Biggert Waters Flood Insurance Reform Act of 2012

Impact of National Flood Insurance Program (NFIP) Changes

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

In 2012, the U.S. Congress passed the Biggert Waters 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. Some of these changes have already been put in place, 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 and was designed to incorporate community adoption of minimum standards for new construction and development to minimize future risk of flood damage. Pre-existing homes and businesses, however, could remain as they were. Owners of many of these older properties were eligible to obtain insurance at lower, subsidized rates that did not reflect the property's true flood risk.

In addition, as the initial flood risk identified by the NFIP has been updated, many homes and businesses that had been built in compliance with existing standards have received discounted rates in areas where the risk of flood was revised. This "Grandfathering" approach prevented rate increases for existing properties when the flood risk in their area increased.

After 45 years, flood risks continue and the costs and consequences of flooding are increasing dramatically. In 2012, Congress passed legislation to make the NFIP 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 now move to reflect full risk, and flood insurance rates will rise on some policies.

Actions such as buying a property, allowing a policy to lapse, or purchasing a new policy 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 certain 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. Your agent can help you understand if your policy is impacted by the changes.

- 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 that 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 flood risk -- beginning October 1, 2013.
  (Each property's risk is different. Some policyholders may reach their true risk rate after a couple years of increases, while other policyholder increases may go beyond five years to get to the full risk rate required by the new law. Rate tables on true risk will not be available until June 2013.)

Primary residences in SFHAs **will be able to keep their subsidized rates** unless or until:
- The property is sold;
- The policy lapses;
- You suffer severe, repeated, flood losses; or
- A new policy is purchased.

Grandfathering Changes Expected in 2014

The Act calls for a phase-out grandfathered rates and a move to risk-based rates for most properties when the community adopts a new Flood Insurance Rate Map. If you live in a community that adopts a new, updated Flood Insurance Rate Map (FIRM), 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 late 2014.

What Can Be Done to Lower Costs?

For home owners and business owners:
- Talk to your insurance agent about your insurance options.
- You will probably need an Elevation Certificate to determine your correct rate.
- Higher deductibles might lower your premium.
- Consider incorporating flood mitigation into your 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 then distribute the funds to communities to help with mitigation and rebuilding.

Key Dates and Triggers

Date of Implementation	Who Is Affected	What Will Happen	Why Is It Changing
January 1, 2013	• **Homeowners** with subsidized insurance rates on non-primary residences • *Properties receiving subsidized insurance rates are those structures built prior to the first Flood Insurance Rate Map (**pre-FIRM properties) that have not been substantially damaged or improved**.*	• **25 percent increase in premium rates each year** until premiums reflect full risk rates	• BW 12 calls for the phase-out of subsidies and grandfathered rates on flood insurance premiums. • This premium increase is outlined in **Section 100205** • The phase out of subsidies affecting non-primary residences was also mandated by earlier 2012 legislation**, HR 5740.**
October 1, 2013	• **Owners of business properties** with subsidized premiums • Owners of **severe repetitive loss** properties, which are defined as **any property that has incurred flood-related damage** in which the cumulative amounts of NFIP claims payments exceeded the fair market value of the property	• **25 percent increase in premium rates each year** until premiums reflect full risk rates	• BW 12 calls for the phase-out of subsidies on flood insurance premiums. • These premium increases are outlined in **Section 100205.**
October 1, 2013 continued	• **Owners of property**: 1. not insured as of the date of enactment of BW 12 (7/6/2013); 2. with a **lapsed NFIP policy**; or 3. purchased after the date of enactment of BW 12.	• Full-risk rates **will apply to these policies.**	• BW 12 calls for the phase-out of subsidies on flood insurance premiums. • These premium increases are outlined in **Section 100205.**

When	Who Is Affected	What Will Happen	Why Is It Changing
October 1, 2013 continued	• **Owners of properties insured by the Prefered Risk Policy (PRP) Eligibility Extension,** which has allowed structures mapped into a high risk area to remain insured at lower PRP rates. These are properties mapped into the Special Flood Hazard Areas (SFHAs) on or after October 1, 2008.	• Full risk rates will be phased in annually with average annual increases of 20 percent until premiums reach full risk rates.	• BW 12 calls for the phase-out of subsidies and grandfathered rates on flood insurance premiums. • The phase-out is a policy decision to align all subsidies with the BW 12 changes and maintain the PRP for low risk properties outside the SFHA.
October 1, 2013	• **All policyholders except Preferred Risk Policies (PRPs), Group Flood Insurance Policies, and policyholders losing their subsidies.**	• A 5 percent premium increase will go towards building a reserve fund for the NFIP.	• BW 12 calls for the establishment of a reserve fund to meet the expected future obligations of the NFIP. • The reserve fund is outlined in Section 1310A.
Late 2014	• **Other property owners, including non-subsidized policyholders,** affected by map changes	• Full-risk rates **will be phased in** over five years at a rate of 20 percent per year to reach full risk rates. • The NFIP will not retroactively collect premiums for map changes occurring after the date of enactment (7/6/2012).	• BW 12 calls for the phase-out of grandfathered rates on flood insurance premiums. • This premium increase is outlined in **Section 100207.**