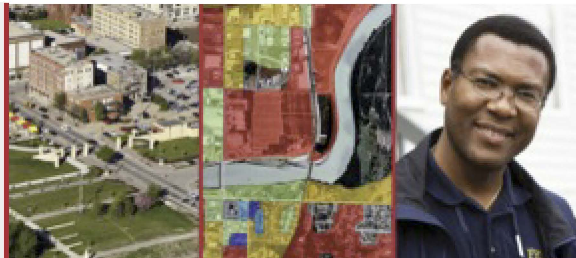
Changes Coming to the National Flood Insurance Program – What to Expect

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.

Who Won’t Be Affected by Subsidy Changes?

- **Owners of primary residences in SFHAs <u>will be able to keep their subsidized rates</u> <u>unless or until:</u>**
  - 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 Do I Need to Remember?

- **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; and
  - 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; and
  - Technical advice on building and rebuilding to mitigate future flood damage.