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Before the deluge: Why to buy flood insurance

Homeowners don't realize their risks are often higher than fire damage

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John Brecher / MSNBC.com file

A home in Bay St. Louis, Miss., lies in ruin after Hurricane Katrina. In some areas where flood insurance is considered mandatory, only 50 percent of homeowners actually carry a policy.

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Contributor

MSNBC

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Who needs flood insurance? According to the Federal Emergency Management Agency, which oversees the National Flood Insurance Program, the answer is very simple: everyone, everywhere.

Flash floods occur in all 50 states. It is their mantra.

While floods happen naturally and nationally, insurance coverage does not. In the aftermath

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of Hurricane Katrina, homeowners are probably more aware that their policies may cover water damage, as would some hurricane policies, but “neither homeowners insurance nor renters insurance cover flood damage,” says Butch Kinerney, a spokesperson for FEMA in Washington D.C.

A decision in a widely watched federal lawsuit in Mississippi Tuesday underscored that fact, as [U.S. District Judge L.T. Senter Jr. ruled](#) that almost all the damage to the plaintiffs' home was caused by water and therefore not covered by their homeowners insurance.

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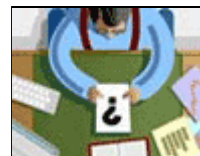
Buying flood insurance is easy — much easier than understanding exactly why everyone needs it. With only one game in town pricing is standard. A list of agents who sell the NFIP policies may be found on the FEMA-run website, FloodSmart.gov.

Anyone living in one of the 20,000 communities participating in the NFIP's floodplains management program qualifies for coverage, regardless of their risk for flooding. Only those living in communities designated coastal barrier resource system areas are excluded.

NFIP policies cannot be canceled — “except for fraud or non-payment,” says Kinerney — and there is no limit to the claims that may be filed for any one property or by any individual. Also, claims are not reported to the insurance industry's database. The only limitation is a 30-day waiting period before a policy takes effect. However, policies taken out because a mortgage company requires it take effect immediately upon closing.

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A hard sell

While obtaining the insurance is fairly straightforward, understanding what one's flood risk is and whether the policy warrants the cost is not so easy. Even those in the highest risk group, for whom coverage is mandatory, have trouble recognizing the value.

According to a 2006 RAND Corp. study, even in areas of the Northeast and Midwest where flood insurance is considered mandatory for mortgage holders, only 45 to 50 percent of households have the coverage. In flood-prone areas of the South and West up to 90 percent of households have flood insurance, according to the study.

Of those living near flood-prone areas where coverage is not mandatory, only 20 percent buy it. Yet FEMA insists it is a matter of 'when' not 'if' a flood will occur for these folks.

Such high-risk dwellers face a 26 percent chance of being flooded during the span of a 30-year mortgage. Supporters of flood insurance note these same homeowners insure against fire but face only a 9 percent chance of experiencing a loss due to a blaze during that same 30-year span.

CONTINUED: FEMA pushes program outside flood zones

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