



FEMA

Changes Coming to the National Flood Insurance Program – What to Expect

Impact of changes to the NFIP under Section 205 of the Biggert-Waters Act



Changes are Coming to the NFIP

- **Congress passed the Flood Insurance Reform Act of 2012 (Biggert Waters 2012), which will:**
 - Make the NFIP more financially stable by raising rates on certain classes of property to reflect true flood risk; and
 - Trigger rate changes for certain properties within a revised or updated map area to accurately reflect the flood risk.
- **The changes will mean rate increases for many policyholders over time.**
- **Buying or selling a property, or allowing a policy to lapse may trigger rate changes.**
- **There are investments you and your community can make to reduce the impact of rate changes.**

What is Changing?

■ Flood insurance rates

- Rates for most properties will more accurately reflect risk.
- Subsidized rates for non-primary residences are being phased out now.
- Other subsidized rates will be eliminated over time:
 - New policies sold after July 6, 2012 to cover previously uninsured properties; and
 - Purchase of a property, allowing a policy to lapse, repetitive loss or cumulative damage, or other events, could trigger rate changes beginning in 2013.
- When a community adopts a new flood map, discounts like grandfathering will be phased out – meaning premiums will increase over time. Expected in 2014

■ Flood risks and the costs of flooding

- Weather patterns, erosion, and development are a few factors increasing flood risk in many communities.
- Better science, improved tools and more data are providing more accurate definition of flood hazards.
- More buildings and other infrastructure are being built in areas at risk for flooding and replacement costs continue to grow.

Who Will Be Affected by Subsidy Changes?

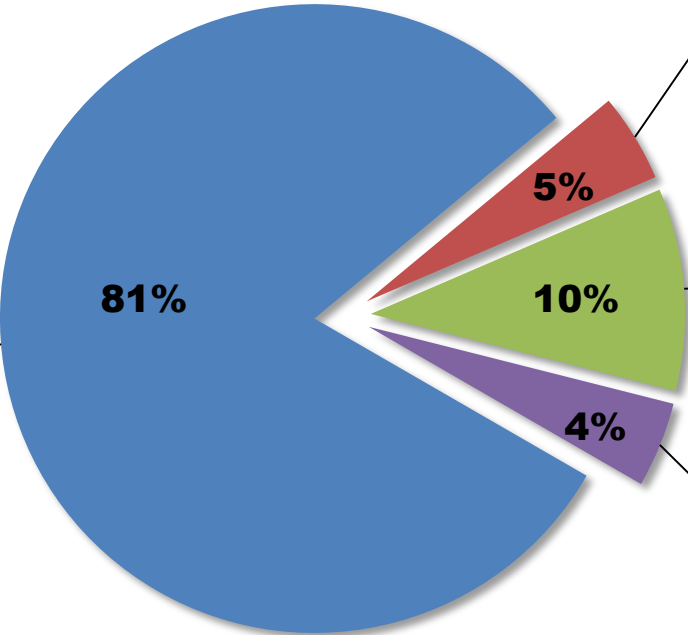
- **Not everyone** – only 20% of NFIP policies receive subsidies – and an even smaller number will see immediate changes.
- Owners of subsidized non-primary residences in a Special Flood Hazard Area will see 25% increase annually until rates reflect true risk – began January 1, 2013.
- Owners of subsidized property that has experienced severe repetitive flood losses or that has incurred flood cumulative damage with flood insurance payments exceeding the value of the structure will see 25% rate increase annually until rates reflect true risk – beginning late 2013.
- Owners of subsidized business properties in a Special Flood Hazard Area will see 25% rate increase annually until rates reflect true risk -- beginning late 2013.
- Owners of substantially damaged or substantially improved subsidized property will see 25% rate increase.

