FHA LOANS & FLOOD INSURANCE: WHAT TO KNOW

A GUIDE TO UNDERSTANDING FLOOD INSURANCE AND FLOOD ZONES



THE FLOOD INSURANCE GURU®



Buying a home can be an unforgettable experience. This is, after all, where you and your loved ones will spend most of your time away from the world. Maybe you're looking to buy a new home through an FHA loan and want to make sure that you dot all the i's and cross all the t's.

In this guide, we'll talk about how FHA loans work especially when buying flood insurance and help you determine what is the best route for your next home purchase.

FHA Loans Explained

The Federal Housing Administration (FHA) loan is a home mortgage that can help low to moderate-income homeowners secure a new property. Unlike most conventional loans, FHA loans require a minimum down payment and lower credit scores than required in comparison to other loan types.

You can get an FHA loan through the Federal Housing Administration (FHA), a bank, or a lender that is approved by the agency.

When getting flood insurance with an FHA loan, you are expected to follow certain guidelines to meet when buying flood insurance. There is a requirement when buying flood insurance with an FHA Loan. Your flood insurance policy should either cover the maximum amount that FEMA and the NFIP offer or the amount of your loan with FHA.

Flood Policy Coverages

Flood Insurance provides building coverage and content coverage.

Building coverage refers to the coverage you would get for flood damages on the structure of your insured property.

Contents coverage, on the other hand, would be your coverage for flood-damaged personal property within that insured location.



Getting Flood Insurance

When buying flood insurance, there are notable things to keep in mind so that you can make the most of your shopping for a policy. In this part of the eBook, we'll cover the whole process of purchasing a flood policy for your new property.



Where to Buy Flood Insurance

Since FHA loans are government-backed mortgages, one of the places to get flood insurance is through federal means and the National Flood Insurance Program (NFIP).

NFIP is managed by the Federal Emergency Management Agency (FEMA). Before, this was the ONLY option if you need flood insurance. However, **since December 2022, FHA loans have changed.**

FHA Loans & Private Flood

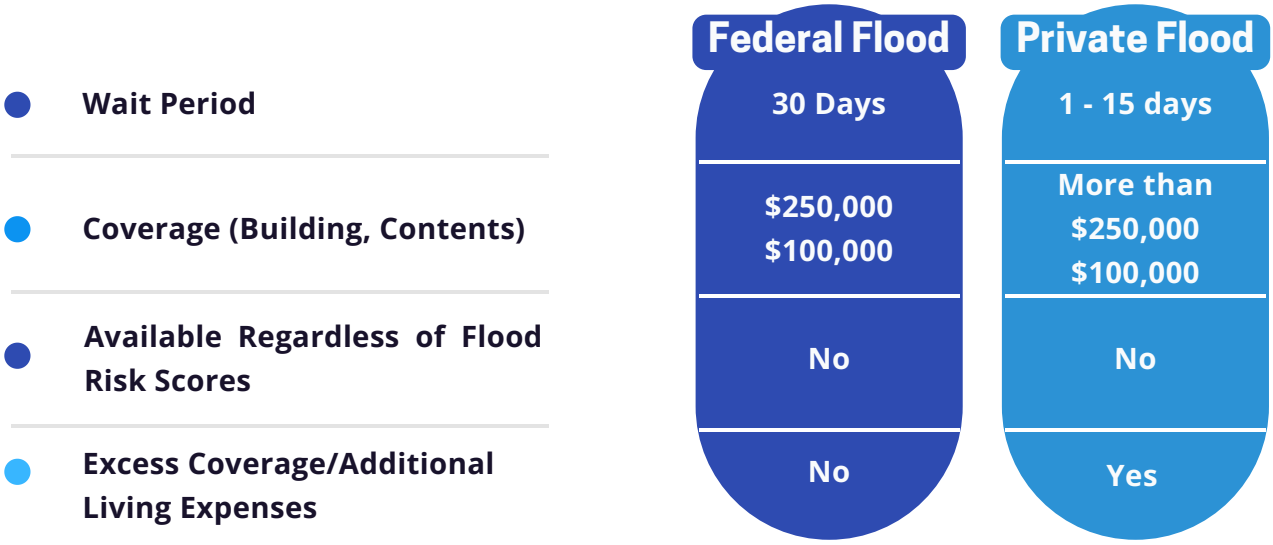
In December 2022, a big update was made when it comes to the availability of flood insurance as Private Flood Insurance is now available for FHA loans.

Before this, you're stuck with the NFIP if you need to buy flood insurance. This is a huge help for homeowners with FHA loans as it expands options when buying flood insurance.

So how do these two options differ?



Federal Flood vs Private Flood



Excess Coverage in form of **Additional Living Expenses** is only available for Private Flood Insurance. The amount depends on the carrier, but generally, we see that the amount is 10% of whatever your building coverage amount is. For example, you can get $30,000 Additional Living Expenses coverage for a policy that has a $300,000 building coverage.

