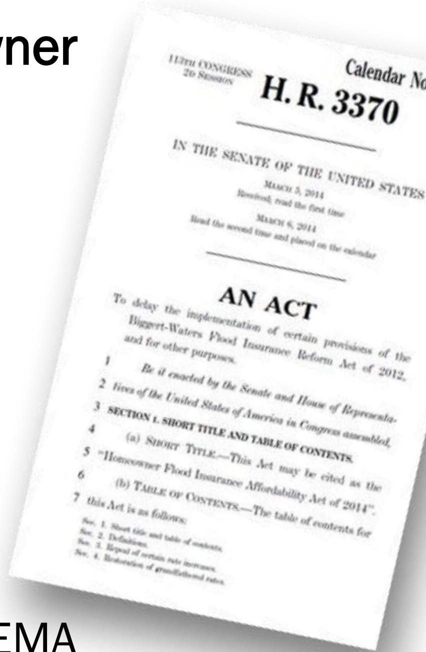
Changes to the National Flood Insurance Program – What to Expect

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

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 Biggert-Waters
  - Makes additional program changes
  - Leaves some parts of Biggert-Waters intact.
- **Policyholders <u>SHOULD NOT</u> 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 at least seven conference calls and met in person with senior company representatives.


113TH CONGRESS
2D SESSION

Calendar No

H. R. 3370

IN THE SENATE OF THE UNITED STATES

MARCH 5, 2014
Received; read the first time

MARCH 6, 2014
Read the second time and placed on the calendar

AN ACT

To delay the implementation of certain provisions of the Biggert-Waters Flood Insurance Reform Act of 2012, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 **SECTION 1. SHORT TITLE AND TABLE OF CONTENTS.**
4 (a) SHORT TITLE.—This Act may be cited as the
5 "Homeowner Flood Insurance Affordability Act of 2014".
6 (b) TABLE OF CONTENTS.—The table of contents for
7 this Act is as follows:

Sec. 1. Short title and table of contents.
Sec. 2. Definitions.
Sec. 3. Repeal of certain rate increases.
Sec. 4. Restoration of grandfathered rates.

Key Priorities

- FEMA is actively analyzing and prioritizing implementation of the new Act.
- Initial Priority
  - FEMA's priority continues to be implementation of 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 weeks 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.

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 a 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 Biggert-Waters 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 is 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 Biggert-Waters.
- Refunds will not affect all subsidized policyholders who received rate increases as directed by Congress in Biggert-Waters.
- WYOs will be permitted to retain the expense allowance in compensation for work completed.

Refunds, Rates, and Surcharges

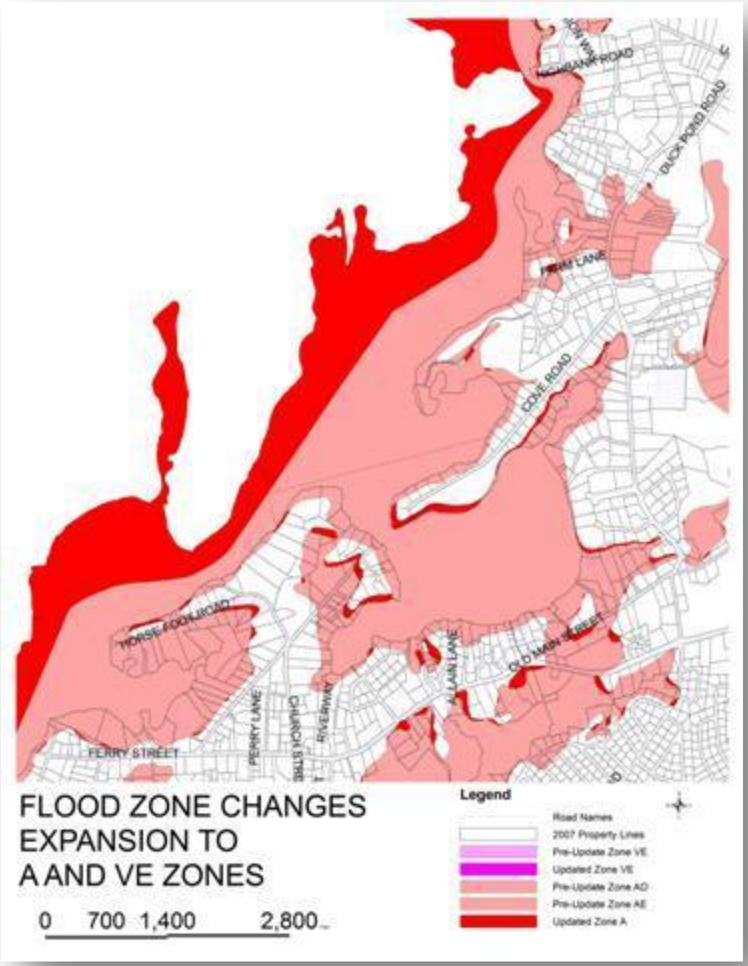
Mandatory Surcharges (Sec. 8)