Policyholder Subsidies

NFIP Policyholders under Section 205

(data as of 12/31/2012)

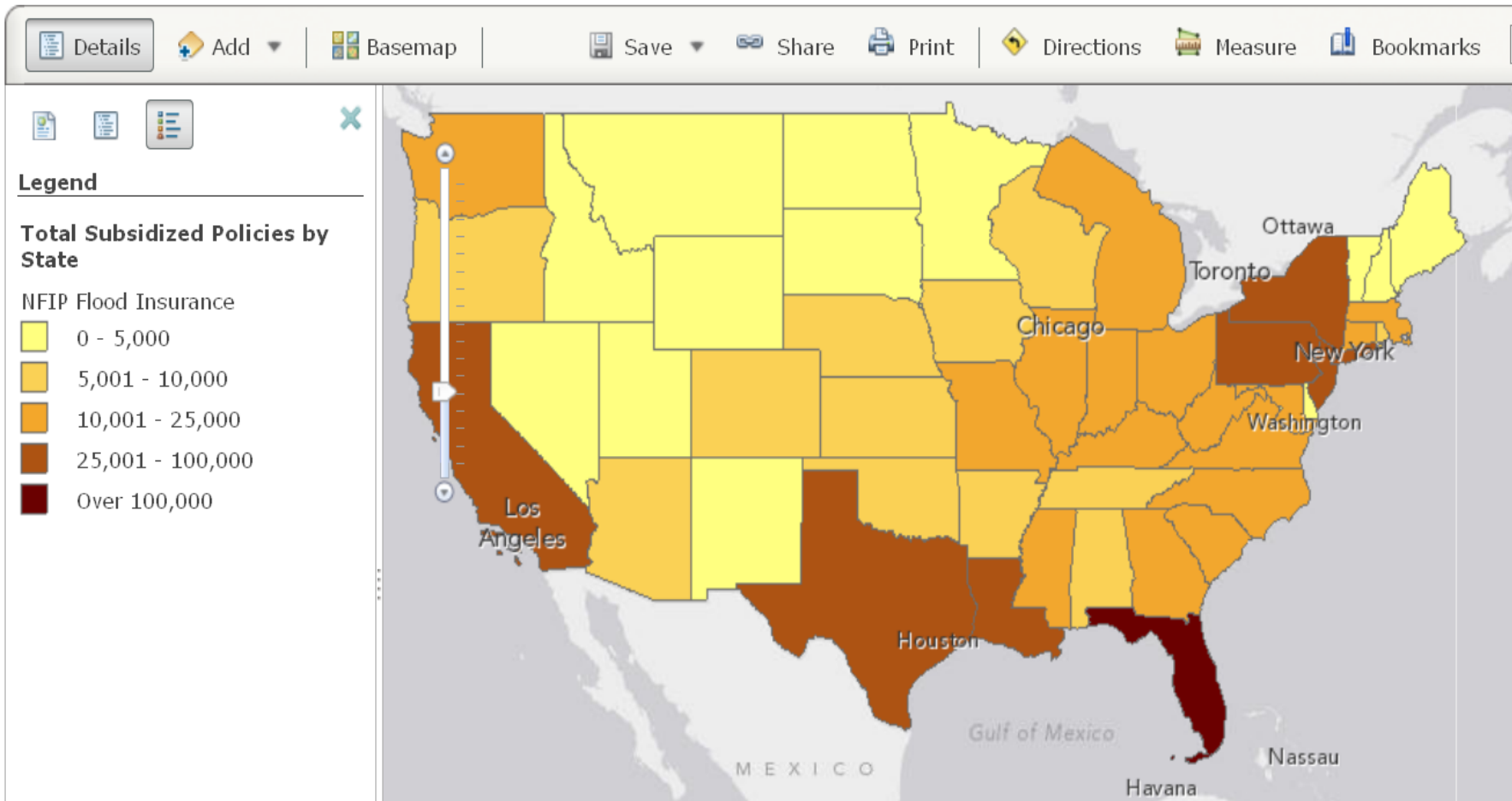
These policies are not Pre-FIRM subsidized (already actuarially rated), 4,480,669 policies . They are not affected by 205 but may see routine annual rate increases.



These pre-FIRM non-primary residences, business properties, and Severe Repetitive Loss (SRL) properties (252,851 policies) will see 25% increases until the true risk premium is reached.

These pre-FIRM non-primary residences (578,312 policies) will retain their subsidies until sold to new owner, policy lapse, etc.

These properties, which include pre-FIRM condos and multifamily properties (244,085 policies) will not see immediate subsidy removal.



