Flood Insurance Reform Act of 2012

Impact of changes to the NFIP

Note: This Fact Sheet deals specifically with Sections 205 and 207 of the Act.

In 2012, the U.S. Congress passed the Flood Insurance Reform Act of 2012 which calls on the Federal Emergency Management Agency (FEMA), and other agencies, to make a number of changes to the way the NFIP is run. As the law is implemented, some of these changes have already occurred, and others will be implemented in the coming months. Key provisions of the legislation will require the NFIP to raise rates to reflect true flood risk, make the program more financially stable, and change how Flood Insurance Rate Map (FIRM) updates impact policyholders. The changes will mean premium rate increases for some – but not all – policyholders over time.

Background:

In 1968, Congress created the National Flood Insurance Program (NFIP). Since most homeowners' insurance policies did not cover flood, property owners who experienced a flood often found themselves financially devastated and unable to rebuild. The NFIP was formed to fill that gap. To ensure the program did not take on unnecessary risks, one of the key requirements to participate in the program was that communities had to adopt standards for new construction and development.

Pre-existing homes and businesses, though, could remain as they were. Owners of many of these older properties could obtain insurance at lower, subsidized, rates that did not reflect the property's real risk. In addition, as the initial flood risk identified by the NFIP has been updated over the years, many homes and businesses in areas where the revised risk was determined to be higher have also received discounted rates. This "Grandfathering" approach prevented rate increases for existing properties when the flood risk in their area increased.

Fast forward 45 years, flood risks continue and the costs and consequences of flooding are increasing dramatically. In 2012, Congress passed legislation to make the National Flood Insurance Program more sustainable and financially sound over the long term.

What this means:

The new law eliminates some artificially low rates and discounts which are no longer sustainable. Most flood insurance rates will reflect full risk, and flood insurance rates will rise on some policies.

Actions such as buying or selling a property, or allowing a policy to lapse, can trigger rate changes. You should talk to your insurance agent about how changes may affect your property and flood insurance policy. There are investments you and your community can make to reduce the impact of rate changes. And FEMA can help communities lower flood risk and flood insurance premiums.

What is Changing Now?

Most rates for most properties will more accurately reflect risk. Subsidized rates for non-primary/secondary residences are being phased out now. Subsidized rates for other classes of properties will be eliminated over time, beginning in late 2013. There are several actions which can

trigger a rate change, and not everyone will be affected. It's important to know the distinctions and actions to avoid, or to take, to lessen the impacts.

Not everyone will be affected immediately by the new law – only 20 percent of NFIP policies receive subsidies. Talk to your agent about how rate changes could affect your policy.

- Owners of **non-primary/secondary** residences in a Special Flood Hazard Area (SFHA) will see 25 percent increase annually until rates reflect true risk – began January 1, 2013.
- Owners of **property which has experienced severe or repeated flooding** will see 25 percent rate increase annually until rates reflect true risk – beginning October 1, 2013.
- Owners of **business properties in a Special Flood Hazard Area** will see 25 percent rate increase annually until rates reflect true risk – beginning October 1, 2013.

Owners of **primary residences** in SFHAs **will be able to keep their subsidized rates** unless or until:

- You sell your property;
- You allow your policy to lapse;
- You suffer severe, repeated, flood losses; or
- You purchase a new policy.

Grandfathering Changes Expected in 2014

The Act calls for a phase-out of discounts, including grandfathered rates, and a move to risk-based rates for most properties when the community adopts a new Flood Insurance Rate Map. So if you live in a community that adopts a new, updated Flood Insurance Rate Map (FIRM), discounts – including grandfathered rates -- will be phased out. This will happen gradually, with new rates increasing by 20% per year for five years. Implementation is anticipated in 2014.

What Can Be Done to Lower Costs?

For home owners 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.

For community officials:

- 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.

