National Flood Insurance Program (NFIP) Biggert-Waters Act 2012 (BW12)

NFIP Re-Authorization & Reform

Todd Bass
Natural Hazards Program Specialist
Floodplain Management and Insurance Branch
Mitigation Division
US DHS FEMA Region 4 - Atlanta
Flood risks are changing
Risks may have increased since the last maps

Flood insurance rates will reflect those changes
With new maps, rates on many properties will rise

Don’t rely on subsidized rates
Most subsidized rates for older properties will be eliminated

Building & re-building higher lowers risk and can save money!
Consider flood insurance when making construction decisions
Biggert-Waters 2012 (BW12)

- Signed into law by President Obama on July 6, 2012

- Section 203 Reauthorized the National Flood Insurance Program for 5 years, through 9/30/2017
BW12 : What’s Changing

- Subsidies to be phased out
  - Non-primary residences
  - Business properties
  - Severe repetitive loss properties (1-4 residences), and properties where claims payments exceed fair market value

- New policies to be issued at full-risk rates
  - After the sale/purchase of a property
  - After a lapse in insurance coverage
  - After substantial damage/improvement
  - For properties uninsured as of BW-12 enactment

- Grandfathered rates planned to be phased out over 5 years
Some changes effective NOW

- Full-risk rates now are being applied to newly purchased property, to property not previously insured, and to policies that are re-purchased after a lapse.

- Premiums for older (pre-FIRM) non-primary residences in Special Flood Hazard Areas will increase by 25% annually until they reflect the full-risk rate.

Beginning October 2013,

- Premiums for pre-FIRM business properties, severe repetitive loss properties (1–4 residences), and properties on which claims payments exceed fair market value will increase by 25% annually until they reflect the full-risk rate.

Routine rate revisions will include a 5% assessment to build a catastrophic reserve fund.
Biggert-Waters 2012 (BW12)
Rate Changes

- Anticipated late 2014
- Premiums for properties affected by map changes will increase by 20% each year to reach full-risk rates.

Who won’t be affected:
- Owners of primary residences in SFHAs will keep the subsidized rates until the home is sold; the policy is allowed to lapse; a new policy is purchased; or a string of severe losses is experienced.
- Post-FIRM rates for all zone classes will be unaffected by Section 100205 of the Biggert-Waters Act.; 207 implementation is evolving.

A Reserve Fund
- The legislation requires establishment of a reserve fund to pay for future losses. A 5% premium increase on all policies will go toward the reserve fund. Preferred Risk Policies and Group Flood Insurance Policies are exempted from the 5% assessment.
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 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.
Policyholder Subsidies

NFIP Policyholders: Total Number of Subsidized Policies by State...
Changes for Non-Primary Residences

- Rates will increase 25 percent per year until they reflect full-risk rate
- Changes effective January 1, 2013, at policy renewal

Pre-FIRM:
Built before 12-31-1974 or the community’s first Flood Insurance Rate Map became effective and has not been substantially damaged or improved

Non-primary residence:
A building that will be lived in by the insured or their spouse for less than 80 percent of the year
Changes to Other *Subsidized* Rates

- Rates on pre-FIRM commercial buildings
  Increase by 25% a year until they reach full-risk rates

- Rates for repetitively damaged buildings
  (known as Severe Repetitive Loss [SRL] properties; not just flooding)
  increase 25% a year until reach full-risk rates

  Includes buildings with cumulative flood insurance payments that meet or exceed fair market value

- These changes commence October 1, 2013
For Pre-FIRM Residences – Direct Full-Risk (Actuarial) Rates

- After the sale/purchase of a property
  Subsidized rates can no longer be assigned to the new owner

- After a policy lapse
  Policyholders should know that allowing a policy to lapse could be costly

- When a new policy is issued
  Policies for buildings uninsured as of the date BW-12 was enacted

- These changes also effective

  October 1, 2013
Historic Structures and BW12

- **Historical structure that is primary residence:**
  - Retain pre-FIRM subsidized rates until it is sold, policy lapses, new policy is issued, becomes severe repetitive loss
  - Subject to annual rate adjustments and fee for Reserve Fund
  - Must maintain continuous coverage

- **Historical structure that is non-residential, actuarial rates beginning October 1, 2013**

- **Substantial improvement /substantial damage** – subject to full actuarial rates
Preferred Risk Policy (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 ~ average annual increase 20%

- Effective October 1, 2013
• New and renewal policies will have to complete a new policy application to capture “Is this Insured’s Primary Residence – Y/N”

• Supporting documentation will be required – FIRM, EC, LOMA, LOMR...