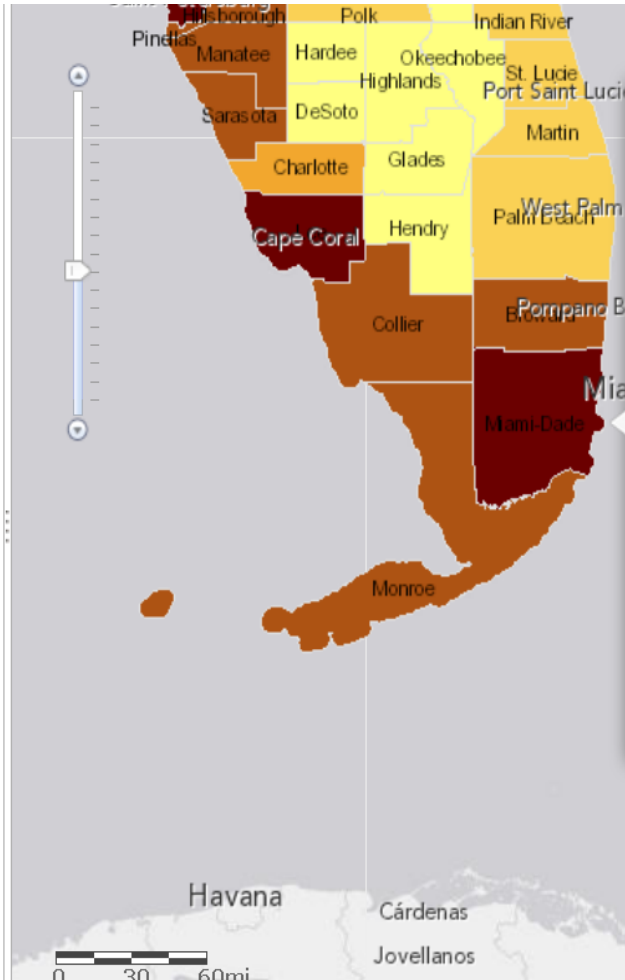


Legend

Total Subsidized Policies by County

NFIP Flood Insurance, by County

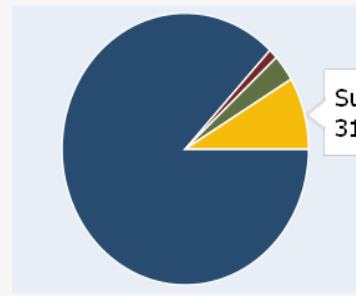
- 0 - 500
- 501 - 5,000
- 5,001 - 10,000
- 10,001 - 30,000
- Over 30,000



NFIP Flood Insurance, by County:

State	Florida
Name	Miami-Dade County
Subsidized Policies (affected by 205)	47,442
Policies that are not subsidized (not affected by 205)	318,934
% of Policies Subsidized	13%
Subsidized Policies per 10k Housing Units	479.49
Population (County)	2,496,435
Housing Units (County)	989,435.00

Pie Chart 1



Subsidized condos and multifamily, 31,445

Who Won't Be Affected by Subsidy Changes?

- Owners of primary residences in SFHAs will be able to keep their subsidized rates **unless or until:**
 - You sell your property (new rates will be charged to next owner if they insure;)
 - You allow your policy to lapse;
 - You suffer severe, repeated flood losses; or
 - You purchase a new policy (after July 6, 2012).

When Will Changes Occur?

- **Now – Changes underway:**
 - Full-risk rates will apply to property not previously insured, newly purchased, or to a policy which is repurchased after a lapse.
 - Premiums for older (pre-FIRM) non-primary residences in a Special Flood Hazard Area will increase by 25 percent each year until they reflect the full-risk rate – began January 1, 2013.
- **Later in 2013:**
 - Premiums for pre-FIRM business properties, severe repetitive loss properties (1-4 residences), and properties where claims payments exceed fair market value will increase by 25 percent each year until they reflect the full-risk rate.
 - Normal rate revisions which occur annually, and increases will include a 5% assessment to build a catastrophic reserve fund.
- **Late 2014:**
 - Premiums for properties affected by map changes will increase over five years at a rate of 20 percent per year to reach full-risk rates.

Why the Changes to the NFIP?