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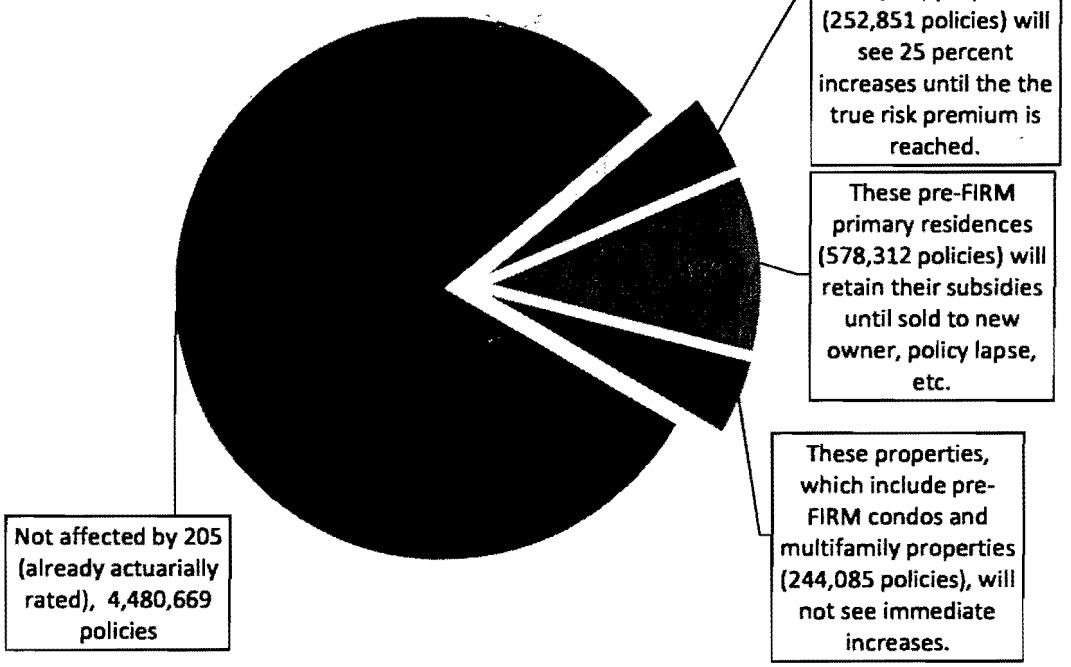
Who Will Be Impacted by Rate Increases under Section 205?

NFIP Policyholders under Section 205

(data as of 12/31/2012)



Pre-Flood Insurance Rate Map (pre-FIRM): *Properties located within a Special Flood Hazard Area (SFHA) that were constructed before a community adopted its first Flood Insurance Rate Map (FIRM).*

Note: *Some structures are captured under more than one category(for example multi-family severe repetitive loss properties).*

- **Most policyholders are not subsidized.** 81 percent of NFIP policyholders are already actuarially rated.

- **Only five percent of all NFIP policies will see immediate 25 percent increases.** This includes non-primary residences, businesses, and severe repetitive loss properties will see immediate changes to their premiums.

- **There are 10 percent of all policies which are subsidized primary residences and will keep their subsidy,** unless or until:
  - They sell their property (new rates will be charged to the next owner if they insure);
  - They allow their policy to lapse; or
  - They purchase a new policy (after July 6, 2012).

- **The remaining four percent includes subsidized condominiums and non-condo muiltifamily structures.** These policy holders will keep their subsidies for now and until FEMA has developed additional guidance for their removal.

- **Not all subsidized policyholders will see large increases.** Obtaining an elevation certificate is the best way to know a structure's risk and true-risk premiums. Some will find their premiums will decrease; some will stay about the same; and some will see minor to moderate premium increases. But there are some policyholders who will see large increases.

- **Mitigation steps could be taken to drastically reduce the premium** for many of those with a large increase. One example is a multi-story home with a basement, which could be mitigated by filling in the basement. This is not an easy choice, but possibly the right step to take in light of flood risk.

- **States and communities should consider focusing their grants and mitigation efforts** where owner initiated mitigation is not a reasonable solution and assistance is needed.