. Other measures such as increasing public awareness of flood hazards, flood insurance, and flood protection measures earn a community additional CRS points. For every 500 points earned by the community, NFIP policyholders whose properties are located in AE and VE zones receive a 5% premium discount, up to a maximum discount of 45%. Policyholders in X Zones receive a premium discount of 10% in communities that have accumulated 3,000 or more CRS points, or a 5% discount in CRS communities that have less than 3,000 CRS points.

In North Carolina 81 communities participate in the CRS program, including 46 coastal counties and municipalities. Currently there are two North Carolina communities (Wrightsville Beach and Grifton) that qualify for a 25% AE/VE Zone discount (10% for X Zone properties) and four communities (Kitty Hawk, Nags Head, Southern Shores, and Topsail Beach) that qualify for a 20% AE/VE Zone discount (10% for X Zone properties). Your local FPA can tell you whether your community participates in the CRS program and if so, the percentage discount you are entitled to receive on your flood insurance premium.

## **My home is not located in an AE or VE Zone. Can I still purchase NFIP flood insurance?**

Yes. Anyone who owns insurable property in a community that participates in the NFIP can purchase flood insurance. The annual premium for a home located in a B, C, or X Zone will be lower than the premium for the same amount of coverage in an AE or VE Zone, unless the AE or VE Zone home qualifies for an elevation discount.

Your X Zone home may qualify for an even lower cost **Preferred Risk Policy**. The Preferred Risk Policy is available for homes whose owners (past and present) have not received any previous flood insurance claim payments or Federal flood disaster relief payments. Homes whose owners have received no more than two previous flood insurance claims or Federal flood disaster relief payments can also qualify for a Preferred Risk Policy, as long as only one of the payments was for more than \$1,000.

\* All NFIP Flood Insurance rate comparisons used in this fact sheet are effective as of May 1, 2005. Flood insurance rates are subject to revision twice annually, on May 1 and October 1. Please consult your insurance agent for a quotation based on currently effective rates.