

SFGate.com

INSURANCE

Forgoing flood insurance is a big risk More homes threatened by floods than fire, U.S. says

Tom Murphy, Associated Press

Sunday, July 13, 2008



(07-13) 04:00 PDT Columbus, Ind. --

David Spicer gutted his one-story home after a nearby creek flooded last month.

He and some friends ripped out soggy insulation and removed the ruined furnace. He even carved away a couple of feet of flood-damaged drywall to fight mold.

Now he must figure out how he'll pay to replace everything. Spicer, like most of his neighbors, has no flood insurance.

"We're kind of hoping that the government and FEMA will do something," he said. "It's pretty devastating."

Recent flooding that swamped parts of the Midwest, including Indiana, Wisconsin and Iowa, caught many property owners unprotected. Only 1 percent of all Indiana homeowners have flood insurance. Wisconsin reports even less than that. People generally decline federally backed flood coverage because they don't realize it falls outside standard home insurance or they underestimate the risk.

"I think there is a perception among people that if they don't live right near a body of water that their home can't flood," said Julie Rochman, CEO of the Institute for Business and Home Safety, an insurance industry-funded research organization. "You can find flooding anywhere in the United States. Mountaintops flood."

Spicer declined coverage because he doesn't live in a flood plain, and the bank didn't require it. But the creek near his house rose quickly last month, filling his basement and taking out his family room and entertainment center. Then it saturated the first floor with mud, prompting the mass cleanout.

"We just have a shell here now," he said.

Warm fronts from the South have clashed with slow-moving systems from the West to dump

unusually heavy storms and flooding on places like Indiana and Iowa this spring, said John Kwiatowski, a National Weather Service meteorologist.

Wisconsin Insurance Commissioner Sean Dilweg expects damages from flooding that passed through his state to top \$100 million. But of the 2 million households statewide, only about 13,600 had flood insurance policies.

A lack of flood insurance isn't limited to the Midwest. The National Flood Insurance Program estimates that only half the property owners were insured when hurricanes Katrina and Rita tore up the Gulf Coast in 2005. The program paid \$15 billion to those who did have coverage during what it deems the costliest storm season on record.

The federal government provides nearly all flood coverage for homes and businesses through its National Flood Insurance Program. Insurance companies market the coverage. Their agents receive a small commission and then pass the premium money on to the government.

Rochman said many homeowners fail to read their policies closely to learn that flood coverage is typically excluded. Insurers specialize in covering accidental loss, or events like lightning strikes that happen rarely. Flooding is too risky for them.

A house has a 26 percent chance of being damaged by a flood during a 30-year mortgage. In contrast, the risk of fire damage is only 9 percent, according to the National Flood Insurance Program.

The government started offering flood coverage 40 years ago because no one else would provide it. The National Flood Insurance Program provides coverage that will pay up to \$250,000 for home damage and \$100,000 for the contents, if a community registers with the program. The price of a policy varies according to risk, but it averages about \$500 annually, according to the National Flood Insurance Program.

Rochman said there's some debate over whether the coverage amounts are too low.

"These days if you're in California, you're not going to buy a shed for \$250,000 in certain parts of the state," she said.

Still, the coverage is better than the alternatives. The government can provide loans or grants to help homeowners rebuild if they have no insurance and their community is declared a disaster area, Indiana Insurance Commissioner Jim Atterholt said.

He also noted that people should report losses regardless of whether they have flood insurance. Some home policies may provide coverage if basement walls collapse or a sewer backs up.

Most people who don't purchase flood insurance have few alternatives, however.

"If you don't purchase it and you're flooded, generally you're going to be out of luck, and you're going to have to pay for the loss yourself," said Jeanne Salvatore, a senior vice president with the Insurance Information Institute.

<http://sfgate.com/cgi-bin/article.cgi?f=/c/a/2008/07/13/REVC118UDK.DTL>

This article appeared on page **K - 24** of the San Francisco Chronicle