• Waiver of 30-day waiting due to flooding on Federal Lands as a result of Wildfire – does not apply to policy inception, but at time of loss - eligibility determined by adjuster

• Required documentation to confirm continued eligibility for PRP policy (may require community sign-off)

  • “Primary residence” is defined as the building the insured or the insured’s spouse resides in for at least 80% of the 365 days following the policy effective date
What About Grandfathering?

- Grandfathering will be phased out
  BW12 calls for a phase-out of discounts, including grandfathering provisions, and a move to full actuarial rates

  - The Biggert-Waters Act Section 100207 calls for phase-out of grandfathering discounts for properties shown on Flood Insurance Rate Maps that are updated
  - New rates will be gradually phased in at 20% per year for five years

- Section 100207 implementation anticipated in late 2014
  Phase-in to full-risk rates anticipated commencement late 2014
What About Today’s New Policies?

- Until specifically addressed as BW12 is implemented, new and renewing policies are still eligible for:
  - Pre-FIRM subsidies (except pre-FIRM non-primary residences)
  - Grandfathering
  - Extension of Preferred Risk Policy Eligibility

- As implementation of Biggert-Waters 2012 progresses, FEMA will clearly communicate when subsidies and discounts are no longer available
Cost Impact of Retrofitting and Elevation in Rebuilding

Under the Flood Insurance Reform Act of 2012, you could save more than $90,000 over 10 years if you build 3 feet above Base Flood Elevation.

- **Premium at 4 feet below Base Flood Elevation**
  - $9,500/year
  - $95,000/10 years

- **Premium at Base Flood Elevation**
  - $1,410/year
  - $14,100/10 years

- **Premium at 3 feet above Base Flood Elevation**
  - $427/year
  - $4,270/10 years

*250,000 building coverage only (does not include contents), AE (high to moderate risk) zone, single-family, one-story structure without a basement at: 4 feet below Base Flood Elevation (BFE); at BFE; and at 3 feet above BFE. (Rating per FEMA flood insurance manual, October 1, 2012). The illustration above is based on a standard National Flood Insurance Program (NFIP) deductible.
FEMA has programs to help owners reduce their risk and save money on flood insurance

- Community-wide discounts through the Community Rating System (CRS)
- FEMA grant programs support rebuilding and relocating
- Use of higher deductibles to lower premium costs

But the smartest way to save may be to build higher
Outreach Delivery

- If property owners in your community are rebuilding or building new:
  
  - Let them know that flood risk changes over time
  
  - Help inform them that their building or rebuilding decisions now can affect their long-term flood insurance premiums
  
  - Help inform them that elevating their buildings and ensuring the right type of construction helps decrease their risk and reduce future flood insurance premiums
### National Flood Insurance Program (NFIP) Biggert-Waters 2012 (BW12) Timeline

<table>
<thead>
<tr>
<th>DATE</th>
<th>BW12 IMPLEMENTATION STEPS</th>
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<tbody>
<tr>
<td>July 6, 2012</td>
<td>BW12 becomes law; reauthorizes the NFIP for five years and requires FEMA to eliminate discounts and subsidies</td>
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<tr>
<td>January 1, 2013</td>
<td>Subsidized rates phased out for non-primary residences</td>
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<tr>
<td>February 2013 and ongoing</td>
<td>FEMA issues additional guidance and details on BW12 implementation</td>
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<tr>
<td>October 1, 2013</td>
<td>Subsidized rates anticipated to phase out for business properties, SRL properties, and others. Move to full-risk rates after sale/purchase of property, substantial damage/improvement or policy lapse.</td>
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<tr>
<td>Planned late 2014</td>
<td>FEMA anticipates implementing phase-in of full risk rates for properties affected by map changes</td>
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The House at 370 Waterview Drive

1) Residential property

2) Located in a Special Flood Hazard Area (SFHA)

3) Current owners have flood insurance
Scenario #1: Buying the House

**THEN**
- Flood insurance required
- Subsidized rates apply to pre-FIRM buildings
- Lower “Grandfathered” rate continues to apply if policy is transferred to new owner

**NOW**
- Flood insurance required
- Full-risk rates apply, not pre-FIRM subsidized rates
- Post-FIRM “Grandfathering” applies until/unless FIRM maps change
- Plan ahead: consider flood risk as you plan and budget
- Obtain an Elevation Certificate (EC) as soon as possible to learn your full-risk rate – you could save money
Scenario #2: Selling the House

**THEN**
- Avoid surprises at closing – let buyers know they will need flood insurance
- Help the buyer: assign your policy so the new owner can continue to receive any subsidized or discounted rate

