



Flood umbrella coverage

Answer by John Burnett, BOL Guru

Question: Has anyone heard of an umbrella policy for flood insurance? My understanding is the bank purchases this umbrella policy instead of tracking insurance on a loan. If the loan defaults and flood insurance is needed the Bank is covered for the amount of the loan.

Answer: An umbrella policy for flood? It seems too perfect a fit!

Such a policy may provide the bank with coverage from any losses the bank sustains if a mortgaged property is flood-damaged. However, the policy will not absolve the bank of its compliance responsibilities.

The thrust of federal flood insurance laws and regulations is to require that persons who build in flood zones obtain and maintain adequate flood hazard insurance. You are still required to make your borrower obtain and maintain the coverage, your "umbrella" policy notwithstanding.

You may contract with a third party to handle the flood insurance policy monitoring, but you cannot escape the responsibility for having it done.

Flood insurance on part of property?

Question: We just got a loan on a piece of property to build a house. The first 1/3 of the property is in the 100 yr flood plain but the last two-thirds are not. The house is being built in the last 2/3 but they are requiring flood insurance for the full amount, why? Can't we cover just the drive way and first third of the property since the house is not at risk?

Answer by David Dickinson, BOL Guru

Answer:

I don't think you need flood insurance at all. Only "improved real estate" (walled and roofed structures) need to be insured. If the improved real estate is not in a Special Flood Hazard Area (Zones A or V), then you need not purchase flood insurance on the property.

Answer by Dan Persfull, BOL Guru

Answer: I agree with David. However, does the Flood Zone Determination indicate that the full tract is in the flood zone? You may need to provide an elevation/site survey to show the home will not be located within the Special Flood Hazard Area.

Does Flood Coverage Limit Loan Size?

Answer by David Dickinson, BOL Guru

Question: Proposed construction loan of \$60M in SFHA flood zone with maximum coverage available of \$35M. Does this limit the loan amount to \$35M?

Answer: This does not limit the amount of loan you make. Banks must insure that borrowers purchase flood insurance coverage at least equal to the following minimums:

1. Outstanding principal balance of all loans secured by the property;
2. The appraised value of the property minus the land value (the improved property value); and
3. The maximum insurance available under the principal flood insurance program.

If you get the minimum (as required by law) you face some risk in that your collateral is not fully insured, however it is within regulatory requirements.

Flood Certification With No Lien

Answer by Jack Holzknacht, BOL Guru

Question: We're making a loan and securing it with land that has a mobile home on it. The home is properly anchored and considered on a permanent foundation. We are taking a mortgage on the land, but have no security interest in the mobile home.

Do we need to do a flood certification for the mobile home?

Answer: The flood regulations apply to a loan secured by a building or a mobile home. Your loan is not covered.

Flood Insurance Obtained After Forced Placement

Answer by David Dickinson, BOL Guru

Question: How soon after customers acquire their own flood insurance, do we have to terminate a force placed flood insurance policy?

Answer: You cannot have 2 insurance policies in place on the same property. Therefore, when the customer purchases their own policy, your force placed policy should be terminated back to their effective date.

Flood on an 8th Floor Condo

Answer by Andy Zavoina, BOL Guru

Question: Is flood insurance necessary on a condo which is on the 8th floor?

Answer: If it is in a special flood hazard area, absolutely. If it floods, a) what happens if the foundation has problems, and b) where does the elevator go?

[Determining Flood Insurance For Condo Units by John M. Floyd & Assoc.](#)

[Flood Insurance For Condos](#) by Lucy Griffin

This has also been addressed in past Guru questions archived in the [InfoVault](#). There are many other flood topics addressing condos there too.

Flood Coverage Today, Razed Tomorrow

Answer by Richard Insley, BOL Guru

Question: I have residential first mortgage loan that is in a flood zone. The house on the property has been stripped in the interior and is inhabitable. The purchasers are razing the property the day after we close. If I have copies of the contractor's information and permits to demo the property the day after closing does this negate the flood insurance requirements?

We based our entire loan and analysis on land value only. As stated previously the house (although it still has 4 walls and a roof) is uninhabitable. With proof of it being razed/demolished directly after purchase am I safe not requiring flood?

Answer: If the land's being turned into a golf course, I'd ignore the flood insurance rather than write it and then cancel a day later. On the other hand, if the land is being redeveloped into a new-and-improved beachfront home, I'd ignore the short period between structures, get coverage on the derelict structure and then increase coverage as the new home goes up.

More Flood Insurance than One Policy Allows

Answer by David Dickinson, BOL Guru

Question: We have several loans that our institution is making over the maximum requirement of flood insurance. As the lending institution can we require that additional coverage be obtained to cover our loan?

Answer: You certainly can require more than the regulatory maximum. Some banks do, most don't. However, those that don't expose themselves to risk.