



FEMA

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

Impact of changes to the NFIP under Homeowner Flood Insurance Affordability Act of 2014

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# Biggert-Waters 2012 - What Everyone Needs to Know

- **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.
- **You can no longer rely on subsidized rates.**  
Most subsidized rates for older properties will be eliminated.
- **Building or rebuilding higher lowers your risk and could save you money.**  
Consider flood insurance when making construction decisions.

# Biggert Waters 2012 (BW-12)

- Signed into law by President Obama on July 6, 2012
- Reauthorized the National Flood Insurance Program for 5 years

# Other changes under BW-12?

Many sections of BW-12 are being studied and reviewed to determine if it can be implemented or if rulemaking will be required. Such as –

- Section 205 – Premium installments --- rulemaking
- Section 207 - Grandfathering – study, possible rulemaking
- Section 210 – Deductibles for claims --- rulemaking
- Section 212 – Establishment of Reserve Fund --- implement 10-1-2013
- Section 214 – Establishment of Technical Mapping Advisory Council (TMAC)
- Section 216 – NFIP Mapping Program – under review

# Other Changes under BW-12

- Section 216 – Outreach to Senators/Reps/public on new maps – on-going
- Section 217 – Scope of Appeals – possible rulemaking
- Section 218 – Scientific Resolution Panel (SRP) – appeals/mapping dispute – study, possible rulemaking
- Section 225 - MT Assistance Grants – rulemaking?
- Section 226 – Flood Protection Structure Accreditation Task Force – study
- Section 230 – Insurance where Levees that have made Adequate Progress – study
- Section 232 – Reinsurance/Privatization – study

# Other changes – cont'd

- Section 233 – GAO study on Business interruption and additional living expenses
- Section 234 – Flood Policy disclosures – plain English, bold print --- rulemaking ?
- Section 235 – Report on inclusion of Building Codes in FP Management Criteria --- study
- **Section 236 – Participation and Affordability— study**
- **Section 246 – Appeals - Reimbursement of certain expenses for technical data–**
  - BW-12 references Section 1363 of National Flood Insurance Act of '68 --- Applies to Preliminary map appeals after two legal notices (not LOMA or LOMRs) based on better scientific data--- study/rulemaking

# 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*



# 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 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**

# For Pre-FIRM Residences – 4 Triggers - 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**



# Section 205 – Pre-FIRM Subsidies

- NOTE —

Per WYO Bulletin – W-13026 dated May 5, 2013 –

**HISTORIC Buildings are NOT exempt from any provision of Section 205 of BW-12 and must be rated accordingly.**

# Section 205

- PRP Extensions – new business or renewals will receive a 20% increase of the policy premium each year until the policy is full-risk rated. (WYO Bulletin 13026)
- Effective 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

- Note – There may be additional changes to the PRP Extension under Section 207.

- **Section 100207 implementation anticipated in late 2014**

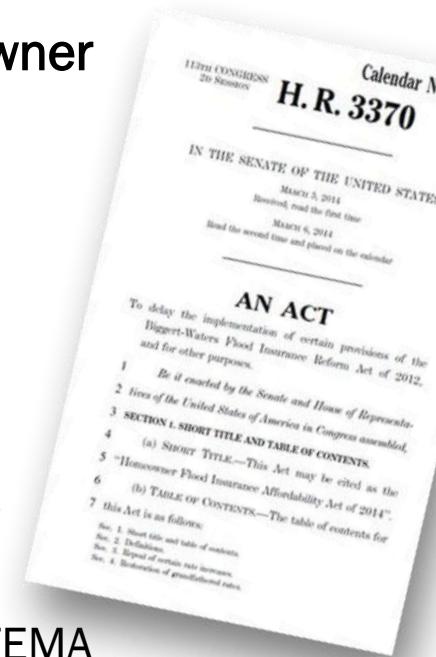
Phase-in to full-risk rates anticipated to begin in late 2014 – placed on hold by Omnibus bill

# 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 are Coming to the NFIP

- On March 21, 2014, President Obama signed the Homeowner Flood Insurance Affordability Act of 2014 into law.
  - Repeals and modifies certain provisions of BW-12
  - Makes additional program changes
  - Leaves some parts of BW-12 intact.
- Policyholders SHOULD NOT cancel policies!
- FEMA is working with our Write Your Own (WYO) insurance company partners, Congress, others to implement.
  - Prior to restoring and refunding premiums, the law requires FEMA to consult with its WYO insurance companies to develop and finalize guidance and rate tables within eight months . FEMA and the WYOs have up to eight months to implement.
  - To date, NFIP has held many conference calls and met in person with senior company representatives.