**NOW**
- Avoid surprises at closing – let buyers know they will need flood insurance
- Pre-FIRM Subsidized rates no longer apply; new owner will pay full-risk rate
- New owner can often keep post-FIRM “Grandfathered” rate, until next map change
- Consider getting an EC and show flood insurance costs – risk and rates could be lower than anticipated and allows potential buyer to understand expenses
- Consider mitigating, including elevating, before listing the home for sale
Scenario #3: Building/Rebuilding a New Home in a Special Flood Hazard Area

**THEN**

- Be aware of building in a high-risk flood zone
- Need to build to current building code requirements
- Flood insurance premium will be based on elevation at or above FEMA’s minimum elevation standard; the community’s standard might be higher

**NOW**

- Be aware of building in a high-risk flood zone
- Flood risk changes over time, so consider current and future flood risks
- Build higher/stronger than current standards to lower flood risk and insurance premiums
- Talk to local floodplain manager to learn about new maps or data that may be available
- Building higher may increase home value
Scenario #4: Policy Renewal (Full-Risk or Grandfathered)

**THEN**
- Renew the policy at the same rate
- Rates subject to routine actuarial adjustment

**NOW**
- Renew the policy at the same (full-risk) rate
- Rates subject to routine actuarial adjustment plus increase for the Reserve Fund
- If Grandfathered, talk to your agent to learn your current risk
Scenario #5: Policy Renewal Pre-FIRM (Subsidized) Primary Home

**THEN**

- Don’t get caught without coverage in a disaster; stay fully insured
- Renew flood insurance policy at the pre-FIRM (subsidized) rate
- Pre-FIRM rates subject to routine actuarial adjustment

**NOW**

- Retain subsidized rate as long as home is a primary residence and continuous coverage is maintained
- Rates subject to routine actuarial adjustment plus increase for Reserve Fund
- Full-risk rates will apply if the property sold or the policy lapses (effective October 2013)
Scenario #6: Policy Renewal (Subsidized) Secondary/SRL Home

**THEN**
- Don’t get caught without coverage in a disaster; stay insured
- Renew flood insurance policy at the current (subsidized) rate
- Rates subject to routine actuarial adjustment

**NOW**
- Previous premium did not reflect the home’s full flood risk
- Premium will increase 25 percent a year until it reaches the full-risk rate
- Rates subject to routine actuarial adjustment plus increase for Reserve Fund
- Obtain an Elevation Certificate (EC) as soon as possible to learn your full-risk rate – you could save money
Scenario #7: Receiving Map Updates

THEN

- New maps could identify that flood risk has changed
- Buy flood insurance now to receive low preferred risk rates in moderate-to-low risk areas
- Having a policy in place allows it to be “Grandfathered In” at a lower rate when maps are adopted

NOW

- New maps could identify that flood risk has changed
- As maps change, discounts, including Grandfathering, will be phased out
- New rates will be phased in at 20 percent a year for five years
- Implementation anticipated in 2014
Address RISK

LEARN YOUR RISK
Get an Elevation Certificate for your home
(risk can change)

REDUCE YOUR RISK
Building or Rebuilding? Build Higher Than current standards

GET INSURED
Be proactive: don’t risk the consequences of a flood

STAY INSURED
Letting your flood insurance policy lapse could be costly

Resilient
Elevation Certificate
Insurance & NFIP Training Info

- Sign up for WYO Alerts – [http://www.nfipiservice.com/mailing_list.html](http://www.nfipiservice.com/mailing_list.html)

- Training is available through FEMA for insurance agents, adjusters and lenders [www.fema.gov/business/nfip/trainagt.shtm](http://www.fema.gov/business/nfip/trainagt.shtm)


- NFIP Training offers workshops and webinars [http://www.nfipiservice.com/training/schedule_agents.html](http://www.nfipiservice.com/training/schedule_agents.html)

- FEMA Flood Map Changes Course [http://www.h2opartnersusa.com/nfiptraining/mapping_changes.html](http://www.h2opartnersusa.com/nfiptraining/mapping_changes.html)
Resources

- FloodSmart for Consumers - www.FloodSmart.gov
Susan Wilson
Chief - Floodplain Management & Insurance Branch, 770-220-5414
susan.wilson@fema.dhs.gov

Janice Mitchell, NFIP Insurance Specialist, 770-220-5441
janice.mitchell@fema.dhs.gov

Todd Bass, Natural Hazards Program Specialist, 770-220-8869
todd.bass@fema.dhs.gov