- **1968:** Congress created the NFIP to make affordable flood insurance generally available (flood damage is not covered by most homeowners' insurance policies) and to decrease Federal disaster assistance expenditures.
- To participate, communities adopt and enforce floodplain management measures for all new development.
- For structures built before FEMA mapped the Special Flood Hazard Area (SFHA) (called pre-FIRM properties), the NFIP made flood insurance available at subsidized rates that did not reflect the true risk of flooding.
- 45 years later: Flood risks continue, and the costs and consequences of flooding are increasing.
- Artificially low rates and discounts no longer are sustainable.
- In 2012, Congress passed legislation to make the program more sustainable and financially sound over the long term.

What Can I Do to Lower Costs?

- **Home and business owners:**
 - Talk to your insurance agent about your insurance options
 - You'll probably need an Elevation Certificate to determine your correct rate
 - Higher deductibles might lower your premium
 - Consider remodeling or rebuilding
 - Building or rebuilding higher will lower your risk and could reduce your premium
 - Consider adding vents to your foundation or using breakaway walls
 - Talk with local officials about community-wide mitigation steps
- **Community leaders:**
 - Consider joining the Community Rating System (CRS) or increasing your CRS activities to lower premiums for residents.
 - Talk to your state about grants. FEMA issues grants to states which can distribute the funds to communities to help with mitigation and rebuilding.

What about when a new flood map is adopted?

- **If you live in a community which adopts a new, updated Flood Insurance Rate Map (FIRM) :**
 - Charging of insurance premiums based on a prior FIRM -- grandfathering -- will be phased out.
 - The Biggert-Waters Act Section 100207 calls for a phase-out of grandfathering discounts for properties shown on Flood Insurance Rate Maps that are updated.
 - But the pain is lessened somewhat, because new rates will be gradually phased in at 20% per year for five years
 - Implementation anticipated in 2014

Reserve Fund

- The legislation requires establishment of a reserve fund to pay for future losses
- In addition to rate increases accounting for true and changing risk, a 5 percent premium increase will go toward the reserve fund
 - Exception: Preferred Risk Policies and Group Flood Insurance Policies
- Overall, premiums will increase an average of 10 percent in beginning in late 2013
- Pre-FIRM premium increases related to the phase out of subsidies and discounts include a 5 percent increase for the reserve fund
 - For example: A policyholder for a pre-FIRM, non-primary residence will pay a rate increase of 20 percent and 5 percent for the reserve fund for a total premium increase of 25 percent

Business Properties

- **Premiums for pre-FIRM business properties will increase by 25 percent each year until they reflect the full-risk rate.**
 - New applications will identify business properties separate from other non-residential buildings.
 - Business properties will be rated as non-residential until the rulemaking process is complete.
- **For application purposes, a business property is any non residential building that produces income, or a building designed for use as office or retail space, or for wholesale, hospitality or similar uses.**

PRP Eligibility Extension Changes

- Premiums will increase for properties insured by the Preferred Risk Policy (PRP) Eligibility Extension, which allows structures mapped into a high-risk area to remain insured at lower PRP rates.
- Premiums for properties mapped into Special Flood Hazard Areas (SFHAs) on or after Oct. 1, 2008, and receiving the PRP Eligibility Extension will see average annual increases of 20 percent starting late 2013.

Resources for Builders & Realtors

- [FEMA.gov/BW12](https://www.fema.gov/BW12) Fact sheets, Bulletins, brochures, and more.
- [FloodSmart.gov](https://www.floodsmart.gov) Flood insurance basics, Map Update Toolkit, Flood Map Update Schedule
- [Realtor.org](https://www.realtor.org) Field Guide to Flood Insurance, BW-12 articles with new information and resources
- **Coming Soon** Co-branded fact sheets and pass-alongs, webinars and information sessions

The Bottom Line

- **Many changes are coming to the Flood Insurance program**
 - Congress acted to make program stronger financially
- **On many more policies, flood insurance rates will reflect full risk.**
 - Insurance rates will rise on some policies
 - There are specific actions which will trigger rate changes
- **Talk to your insurance agent about how changes may affect your property and flood insurance policy**
- **Building or rebuilding higher can lower your flood risk and could save you money**
- **FEMA can help communities lower flood risk and flood insurance premiums through:**
 - CRS program
 - Various mitigation grants
 - Technical advice on building and rebuilding to mitigate future flood damage