# Key Priorities

- FEMA is actively analyzing and prioritizing implementation of the new Act.
- Initial Priority
  - FEMA's initial priority is assessing potential changes to the NFIP's business processes to **stop policy increases** for certain subsidized policyholders as outlined in the Act. FEMA also plans to issue guidance in the months ahead for the Write Your Own insurance companies to begin issuing **refunds to some policyholders**.
- Key Priorities include:
  - Refunds, Rates, and Surcharges
  - Mapping
  - Promote Mitigation
  - Flood Insurance Advocate

# Stop Rate Increases

## WYO Bulletin – April 15, 2014

- **STOP RATE INCREASES**
  - Beginning May 1, 2014, for all new applications for flood insurance and renewal of flood insurance policies for properties covered by Section 3, FEMA will require its Direct Servicing Agent and Write Your Own companies to use the October 1, 2013 Pre-FIRM subsidized rates when more favorable for properties covered by Section 3.
- **REFUND GUIDANCE DEVELOPMENT**
  - The use of the October 2013 rate tables is an interim step while FEMA develops new rate tables and guidance to process and issue refunds for policyholders covered by Section 3 who were charged full-risk premiums under Biggert Waters and are now eligible for Pre-FIRM subsidies.

# Section 3, HFIAA

- Section 3 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; and
  - Policies for Pre-FIRM properties that were rated full-risk under BW-12 due to a lapse in coverage.

# Refunds, Rates, and Surcharges

## Premium Rates for Subsidized Policies

- New law requires gradual rate increases to properties now receiving artificially low (or 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, annually until the class premium reaches its full-risk rate.
  - Close to 80 percent of NFIP policyholders paid a full-risk rate and are minimally impacted by either law.
  - With limited exceptions flood insurance premiums cannot increase more than 18 percent annually.



# 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 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

## Refunds

- FEMA has been working closely with the WYO insurance companies to develop a timetable for processing refunds expediently.
- The new Act mandates refunds of the excess premiums for certain flood insurance policies affected by the Pre-Flood Insurance Rate Map (Pre-FIRM) subsidy elimination required by BW-12.
- Refunds will not affect all subsidized policyholders who received rate increases as directed by Congress in BW-12.
- WYOs will be permitted to retain the expense allowance in compensation for work completed.



# Refunds – W-14035

- June 26, 2014, NFIP issued a Bulletin, W-14035, to the WYO companies of the implementation of refunds to eligible Section 3 policies to begin October 1, 2014, as specified under Section 3 of the HFIAA for those policies issued on or after October 1, 2013, and on or before September 30, 2014.
- Also applies to policies not receiving Pre-FIRM subsidized rates that were effective on or after March 21, 2014, and on or before September 30, 2014, where October 1, 2013, premium rates exceeded the premium increase caps mandated by Section 5, HFIAA.
- Refund rates to be determined using May 29, 2014 Bulletin W-14026 rate tables.
- Refunds will begin on October 1, 2014, and all refunds must be generated by December 31, 2014.

# Refunds, Rates, and Surcharges

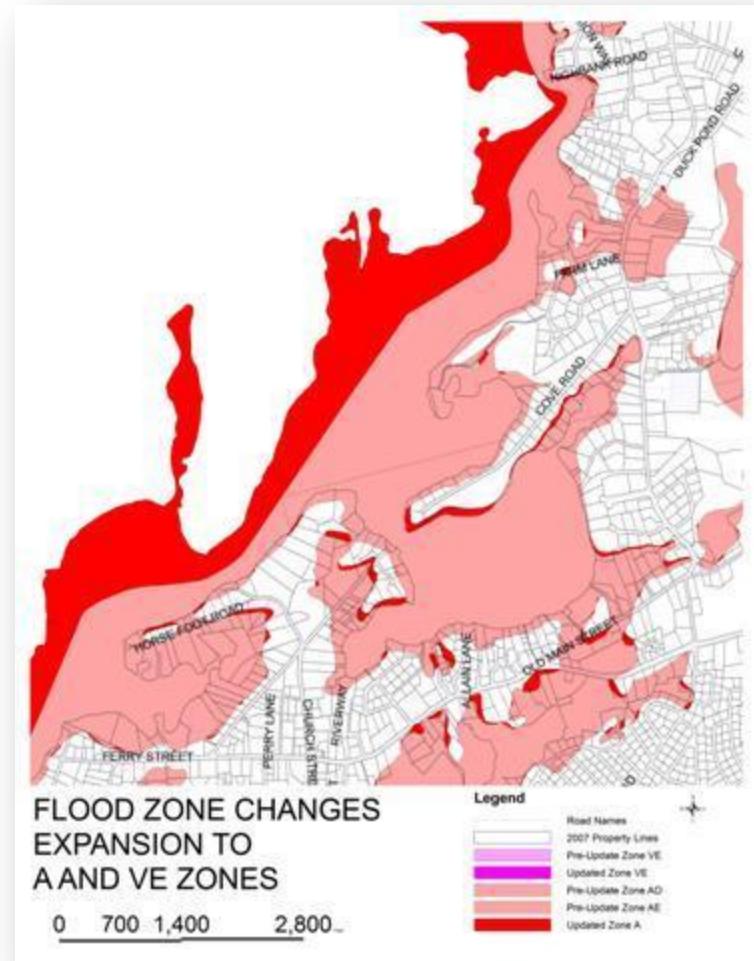
## Mandatory Surcharges (Sec. 8)

