

# Update on FEMA-backed Flood Insurance



## ▪ Recent History

- Hurricane Katrina – August 2005
  - FEMA pays \$ 16.1B for losses
  - National Flood Insurance Program (NFIP): Premiums were to cover Loss Payments
  - FEMA operating at a deficit
  - General recognition that financial risk exposure is greater than anticipated
  - In some circles, NFIP is viewed as a subsidy to the “rich”
  
- Biggert-Waters Reform Act of 2012
  - Effective July 2012; significant and “onerous” rules effective in 2013
  - Intent was to restore fiscally integrity to FEMA and increase Premiums to reflect true actuarial risk.
  - Major provisions discussed below
  
- Updated FEMA Flood Maps for CT Shoreline
  - Effective Feb. 06, 2013
  - New Maps based upon new data and modeling
  - Were the subject of a Community Meeting held in Old Saybrook
  - In general, many residences not in flood zones are now in A-Zones (rising water) and some previously in A-Zones are now in V-Zones (flooding plus wave-forces on structure)
  - Map changes were totally unrelated to changes in Law, i.e., Biggert-Waters

## ▪ Key Requirements of Biggert-Waters Law

- All Rates to increase until full premiums reflect full actuarial risk
  - For Pre-FIRM Primary Residences: 20% per year
  - Non-Primary Residences (e.g., 2<sup>nd</sup> homes) rates to increase at 25% per year
  - Subsidies and Grandfathering to be phased out
  - Most onerous was requirement that grandfathered rates end upon sale of the residence; New owner shall pay full risk premiums (An actual Westbrook example will be discussed, time permitting)
  - Other Changes affecting Non-residential Properties
  
- Impact:
  - Not initially recognized; then stories of residential homeowners trying to sell property with prior premiums less than \$1,000 to a few \$1,000 per year would increase to \$40,000 to \$60,000 per year for new Owner!
  - Outrage vented on U.S. Congress; Rep. Biggert had retired; Rep. Waters termed the situation one of “*unintended consequences*”
  - National Association of Realtors lobbies hard, recognizing impact on real estate values.

# Current Situation

- **Homeowner Flood Insurance Affordability Act of 2014**
  - Started in the U.S. House with Reps. Michael Grimm and Maxine Waters as sponsors
  - Repeals most onerous features of Biggert/Waters
  - Signed into Law on March 21, 2014
  - Effective “immediately”
  
- **Impact on Prior Biggert-Waters Law** (text below from article in [Insurance Journal](#), March 2014 by Andrew Simpson)
  - ***Creates a firewall on annual rate increases*** – Prevents FEMA from raising the average rates for a class of properties above 15% and from raising rates on individual policies above 18% per year for virtually all properties.
  - ***Repeals the property sales trigger*** – Repeals the provision in Biggert-Waters that required homebuyers to pay the full-risk rate for pre-FIRM properties at the time of purchase. This provision caused property values to steeply decline and made many homes unsellable, hurting the real estate market. Under the Menendez/Grimm Bill, homebuyers will receive the same treatment as the home seller.
  - ***Repeals the new policy sales trigger*** – Repeals the provision in Biggert-Waters that required pre-FIRM property owners to pay the full-risk rate if they voluntarily purchase a new policy. This provision disincentives property owners from making responsible decisions and could hurt program participation. The Menendez/Grimm Bill allows pre-FIRM property owners to voluntarily purchase a policy under pre-FIRM conditions.
  - ***Reinstates grandfathering*** – Repeals the provision in Biggert-Waters that would have terminated grandfathering. If grandfathering was terminated, property owners mapped into higher risk would have to either elevate their structure or have higher rates phased in over 5 years. The Menendez/Grimm Bill allows grandfathering to continue and sets hard caps on how high premiums can increase annually.
  - ***Refunds homeowners who overpaid*** – Requires FEMA to refund policyholders for overpaid premiums.
  - ***Affordability goal*** – Requires FEMA to minimize the number of policies with annual premiums that exceed one percent of the total coverage provided by the policy.

The legislation does add an annual fee for insured properties: \$25/year or \$250/year if the property is not one's primary residence.

- **The Drama Continues**
  - As of late April 2014, can not get Premium Quotes
  - FEMA has yet to develop premium rates; Prior rate document for insurance agencies which service Standard Flood Insurance Policy was 341 pages long.
  - It may be months before Premiums can be quoted. This impacts those trying to sell property.