- 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

Pre-FIRM Primary Residence Policies in High-Risk Areas

- For Most Pre-FIRM Primary Residences in High-Risk Areas, Subsidized Rates Remain in Effect, but with Newly Required Minimum Increases—and an 18 Percent Limit for Any Individual Policy—Until Premiums Reach Their Full-Risk Rates.[1]

POLICY TYPE	IMPACT ON RATE
Existing policies	Policies can be renewed at subsidized rates.[2]
Newly written policies	Policies can be issued and renewed at subsidized rates.
Policies on newly purchased buildings	Policies can be issued and renewed at subsidized rates.
Policies re-issued after a lapse[3]	Policies for pre-FIRM buildings in high-risk areas that lapsed due to a late renewal payment (received after the 30-day grace period but less than 90 days after expiration) can be re-issued and renewed at subsidized rates.

[1]Full-risk rates are determined using data from an Elevation Certificate.
[2]Full–risk rates could be lower than subsidized rates.
[3]Buildings with lapsed policies are not eligible for the subsidy unless the lapse was the result of the policy no longer being required to retain flood insurance coverage.

Refunds, Rates, and Surcharges

Pre-FIRM Building Policies in High-Risk Areas

- For Other Pre-Firm Buildings in High-Risk Areas, Subsidized Rates Continue, but Will Increase More Quickly to Reach Full-Risk Rates.

POLICY TYPE	IMPACT ON RATE
Policies for non-primary residences (secondary or vacation homes or rental properties)	25% annual increases at policy renewal until premiums reach their full-risk rates.
Policies for business buildings	Future 25% annual increases at policy renewal.
Policies for Severe Repetitive Loss properties	25% annual increases at policy renewal for severely or repetitively flooded properties that include 1 to 4 residences.

Refunds, Rates, and Surcharges

Other Policies

- For Most Other Policy Types, Rates Will Increase by No More than 18 Percent for Any Individual Policy.

POLICY TYPE	IMPACT ON RATES
Policies for newer ("post-FIRM") buildings in high-risk areas	Not affected by subsidies; already paying full-risk rates.
Policies for buildings in moderate- to low-risk areas	Not affected by subsidies; properties in these areas (shown as B, C, or X zones on flood maps) do not pay subsidized rates.
Policies for buildings "grandfathered in" when map changes show higher flood risk	Grandfathering remains in effect at this time. Buildings constructed in compliance with earlier maps or continuously covered by flood insurance stay in their original rate class when maps change or properties are sold.
Policies for buildings covered by Preferred Risk Policy Eligibility Extension (PRP EE)	Properties continue to be eligible for lower, preferred-risk rates for the first year after a map change. Starting the following year, rates will increase by no more than 18% for any individual policy until premiums reach their full-risk rate.

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 Biggert-Waters.
  - Affordability Study required by Biggert-Waters is being conducted by the National Academies of Sciences, as specified in the Biggert-Waters law.
- The Affordability Study required by Biggert-Waters 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 Biggert-Waters 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
- Biggert-Waters 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 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.

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)

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.

More Information & Updates

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