- 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 therefore not subject to premium increase caps required under Section 5 under the new Act.

# Refunds, Rates, and Surcharges

## Grandfathering (Sec 4)

- HFIAA restores FEMA's ability to grandfather properties into lower risk classes .
- For newly identified properties, the law sets first year premiums at the same rate offered to properties located outside the SFHA (Preferred Risk Policy rates).
- With limited exceptions, flood insurance premiums cannot increase more than 18 percent annually.
- Grandfathered policy holders are not entitled to refunds.



# Refunds, Rates, and Surcharges

## Affordability Study (BW12 and HFIAA)

- The new Act requires FEMA to draft an affordability framework, which is due to Congress 18 months after completion of the affordability study required by BW-12.
  - Affordability Study required by BW-12 is being conducted by the National Academies of Sciences, as specified in the BW-12 law.
- The Affordability Study required by BW-12 will inform FEMA's Affordability framework required by HFIAA.

# Refunds, Rates, and Surcharges

## Draft Affordability Framework (Sec. 9 & 16)

- In developing the affordability framework, FEMA must consider:
  - accurate communication to customers of flood risk,
  - targeted assistance based on financial ability to pay,
  - individual and community actions to mitigate flood risk or lower cost of flood insurance,
  - impact of increases in premium rates on participation in NFIP,
  - impact of mapping update on affordability of flood insurance.
- Framework will include proposals and proposed regulations for ensuring flood insurance affordability among low-income populations.

# Refunds, Rates, and Surcharges

## Other Provisions

- The Act permits FEMA to account for flood mitigation of the property in determining a full-risk rate. (Sec. 14) (Requires Rulemaking)
- The Act mandates that FEMA develop a monthly installment payment plan for non-escrowed flood insurance premiums, which will require changes to regulations and the Standard Flood Insurance Policy contract. (Sec. 11) (Requires Rulemaking)
- The Act increases maximum deductibles for residential properties. (Sec. 12)
- The Act encourages FEMA to minimize the number of policies where premiums exceed 1-percent of the coverage amount, and requires FEMA to report such premiums to Congress. (Sec. 7)

# Refunds, Rates, and Surcharges

## Small Business (Sec. 29)

- Sec. 29 requires FEMA to report to Congress on the effects the Pre-FIRM subsidy phase-outs and surcharge on small businesses, non-profits, houses of worship and certain residences.
  - If FEMA determines the rate increases and surcharges are having a detrimental effect on affordability, FEMA must submit appropriate affordability recommendations to Congress.

### HFIAA Impacts to Businesses

- Business properties are included within the “non-residential” policy class. FEMA is actively working to determine how best to identify and classify businesses within the category.
- Older Business properties paying pre-FIRM subsidized rates will continue to see up to a 25 percent annual increases as required by BW-12 until they reach their full-risk rate. This requirement was not changed as a result of the HFIAA.

# Mapping

## Enhanced Communication and Outreach

- FEMA will continue Mapping activities
- BW-12 requires FEMA to enhance coordination with communities before and during mapping activities and requires FEMA to report certain information to members of Congress for each State and congressional district affected by preliminary maps.
- Sec. 30 of HFIAA requires additional layers of enhanced notification and outreach to congress and other stakeholders.

## Technical Mapping Advisory Council

- Technical Mapping Advisory Council (TMAC) to review the new national flood mapping program activities authorized under the 2012 and 2014 flood insurance reform laws.
  - FEMA will seek the TMAC's recommendations on meeting new requirements for the new mapping program including the identification of residual risk areas, coastal flooding information, land subsidence, erosion, expected changes in flood hazards with time, and others.
  - The law requires the Administrator to certify in writing to Congress that FEMA is utilizing "technically credible" data and mapping approaches.

