More Changes Coming to the National Flood Insurance Program – What to Expect

Homeowner Flood Insurance Affordability Act 2014

April 2015 Changes

Mark Lujan, CFM, ANFI
Biggert Waters Reform Act

**Section 205**

Targets:
- Non-Primary Residences
- Businesses
- Severe Repetitive Losses
- Newly purchased building or policy, lapsed policy

Implementation began January 1, 2013

**Section 207**

Impacts map changes:
- Grandfathering
- Preferred Risk Policy Eligibility Extension

Replaced by Homeowner Flood Insurance Affordability Act 2014
MEMORANDUM FOR: Write Your Own (WYO) Principal Coordinators and the National Flood Insurance Program (NFIP) Servicing Agent

FROM: Dennis L. Kuhns
Director, Risk Insurance Division
Federal Insurance and Mitigation Administration (FIMA)

SUBJECT: Homeowner Flood Insurance Affordability Act of 2014 Signed Into Law
Key Priorities

- FEMA continues to analyze and implement the new Act.
- Initial Priority
  - FEMA’s initial priority was to stop policy increases for subsidized policyholders as outlined in the Act.
- Key Priorities include:
  - Refunds, Rates, and Surcharges
  - Mapping
  - Promote Mitigation
  - Flood Insurance Advocate
Refunds, Rates, and Surcharges

Refunds

- 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 began on October 1, 2014 and were completed on December 31st.

- An estimated 1 million policyholders received refunds. The average refunds were $100, with refunds ranging from only a few dollars to thousands of dollars.
18 Percent Cap on Premium Increases

- The 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.
  - Non-residential- “business”
Reserve Fund Assessment

- New changes in the October 1, 2014 bulletin make changes to the Reserve Fund assessment as required by Biggert Waters. 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- fund included in premium); and
  - 15 percent annual rate assessment for all other policies.
HFIAA Surcharges

- HFIAA introduces a new mandatory surcharge that does **not** count towards the 18 or 25 percent cap on individual policy increases.

- Beginning April 1, 2015 for new policies and upon renewal, all policyholders will be required to pay:
  - $25 for policies on primary residences; and
  - $250 for all other policies.

- The surcharges will be collected, with limited exceptions, until all policies are rated at the full risk rate.
HFIAA includes a new high deductible option created by Congress that will begin on April 1, 2015.

- A $10,000 deductible is available for residential policies. The same deductible option must apply to both building and contents coverage.

- Lenders will have to determine if the high deductible option will be accepted for the mandatory purchase requirements.
Refunds, Rates, and Surcharges

Grandfathering (Sec 4)

- HFIAA restores FEMA’s ability to grandfather properties into lower risk classes.

- For properties newly mapped into high risk areas, the law sets first year premiums at the same rate offered to properties located outside the SFHA (Preferred Risk Policy Eligibility Extension).

- With limited exceptions, flood insurance premiums cannot increase more than 18 percent annually.
Flood Insurance Advocate

- Assists in understanding how to appeal preliminary rate maps and implementing measures to mitigate evolving flood risks;
- 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.

Effective December 22nd, 2014

Acting Flood Insurance Advocate

David Stearrett
Saving Money on Flood Insurance

- FEMA has programs to help owners reduce their risk and save money on flood insurance
  - Community-wide discounts through the Community Rating System (CRS)
  - FEMA grant programs support rebuilding and relocating
  - Use of higher deductibles to lower premium costs

But the smartest way to save may be to build higher
Resources

- FloodSmart for Consumers - [www.FloodSmart.gov](http://www.FloodSmart.gov)
- NFIP iService Bureau - [http://www.nfipiservice.com](http://www.nfipiservice.com)
- Community Rating System- [www.crsresources.org](http://www.crsresources.org)