

Flood Maps are Changing...

What Lenders Should Know



Mississippi coastal counties will soon enter a new era.

The Mississippi Coastal Flood Study, undertaken by the Federal Emergency Management Agency (FEMA) and the State of Mississippi, is nearing completion. This in-depth, large-scale study to re-examine flood hazards and related risks in the coastal counties will result in new Digital Flood Insurance Rate Maps (DFIRMs) that will reflect current flood risks, replacing maps that are up to 25 years old. As a result, lenders and property owners throughout Hancock, Harrison and Jackson Counties will have up-to-date, reliable and Internet-accessible information about their flood risk on a property-by-property basis. Some residents and business owners will learn that their flood risk is higher—or lower— than they thought. The changes may affect closings and existing loans for both residents and business owners throughout the area.

Flood Maps: A Risk Management Tool

Flood hazard maps are important risk management tools. By showing the extent to which areas of Hancock, Harrison and Jackson Counties — and individual properties — are at risk for flooding, flood maps help community planners, local officials, engineers, builders, and individual citizens to make better financial decisions about where and how to build and how to protect their investment.

Inform Borrowers About Flood Insurance Requirements

In addition to ensuring that mortgage applicants receive notification of current flood zone information, lenders will want to make them aware of any *upcoming changes* in flood risk status. Loan applicants should also be informed of any flood insurance *requirements* currently associated with the property. Once the new maps become effective, flood insurance requirements may change. Both the lender and the borrower need to be aware of when the preliminary maps will become final, and what the potential effects will be on the requirements for flood insurance. Knowing this in advance will help make for a smoother closing.

Owners of properties that are being mapped into a high-risk area—also known as a Special Flood Hazard Area—will be required to purchase flood insurance once the maps are adopted by the local community. However, many owners can save money if they purchase their insurance prior to map adoption—a process known as “grandfathering.”

Borrowers whose properties are being mapped out of a high-risk area will no longer be required by federal law to carry flood insurance. However, there is still a risk of flooding; lower-cost flood insurance policies are available to protect such properties. They should be encouraged to talk to their agent to see if they are eligible to convert their policy to the lower-cost Preferred Risk Policy and therefore still be covered.

Flood Insurance Requirements and Options

When the new maps are adopted, flood insurance requirements will change. However, options exist that will allow property owners to save money while still protecting their property. The chart on page two provides examples how.

MAP ADOPTION MILESTONES

December 11-13, 2007 — Flood Risk Open Houses.

Mid-January 2008 — Start of 90-day public comment period (for filing appeals and protests).

Spring/Summer 2008* — Review and resolution of appeals and protests. Final flood maps created.

Fall 2008* — Maps adopted; new insurance requirements take effect.

Visit www.mscoastalmapping.com to learn more about the preliminary maps and learn when map changes take effect.

For general information, call the MS Coastal Mapping Call Center at

1-866-816-2804

Open 8:00 a.m. to 4:30 p.m.
Monday through Friday

* Date subject to change pending completion of review process



If Maps Show...	These Requirements, Options and Savings Apply
<p>Change from low or moderate flood risk to high risk; or from a high risk zone (e.g., an “A” zone) to a coastal velocity zone (e.g., a “VE” zone)</p>	<p>Flood insurance is mandatory. Flood insurance will be federally required for most mortgage holders.¹ Insurance costs may rise to reflect the true (high) risk.</p> <p>“Grandfathering” can offer savings. The National Flood Insurance Program (NFIP) has “grandfathering” rules to recognize policyholders who have built in compliance with the flood map in effect at the time of construction or who maintain continuous coverage. Sometimes, though, using the new flood maps can actually result in a lower premium than by “grandfathering.”</p>
<p>Change from high flood risk to low or moderate risk</p>	<p>Flood insurance is optional but recommended. The risk has only been reduced, not removed. Flood insurance can still be obtained at lower rates. About 25 percent of all flood insurance claims come from low- to moderate-risk areas.</p> <p>Conversion offers savings. An existing policy can be easily converted to a lower-cost Preferred Risk Policy, if the building qualifies.</p>
<p>Increase in the Base Flood Elevation (BFE)</p>	<p>An increase in BFE can result in higher premiums; however, “grandfathering” can offer savings. The National Flood Insurance Program has “grandfathering” rules to recognize policyholders who have built in compliance with the flood map in effect at the time of construction. This could result in significant savings.</p>
<p>No change in risk level</p>	<p>No change in insurance rates. However, this is a good time to review your coverages and ensure that your building and contents are adequately covered.</p>

Flood Risks and Flood Zones

Flood maps refer to areas of high, medium or low risk as “flood hazard zones” and the zones of highest risk as “Special Flood Hazard Areas.”

Risk Level	Flood Hazard Zone
<p>High Flood Risk</p>	<p>AE, A, AH or AO Zone. These properties have a one percent chance of flooding in any year and a 26 percent chance of flooding over the life of a 30-year mortgage.</p> <p>VE Zone. These properties have a one percent chance of flooding in any year and also face hazards associated with coastal storm waves.</p> <p>Insurance note: High-risk areas are called “Special Flood Hazard Areas,” and flood insurance is mandatory for most mortgage holders.</p>
<p>Low or Moderate Flood Risk</p>	<p>Shaded X Zone. These properties are outside the high-risk zones. The risk is reduced but not removed.</p> <p>Unshaded X Zone. These properties are in an area of overall lower risk.</p> <p>Insurance note: Lower-cost preferred rate flood insurance policies (known as Preferred Risk Policies) are often an option in these areas.</p>

¹ Required for loans provided by federally regulated lenders as well as government-sponsored enterprises such as Freddie Mac and Fannie Mae. Note that flood insurance can be required by a lender even if the building is located outside a high-risk area.