Private Flood INSURANCE

Before jumping to get private flood insurance for your protection, it's important to mention some of the things to expect when buying private flood with an FHA loan.

FHA Loans now have access to private flood insurance however when buying a flood policy, in general, you will have to follow certain guidelines that the government set.

- Flood Insurance must cover the lesser of the outstanding principal balance of the loan or the maximum amount allowed under FEMA's NFIP.
- Maximum deductible should not exceed the greater of $1,000; 1% of the face amount of the policy, or the minimum deductible offered by the borrower's chosen insurance carrier.

If you're required to carry flood insurance because you have to make sure that you follow these guidelines in order for you to get flood insurance as well:

- Cover the lesser of the outstanding principal balance of the loan or the maximum amount allowed under FEMA's National Flood Insurance Program (NFIP).
- The maximum deductible must not exceed the greater of $1,000 or one percent of the face amount of the policy, or the minimum deductible offered by the borrower's chosen insurance carrier.

FAQs

In this section, we will answer some frequently asked questions (FAQs) about flood insurance and FHA Loans

What is my bank going to require with my flood insurance?

You will see one of two things that banks may require with FHA loans when buying flood insurance:

1. **Max Loan Amount** - This means that your coverage must match the maximum loan amount with your mortgage.
2. **NFIP's Maximum Coverage** - This means that your flood coverage must match the maximum amount of federal flood insurance coverage for the building which is $250,000.

Can my bank require more coverage?

Yes, banks can require more flood insurance coverage. This may mean that you will have to go through Private Flood Insurance to get that increased coverage amount since NFIP is limited to only $250,000 building coverage with their policies.



How much should I cover with Flood Insurance?

The recommended coverage amount is at least 80% of the replacement cost of your property. Replacement cost is the amount of money needed to rebuild your home if it were to be completely destroyed.

Both federal and private flood insurance may follow this 80% Rule when it comes to coverage for you to be able to get the full coverage amount when it's time to file a claim.

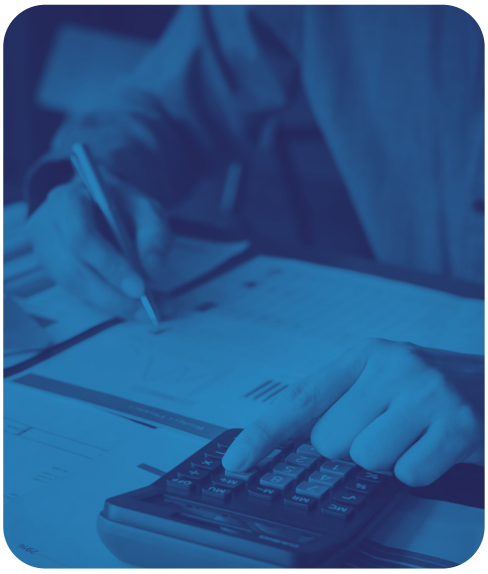
Can I pay for flood insurance on the closing date?

It's important to keep in mind that when you're doing a federal flood policy, the mortgage company may take up to 29 days to make the payment.

However, if you're paying your flood premium out of pocket/on your own, you will have 10 days. Keep this in mind as you may see a 30-day wait period before your policy takes effect depending on what method you'll pay your flood insurance with.

With the private flood insurance, some insurance providers will allow you to pay during closing which can get you 2-3 weeks to get it closed.

Am I required to buy flood insurance with FHA loan?



Although doing a FHA loan doesn't automatically require you to carry flood insurance with your policy, we still encourage you to buy one to protect yourself and your property's value.

The only time you'll be required to have flood insurance is if your property is listed in the Special Flood Hazard Area (SFHA) or high-risk flood zones like Flood Zone A, Flood Zone AE, or Flood Zone V.

Can I cancel my NFIP policy to buy Private Flood with a FHA Loan?

Unfortunately, you cannot cancel an NFIP policy mid-term or while it's still in its effectivity period to move to private flood insurance. You will have to do this upon the renewal of your policy.

NEXT STEPS:
Securing Your Future with Flood Insurance

Getting flood insurance for your home is something that we here at The Flood Insurance Guru highly encourage as flooding can happen anytime and anywhere. The last thing we want you to worry about is how to recover from all that potential flood damage, so we got your back when it comes to your flood insurance needs.



Start Your Flood Insurance Journey

CLICK HERE

SIMPLIFYING FLOOD INSURANCE FOR YOUR NEEDS

Our team is committed to giving you the best flood insurance education and coverage.

This approach helped multiple clients across the United States to get the best policy against flood loss.



I hope this helps you too.

In this guide, we covered multiple facets of FHA loans and flood insurance:

- Understanding how FHA Loans work.
- Flood insurance availability with FHA Loans.
- Coverages with flood insurance.
- Answering frequently asked questions on flood insurance for FHA loans.

We welcome any questions and additional information you need for your flood insurance.

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