Changes to the National Flood Insurance Program: *A Guide for Homeowners*

November 2013

In 2012, the U.S. Congress passed the **Biggert-Waters Flood Insurance Reform Act** of 2012 (BW12), which makes many changes to National Flood Insurance Program (NFIP). This law calls for increases in the rates of subsidized flood insurance policies to more accurately reflect the real flood risk to insured properties. Some—but not all—policyholders will see rate increases that come directly from this change in the law. This fact sheet provides basic information. However, **<u>you should talk to your insurance agent to determine if and how your policy will be affected by BW-12</u>**. The information below is only for **single-family homes (SFHs)**.

Background

Congress created the NFIP in 1968 to make federally backed flood insurance available to property owners who live in eligible communities. Participation in the NFIP is based on an agreement between communities and the federal government. To participate in the NFIP, a community has to adopt standards for new construction and development. Pre-existing homes were provided lower-cost, subsidized flood insurance to encourage participation in the program.

Is my flood insurance affected by the new law?

Some parts of BW12 apply to most NFIP-covered properties. For example, a 5% fee for each policy will be assessed, beginning October 1, 2013, to contribute to the program's reserve fund. However, other parts of BW12 only affect those policies receiving subsidized rates. There are two different types of homes receiving subsidies. The first is all those single-family homes (SFHs) built *before Dec. 31, 1974 or* your community's first Flood Insurance Rate Map (FIRM) (a "pre-FIRM home"). The other type of subsidy is for homes built *after* adoption of your community's first FIRM (a "post-FIRM home") but with a lower floor elevation than the base flood elevation (BFE) in later, updated FIRMs .

> If you have a subsidized rate, for the moment you will **be able to keep your subsidized rate** unless :
>
> - You sell your property
> - You allow your policy to lapse
> - You suffer severe, repeated, flood losses
> - Your home is substantially damaged or substantially improved
> - You purchase a new policy
>
> This may change in 2014 with further implementation of BW12.

When will my rates increase?

When, or if, your rate increases depends on factors such as whether you have a pre-FIRM home, whether your home is your primary residence, and improvements/damages to or sale of your home. Subsidized rates for non-primary residences (lived in less than 80% of the year) began phase out of subsidies as of January 1, 2013. These policies will increase by 25% of their current year's policy each year until the rate reaches the "true risk" premium.

October 1, 2013, insurance rates began to increase 25% per year until the true risk premium is reached for the following:

- SFHs that were "substantially damaged" (more than 50% of the property's value) ***after*** July 6, 2012
- SFHs "substantially improved" (more than 30% of the property's value) ***after*** July 6, 2012
- Any property that has had cumulative flood claims that equal or exceed the value of the property
- Any property that has made four or more claims and each claim is more than $5,000

This research was funded in part under award number NA10OAR4170078 from the National Oceanic and Atmospheric Administration, U.S. Department of Commerce. The statements, findings, conclusions, and recommendations are those of the author and do not necessarily reflect the views of NOAA or the U.S. Department of Commerce.

Post-FIRM homes may also be receiving a subsidized rate if newer FIRMs show an increase in the base flood elevation around the home. If you receive this subsidy, you will keep it for now as long as you maintain your policy, do not sell the property, do not qualify as a severe-repetitive loss policy, do not suffer substantial damage to your home, or substantially improve your home. At some point, likely in late 2014, properties in this situation will shift towards true risk premiums. When this change occurs for you and a calculation of your "true risk" results in a higher premium, the amount of the increase will be phased in over 5 years (20% of the increase added to your premium each year for 5 years).

How will FEMA calculate my rate?
If you do not have an elevation certificate (EC) for your house, FEMA will use either "tentative" or "provisional" rates until you get an EC. The temporary rates are usually higher than the actuarial rate. Tentative and provisional rates are good for a maximum of 1 year and cannot be renewed.

Is there anything I can do that would trigger higher rates sooner?
Yes! If you allow your policy to lapse, all subsidies will be removed, and you will immediately need to pay the full risk premium for your insurance. Also, if you sell your home, the new owner will have to pay the full risk premium for flood insurance immediately as well.

Flood zones are areas mapped by FEMA for use in the National Flood Insurance Program. Each flood zone designation, represented by a letter or letters, tells homeowners exactly what the risk is for flooding at their property over a period of years, regardless of the cause. By law, all homes in high-risk zones carrying a federally backed mortgage must be covered by flood insurance.

Do I need Flood Insurance?
If you live in an area defined as a "Special Flood Hazard Area" (SFHA) and have a mortgage, you are likely required to have flood insurance. The only exception is if your mortgage is not a federally backed mortgage, but most mortgages are from federally backed lenders. To find out if you are in a flood zone, visit http://bit.ly/FEMAmapcenter.

How do I know the elevation of my home?
Elevation of structures is a significant factor in setting insurance premiums under the NFIP. An elevation certificate will tell you the elevation of your lowest floor relative to the Base Flood Elevation (BFE). If your structure was built in a SFHA after your community adopted its first FIRM, your local government may have an elevation certificate on file for your property. If there is not an elevation certificate on file, you will need to hire a Professional Land Surveyor to conduct an elevation survey for a final determination of your NFIP policy premium.

Is there anything I can do to decrease my cost of flood insurance?
You should discuss this with your insurance agent. Possible ways to decrease your insurance premium include:

- Increasing your deductible
- Remodel or rebuild your house so that the lowest floor is above BFE

Where can I get more information?
FEMA: http://www.fema.gov/flood-insurance-reform-act-2012
Association of State Floodplain Managers: http://www.floods.org/
Florida Sea Grant Insurance Issues page: https://www.flseagrant.org/climatechange/coastalplanning/insurance-issues-coast/

Supplemental Factsheet:
The Biggert-Waters Flood Insurance Reform Act of 2012: A Flowchart to Help Property Owners Understand Possible Rate Increases

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