

CDBG Funds and Flood Insurance

August 3, 1983

MEMORANDUM FOR: Finnis E. Jolly, Area Manager,
San Antonio Area Office, 6.5S

FROM: Stephen J. Bollinger, Assistant Secretary for Community Planning and Development, C

SUBJECT: CDBG funds and flood insurance premiums

This is in response to the three questions raised in your memorandum dated April 8, 1983, concerning the use of CDBG funds to pay premiums for flood insurance for privately-owned property rehabilitated with CDBG funds.

1. Is it required that flood insurance be maintained for the full term of the grant even on Deferred Payment Loans which are in fact life-time grants?

Section 102(a) of the Flood Disaster Protection Act of 1973 (42 U.S.C. 4106), requires that recipients of financial assistance maintain flood insurance. The rule for loans included in that section applies to deferred payment loans, i.e. flood insurance is to be maintained for the full term of the loan. A more detailed discussion on the treatment of loans as well as grants was included in the April 29, 1983 memorandum to the Field on monitoring the flood insurance purchase responsibility (a copy is attached).

2. Should the grant recipient be unable to pay for flood insurance renewal premiums, can CDBG funds be used to renew such flood insurance for subsequent years?

CDBG funds can be used to pay the flood insurance premium. However, steps should be taken to ensure that future premiums are not routinely paid from CDBG funds. At the time the rehabilitation assistance is provided, it should be made clear to the property owner that the cost of maintaining flood insurance coverage is the owner's obligation. The cost of the premium should be included in underwriting decisions. Further, every reasonable effort should be made to have the property owner pay the premium. The use of CDBG funds should be considered a last resort.

3. What section of the CDBG regulations, or which Departmental written opinion has authorized the use of CDBG funds for this purpose?

The July 10, 1978 opinion from the Office of General Counsel on the payment of flood insurance premiums with block grant funds is attached and covers the issue of eligibility.

I have also attached a copy of my memorandum dated August 18, 1982 to the Regional Administrators on implementing the flood insurance oversight function.

Attachments

