Changes to the National Flood Insurance Program – What to Expect

Impact of changes to the NFIP under BW-12 and Homeowner Flood Insurance Affordability Act of 2014

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Biggert Waters 2012 (BW-12)

- Signed into law by President Obama on July 6, 2012
- Reauthorized the National Flood Insurance Program for 5 years
BW-12 Section 205 -- Changes for Non-Primary Residences

- Rates will increase 25 percent per year until they reflect the 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
Rates on pre-FIRM commercial buildings
Increase by 25% a year until they reach full-risk rates.

Rates for repetitively flooded buildings
(known as Severe Repetitive Loss properties) of one to four residences increase 25% a year until they reach full-risk rates

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

These changes started October 1, 2013
BW-12 Section 205 -- Pre-FIRM Residences – Triggers for Direct Move to Full-Risk 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 implemented

- October 1, 2013
What About Grandfathering?

- Grandfathering to be phased out
  BW-12 calls for a phase-out of discounts, including grandfathering provisions, and a move to full actuarial rates

- Section 100207 implementation anticipated in late 2014
  Phase-in to full-risk rates anticipated to begin in late 2014 – placed on hold by Omnibus bill
NFIP changes effective 10-1-2013

- Federal Policy Fee for Standard Policies increase from $40 to $44 a year

- Federal Policy Fee for PRP increase from $20 to $22 a year

- Reserve Fund – assessment applies to all premiums for new and renewal policies effective 10-1-2013 - 5% increase included in other increases
More Changes to the NFIP

  - Repeals and modifies certain provisions of BW-12
  - Makes additional program changes
  - Leaves some parts of BW-12 intact.
Section 3, HFIAA

- Section 3 *repeals* certain BW-12 rate increases and applies to:

  - Pre-FIRM properties not insured when the Biggert – Waters Flood Insurance Act of 2012 (BW-12) was enacted;
  - Pre-FIRM properties purchased after BW-12 was enacted;
  - Policies for Pre-FIRM properties that were rated full-risk under BW-12 due to a lapse in coverage.
Effective June 1, 2014 - HFIAA

- Other Residential building limit increases to $500K; contents stays at $100K (BW-12 Sec 204)
- Primary Residence redefined as Insured living in the home more than 50% of the policy year (BW-12 Section 206)
The October 1, 2014 bulletin aligns rates with the 18 percent cap on most individual policyholders with the following exceptions:

- Non-primary residences;
- Severe Repetitive Loss properties; and
- Substantially damaged and substantially improved properties.
Refunds, Rates, and Surcharges

Premium Rates for Subsidized Policies

- New law requires gradual rate increases to properties now receiving artificially low (subsidized) rates instead of immediate increases to full-risk rates.

- Required to increase premiums for most subsidized properties by no less than 5 to 15 percent annually within a single risk class, but no more than 18% annually for an individual policyholder, until the class premium reaches its full risk rate.
Refunds, Rates, and Surcharges

Premium Rates for Subsidized Policies

- Exceptions to these general rules and limitations:
  - Policies for the following properties will continue to see up to 25 percent annual increases as required by BW-12 until they reach their full-risk rate:
    - Older business properties insured with subsidized rates;
    - Older non-primary residences insured with subsidized rates;
    - Severe Repetitive Loss Properties insured with subsidized rates;
    - Buildings that have been substantially damaged or improved.
  - To enable new purchasers of property to retain Pre-FIRM subsidized rates while FEMA is developing guidelines, a new purchaser is allowed to assume the prior owner’s flood insurance policy and retain the same rates until the guidance is finalized.
Refunds, Rates, and Surcharges

Mandatory Surcharges (Sec. 8)

- Applies to all policies
- A policy for a primary residence will include a $25 surcharge
- All other policies will include a $250 surcharge
- The fee will be included on all policies, including full-risk rated policies, until all Pre-FIRM subsidies are eliminated
- Surcharges are not considered premium and are not subject to premium increase caps required under Section 5 of HFIAA
Reserve Fund Assessment

- New changes in the October 1, 2014, bulletin make changes to the Reserve Fund assessment as required by BW-12
- The Reserve Fund is aimed at assisting with the costs of NFIP claims that exceed the annual premiums collected and supporting the program’s sustainability
- As of April 1, 2015:
  - 10 percent annual rate assessment for Preferred Risk Policies (PRPs); and
  - 15 percent annual rate assessment for all other policies
Refunds, Rates, and Surcharges

