Who Is Required to Carry Flood Insurance and How Much?

Regardless of any requirements:

- Anyone at risk of flooding should ideally carry enough flood insurance to cover the cost of rebuilding their home if it is destroyed, up to the maximum policy amount of $250,000.

- If the home is newer construction or is unlikely to be completely destroyed in a flood, it may be adequate to purchase enough flood insurance to cover significant damage to the home below the base flood elevation plus 2 feet. For example, if the home only had $100,000 in damage after Sandy, maybe that is a good level of coverage to buy. But, be aware of 80% rule (below)!

- **IMPORTANT:** If the home is a single-family home (no rental apartment) and it is not insured for at least 80% of the cost of replacing the structure (just the building, not the land), the insurer will only pay you the “actual cash value” for any loss, rather than “replacement cost value” (the cost to rebuild or repair the damage). (A bit confusing: see a more complete explanation on pages 3-4.)

- Buying some coverage for your contents is a good idea. Remember, though, that most contents in a basement will not be covered by your policy.

The following are minimum requirements. More than one of these requirements may apply to you. You must meet the highest requirement that applies to you.
People Who Received Assistance from FEMA's Individual and Household Assistance Program ("IA" or "IHP") for building damage:

- Must purchase coverage for at least the amount of the FEMA grant that you received.
- Recipients of FEMA aid who do not purchase flood insurance and who later apply for FEMA Assistance for the next serious flood will not be eligible for FEMA help for any repair/rebuild needs and will not be eligible for any other form of federal repair/rebuild help (like Build It Back).
- The flood insurance requirement stays with the property forever. You must tell this to anyone you sell the property to.
- The requirement sticks to the address, even if the building is demolished and a new building is built.

People with a Mortgage:

- If you have a mortgage and live in a special flood hazard zone (primarily A zones or V zones in New York City), you must have flood insurance up to:
  - the amount of the unpaid balance on the mortgage; or
  - the cost to fully rebuild the home ("replacement cost" for the building); or
  - the maximum policy amount of $250,000 for the structure, whichever is less

Many mortgage companies tell homeowners that they must carry coverage for the unpaid balance on the mortgage. This may be too much coverage, if the cost to replace the building is less than the mortgage balance. Land values in NYC are high, and the mortgage balance includes the cost of the land and the building. Ask your insurance company what the replacement cost of your building is: you are wasting money if you over-insure, because flood insurance will never pay you more than the cost to replace the whole building.

- This requirement to purchase flood insurance ends when you have paid off the mortgage in full. (But remember, if you have another independent requirement—such as getting FEMA help—that requirement probably continues past the end of your mortgage).
- If you drop your flood insurance when the mortgage is paid off, you will likely lose the ability to “grandfather” into a cheaper rate when the flood insurance maps for NYC change. This means that it may be much more expensive to buy flood insurance in the future.
- If you do not buy flood insurance, the mortgage company is likely to “force place” insurance on the property and pass the cost on to you by increasing the escrow charge in your monthly mortgage payment.

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1 Current federal rules only require flood insurance for federally insured mortgages (e.g. Fannie, Freddie, FHA, or VA), but most mortgage companies will require flood insurance to protect their interest in the property. Most mortgage contracts allow the mortgage company to require flood insurance for properties in Special Flood Hazard Areas.
People Who Received Small Business Administration (SBA) loans:

- Must purchase flood insurance up to the *market value of the structure* (not including the land) or the maximum policy amount of $250,000, whichever is less.
- Even after the SBA loan is paid off, you or a future buyer of the property must keep flood insurance for at least the FEMA aid maximum (currently $33,000, but it increases periodically, so be sure to check with FEMA or SBA).
- Like mortgage banks, the SBA will force-place insurance on the property and pass the cost on to you in your monthly loan payments, if you do not buy a policy while you are repaying the SBA loan.
- Failure to comply may make you ineligible for any form of federal assistance (like Build It Back) for any future flood damage to the building.

People Who Receive Build It Back assistance:

- Recipients of Build It Back assistance (whether in the form of cash or services like repair) whose property is in a Special Flood Hazard Area (primarily AE or VE zones in NYC) must maintain flood insurance up to the Build It Back grant amount, or the maximum flood insurance policy of $250,000, whichever is less.
- The requirement is permanent and stays with the property forever.
- If you sell the property, you must tell the buyer about the flood insurance requirement.
- Failure to buy flood insurance will make you (or the future buyer of your home) ineligible for any future federal flood assistance (FEMA, SBA, or any Build-It-Back type program).

How Do You Know the Value of the Building Separate from the Land and the “Replacement Cost” of the Building?

- If you filed an insurance claim after Sandy, the “Final Report” or “Proof of Loss” that the insurer sent you should list the value of the building (or “structure” and its replacement cost.

- Your homeowners insurance policy should include this information.

- Contact your homeowners insurance company or flood insurance broker to ask what the current market value of the building and the replacement cost are.
For Single-Family Homes:

If the Building Coverage of Your Policy Is Less than 80% of the Cost to Replace the Building, the Payout You Will Receive on Any Flood Insurance Claim You Make Will Be Lower.

- This only applies to single-family homes, not homes with 2 or more apartments.
  (If your home has more than 1 unit or apartment, you will only receive “Actual Cash Value” payment on your claim, regardless of whether you have more or less than 80% coverage.)

- If you have the maximum building coverage that the National Flood Insurance Program offers ($250,000 building coverage), this 80% rule does not apply.

- Replacement cost is the cost to rebuild the building completely. It is called “Replacement Cost Value” or “RCV” in your insurance policy documents.

- “Actual cash value” or “ACV” is the value of the building or contents at the time you make the claim, taking into account age, wear and tear. In other words, it is a depreciated value, less than when the building and contents were new.

- The value of the building does not include the value of the land it sits on. The price you paid to buy the property included the value of the building and the land, so that purchase price is not the value of the building.

- The replacement cost of the building is not the same as the current market value of the building.

- If you buy a policy with building coverage that is less than 80% of the replacement cost of the building, the insurer will only pay a claim at “actual cash value” of the loss, not “replacement cost value.”

- Some examples of the difference between actual cash value (ACV) and replacement cost value (RCV) payment on a claim:
  - On a claim for $250,000, the difference was about $29,000
    (This means the homeowner would only get $221,000 on her claim.)
  - On a claim for $198,000, the difference was about $26,500
  - On a claim for $43,000, the difference was about $8,400
  - On a claim for $37,000, the difference was about $3,700

These are actual examples, but only examples. The difference between ACV and RCV in any claim depends on what was damaged, because depreciation rates vary. For example, drywall depreciates (loses value) faster than floor joists do.