

# Effects of Community Non-Participation in the National Flood Insurance Program (NFIP)



## **Impacts to Flood Insurance:**

### **National Flood Insurance Program (NFIP)**

No NFIP flood insurance is available on any building located within a non-participating community. No owner of a residence, business, or public building will be able to purchase or renew a policy through the NFIP.

### **Private Insurance:**

Private insurance **may** be available and accepted by a lender when flood insurance is required, but certain criteria must be met. In addition, federal agencies such as the Federal Housing Authority (FHA), Small Business Administration (SBA), and the Veterans Administration (VA) are prohibited from subsidizing, insuring, or guaranteeing any loan if the property securing the loan is in a Special Flood Hazard Area (SFHA) of a community not participating in the NFIP. Freddie Mac and Fannie Mae will not purchase mortgages secured by improved properties located in SFHAs in nonparticipating communities.

To learn more about the conditions for accepting private insurance and the associated implications, please visit: <https://www.fdic.gov/resources/supervision-and-examinations/consumer-compliance-examination-manual/documents/5/v-6-1.pdf>

## **Disaster Assistance:**

Certain types of federal disaster assistance will be restricted. No financial assistance for acquisition or construction purposes in the SFHA can be approved. This restriction does not apply to Federal disaster assistance under the Stafford Act, unless the assistance is in connection with a flood.

### **Public Assistance (PA) Program:**

Eligible work under the Stafford Act still includes emergency work such as debris removal and emergency protective services. Permanent repair, restoration, or replacement of otherwise eligible facilities are **not** eligible under Public Assistance (PA) for those facilities located in a SFHA. PA will provide assistance for uninsurable facilities such as bridges, roads, and walkways.

### **Individual Assistance (IA) Program:**

Rental assistance or lodging expenses, such as reimbursement of hotel or motel expenses are eligible. When rental properties are not available, direct housing assistance may be provided. No grants are available to permanently repair or replace insurable real estate and/or personal property damaged by a flood.

### **Other:**

Assistance for medical, dental, funeral costs, and transportation are eligible under the Stafford Act. Not eligible are personal property losses that could have been insured by the NFIP (such as appliances, clothing, and furniture).

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## Notes for Lenders:

When an institution makes, increases, extends or renews a loan secured by property that is or will be located in a SFHA, the institution must provide a written notice of special flood hazards to the borrower and the servicer, if there is one. This notice of special flood hazards must be provided regardless of whether the security property is located in a participating or non-participating community. The written notice must contain the following information:

- A warning that the building or mobile home is or will be located in a SFHA.
- A description of the flood purchase requirements contained in section 102(b) of the Federal Disaster Protection Act (FDPA), as amended.
- A statement, if applicable, that flood insurance coverage is available under the NFIP (if participating) and may also be available from private insurers.
- A statement that flood insurance coverage is available from private insurance companies that issue standard flood insurance policies on behalf of the NFIP or directly from the NFIP (if participating).
- A statement that flood insurance that provides the same level of coverage as a standard flood insurance policy under the NFIP may also be available from a private insurance company that issues policies on behalf of the company.
- A statement that the borrower is encouraged to compare flood insurance policies issued on behalf of the NFIP and policies issued on behalf of private insurance companies, and that the borrower should inquire about the availability, cost, and comparisons of flood insurance coverage to an insurance agent.
- A statement whether Federal disaster relief assistance may be available in the event of damage to the building or mobile home, caused by flooding in a Federally declared disaster.

In non-participating communities, a lender should carefully evaluate the risk involved in making a loan for properties in the SFHA because of the lack of NFIP flood insurance coverage and limited federal disaster assistance.

A lender making a loan in a nonparticipating community may want to require the purchase of private flood insurance, if available. Also, a lender with significant lending in nonparticipating communities should establish procedures to ensure that such loans do not constitute an unacceptably large portion of the financial institution's loan portfolio.

## Re-entry into the NFIP:

If the community chooses to reenter the National Flood Insurance Program (NFIP) at a later time, all development in the floodplain conducted during the nonparticipation period must be reviewed by FEMA prior to any reinstatement. This includes any residential or business construction, grading or filling activities, and watercourse modifications. These interim actions could prevent the community from qualifying for future NFIP participation.

**Actuarial rates** are in effect regardless of whether or not a community participates in the NFIP. Structures not meeting the minimum NFIP construction requirements may be prohibitively expensive to insure should the community reenter the National Flood Insurance Program later.