Grandfathering (Sec 4)

- HFIAA restores FEMA’s ability to grandfather properties into lower risk classes
- Under current rules, rates will be adjusted to maintain actuarial soundness, but will not increase more than 18%
Refunds, Rates, and Surcharges

Newly Mapped (Sec 6)

- For properties newly mapped into high risk areas, the law sets first year premiums, before application of fees and surcharges, equal to that offered to Preferred Risk Policies located outside the SFHA.
- Existing Preferred Risk Policy Extension of Eligibility policies will join this class for renewals after April 1, 2015.
- Premiums will increase up to 18 percent annually until policy reaches new zone actuarial rate.
Key Changes – April 1, 2015

- Implementing annual rate changes that set rates using rate-increase limitations set by HFIAA for individual premiums and rate classes:
  - Limiting individual premium increase to 18 percent of premium
  - Limiting increases for average rate classes to 15 percent
- Mandatory increases for certain subsidized policyholders under Biggert-Waters and HFIAA
- Increasing the Reserve Fund assessments required by Biggert-Waters
- Implementing annual surcharges required by HFIAA
Key Changes – April 1, 2015

- Guidance on substantially damaged and substantially improved structures, and additional rating guidance on pre-FIRM buildings
- Implementing a new procedure for properties newly mapped into the Special Flood Hazard Area (SFHA) and existing Preferred Risk Policy Eligibility Extension (PRP EE)
  - The premiums will be the same as the PRP for the first year (calculated before fees and assessments) to comply with provisions of HFIAA.
How can communities reduce impact of these changes?

- Adopt higher floodplain management regulations
- Maintain copies of all site specific documentation – Elevation, Floodproofing and VE-Zone certificates
- Require a Standard Operation and Maintenance Plan for all floodproofed non-residential buildings; require periodic inspections to ensure all maintenance is being performed and floodproofing measures can be put in place
- Join the Community Rating System (CRS).
  - A voluntary program for communities enforcing higher floodplain standard
  - community earns credit for specific activities and earn a discount that is applied directly to the flood policies within that community
  - Each 500 activity points earn a 5% premium discount
  - Premium discounts from 5-45%
April 1, 2016 NFIP Changes

- Premium Increases and Surcharges
- Non-Residential Business Properties
- Reformatted Rate Tables for Preferred Risk Policy (PRP) and Newly Mapped
- Subsidy Elimination for Lapsed Policies
- Section 28 – Clear Communication of Risk
Premium Increases and Surcharges

- **Homeowners Flood Insurance Affordability Act (HFIAA) Rate Caps**

- **Excluded from the Rate Caps**
  - Probation Surcharge
  - Federal Policy Fee
  - HFIAA Surcharge

- **Other Increases**
  - Reserve Fund Assessment
  - Federal Policy Fee
Non-Residential Business Properties

- Section 100205 of Biggert-Waters 2012 (BW-12)
- Collection of additional data began November 1, 2015
- Agent to supply additional information
- Renewal offers
- Application modification
- Re-underwriting
New Rating Structure for PRP and Newly Mapped

- Newly Mapped 10/01/2008-4/01/2015
- Newly Mapped 4/01/2016
- After Map Revision Date Rating Options
  - Grandfathering—Options
    1. Continuous Coverage
    2. Built in Compliance
Subsidy Elimination for Lapsed Policies

- BW12 Sec. 100205 and HFIAA Section 3 prohibits Pre-FIRM subsidized premium for lapsed policy, except when the lender no longer required the insured to maintain coverage.
- Prohibit Pre-Flood Insurance Rate Map (pre-FIRM) subsidized for NFIP lapsed policies where premium received after 90 days from expiration date.
- Transfer of NFIP policy.
- Non-NFIP policy.
Section 28 – Clear Communication

- October 1, 2016 renewal
- Review policies to determine if rating is correct
- Grandfathered vs Newly Mapped vs Current Map
- Corrections
What’s next?

- There will be additional changes implemented under BW-12 and HFIAA as mandated studies or rulemaking are completed which could impact flood insurance premiums.

- FEMA will continue to move forward with the mapping updates.
Questions

Questions?
Contact

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