# Mapping

## Flood Insurance Rate Map Appeals

- The Act lifts the \$250,000 limit on the amount FEMA can spend to implement a program to reimburse property owners and communities for successful map appeals (submitted during the 90-day appeal period) based on a scientific or technical error.
- The Act applies to statutory appellants who successfully appeal the Agency's proposed flood elevations and special flood hazard areas.
- Rulemaking is required to implement this provision
- The new law does not apply to Letter of Map Amendment (LOMA) and Letter of Map Revision (LOMR) requests, or any expenses associated with them. LOMA and LOMR are changes to currently effective maps.

# Mapping

## Flood Protection Systems

- Authorizes FEMA to account for state and local funds used in the construction or restoration of a flood protection project when determining whether the project meets the statutory requirements to be eligible for discounted premiums. (Sec. 19)
- Permits FEMA to include the value of existing protection features in measuring adequate progress for the restoration of levees. (Sec. 19)



# Mapping

## Fees

- Law exempts mapping fees for flood map changes due to habitat restoration projects, dam removal, culvert re-design or installation, or the installation of fish passages. (Sec. 22)

## Flood Control Features

- Law requires FEMA to consider the effects of non-structural flood control features, such as dunes, and beach and wetland restoration when it maps the special flood hazard area. (Sec. 27)



# 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 home more than 50% of  
the policy year **(BW 12  
Sec 205)**



# Effective June 1, 2014 – BW 12

- **Minimum deductibles revised (BW 12 Sec. 210)**

TABLE 8A. MINIMUM DEDUCTIBLES

PROGRAM TYPE	RATING	MINIMUM DEDUCTIBLE FOR COVERAGE OF \$100,000 OR LESS <sup>1</sup>	MINIMUM DEDUCTIBLE FOR COVERAGE OVER \$100,000
EMERGENCY	All	\$1,500	\$2,000 <sup>2</sup>
REGULAR	All Pre-FIRM Subsidized <sup>3</sup> zones: A, AE, A1–A30, AH, AO, V, VE, and V1–V30, AR/AR Dual zones without Elevation Data	\$1,500	\$2,000
	All Full-Risk <sup>4</sup> zones: A, AE, A1–A30, AH, AO, V, VE, and V1–V30, AR/AR Dual zones with Elevation Data and B, C, X, A99, and D	\$1,000	\$1,250
	Tentative and Provisional	\$1,000	\$1,250

- **Maximum coverage clarified (BW 12 Sec 228)**

BUILDING COVERAGE	EMERGENCY PROGRAM	REGULAR PROGRAM		
		Basic Insurance Limits	Additional Insurance Limits	Total Insurance Limits
Single-Family Dwelling	\$ 35,000 <sup>2</sup>	\$ 60,000	\$190,000	\$250,000
2–4 Family Dwelling	\$ 35,000 <sup>2</sup>	\$ 60,000	\$190,000	\$250,000
Other Residential	\$100,000 <sup>3</sup>	\$175,000	\$325,000	\$500,000
Non-Residential	\$100,000 <sup>3</sup>	\$175,000	\$325,000	\$500,000

CONTENTS COVERAGE				
Residential	\$ 10,000	\$ 25,000	\$ 75,000	\$100,000
Non-Residential	\$100,000	\$150,000	\$350,000	\$500,000

- **Policy Disclosure (BW 12 Sec 234)**



# Flood Insurance Advocate

- Educates on:
  - Individual flood risks;
  - Flood mitigation;
  - Measures to reduce rates through effective mitigation;
  - The rate map review and amendment process;
  - Changes in the program as a result of any newly enacted laws.
- Assists in understanding how to appeal preliminary rate maps and implementing measures to mitigate evolving flood risks;
- Assists in developing regional capacity;
- Coordinates outreach and education with local officials and community leaders in areas impacted by map amendments and revisions; and
- Aids potential policy holders in obtaining and verifying accurate rate information when purchasing or renewing a policy.



# How can communities reduce impact of these changes?

- Adopt higher floodplain management regulations
- Maintain copies of all site specific documentation – Elevation Certs, Floodproofing Certs, V-Zone Certs.
- Require a Standard Operating Plan for all floodproofed commercial properties and require periodic inspections to ensure all maintenance is being performed.
- Consider joining the Community Rating System (CRS). A voluntary program for communities enforcing higher floodplain standard where the community earns credit for specific activities and earn a discount that is applied directly to the flood policies within that community.
  - Each 500 points earn a 5% discount. Possible to earn up to a 45% discount.

# More Information & Updates

- For more information and updates as they become available, visit:  
<http://www.fema.gov/flood-insurance-reform>.

# Questions

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# Contact

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