

What Happens if the National Flood Insurance Program Expires?

The National Flood Insurance Program (NFIP) is authorized by the National Flood Insurance Act of 1968. Congress must periodically renew the NFIP's statutory authority to operate. In the event Congress fails to pass legislation reauthorizing the NFIP, the program will expire or lapse. The following provides an outline for what a lapse in the NFIP's authorization means for insurance policies and Mortgage Lenders.

WHAT IT MEANS FOR FLOOD INSURANCE POLICIES

- New NFIP policies cannot be issued during a lapse. However, existing policies may be "assigned" to/ assumed by property buyers.
- Existing NFIP policies will remain in effect until their expiration date (i.e., the renewal date plus a 30-day grace period), and claims will continue to be paid subject to available funds.
- Existing policies set to expire may be renewed if the renewal application is received prior to the lapse and the premium is received within the 30-day grace period. Otherwise, policies will not be renewed until the NFIP program is reauthorized.
- Private flood insurance policies (non-NFIP) are not affected by a lapse.

WHAT A LAPSE MEANS FOR MORTGAGE LENDERS

- During a lapse, lenders must continue to make standard flood hazard determinations, provide timely, complete, and accurate notices to borrowers, and comply with other parts of the flood insurance regulations that have not lapsed.
- Lenders can close loans for properties located in special flood hazard areas during a lapse. Because flood insurance through the NFIP is not available during a lapse, lenders will not be in violation of the mandatory purchase requirement for making loans without flood insurance coverage during that period. However, flood insurance coverage must be obtained upon reauthorization for any loan where it would have been required but for the lapse. If necessary, this must be accomplished through a lender-placed policy. Failure to obtain insurance after it becomes available would constitute a violation of 12 C.F.R. § 208.25.
- After reauthorization, lenders should review the legislation to see if the reauthorization is retroactive. This will determine the effective date of policies applied for during the lapse. If the reauthorization does not apply retroactively there is likely a period of time when the property was not insured. Lenders should consider risk related to potential losses during this period when considering whether to close loans during the NFIP lapse. Some lenders determine the risk of loss sufficient to delay closing on the loan until after reauthorization.



NOTE

By submitting a complete application and premium payment, lenders secure the date of coverage given retroactive reauthorization. Lenders can follow NFIP and regulatory guidelines to systematically ensure policies will be obtained as soon as the program is reauthorized. Lenders should review federal agency and investor guidance to ensure compliance.

