Questions about the Biggert-Waters Flood Insurance Reform Act of 2012

1. What is the Biggert-Waters Flood Insurance Reform Act of 2012?

Answer: The Biggert-Waters Flood Insurance Reform Act of 2012 (BW-12) is a law passed by Congress and signed by the President in 2012 that extends the National Flood Insurance Program (NFIP) for five years, while requiring significant program reform. The law requires changes to all major components of the program, including flood insurance, flood hazard mapping, grants, and the management of floodplains. Many of the changes are designed to make the NFIP more financially stable, and ensure that flood insurance rates more accurately reflect the real risk of flooding. The changes will be phased in over time, beginning this year.

2. Why was the Biggert-Waters Reform Act of 2012 passed?

Answer: Flooding has been, and continues to be, a serious risk in the United States—so serious that most insurance companies have specifically excluded flood damage from homeowners insurance. To address the need, in 1968 the U.S. Congress established the NFIP as a Federal program. It enabled property owners in participating communities to purchase flood insurance if the community adopted floodplain management ordinances and minimum standards for new construction. However, owners of existing homes and businesses did not have to rebuild to the higher standards, and many received subsidized rates that did not reflect their true risk.

Over the years, the costs and consequences of flooding have continued to increase. For the NFIP to remain sustainable, its premium structure must reflect the true risks and costs of flooding. This is a primary driver for many of the changes required under the law.

Insurance Cost/Rate Questions

3. What changes to insurance operations are anticipated?

Answer: Many of the proposed changes are designed to increase the fiscal soundness of the NFIP. For example, beginning this year there will be changes addressing rate subsidies and a new Reserve Fund charge will start being assessed. There are also provisions to adjust premium rates to more accurately reflect flood risk.

Other provisions of the law address coverage modifications and claims handling. Studies will be conducted to address issues of affordability, privatization, and reinsurance, among other topics.

4. Will all policyholders see changes in insurance rates as a result of BW-12?

More than 80 percent of policyholders (representing approximately 4.48 million of the 5.6 million policies in force) do not pay subsidized rates.

About 20 percent of all NFIP policies pay subsidized rates. Only a portion of those policies that are currently paying subsidized premiums will see larger premium increases of 25% annually starting this year, until their premiums are full-risk premiums. Five percent of policyholders – those with subsidized policies for non-primary residences, businesses, and severe repetitive loss properties - will see the 25% annual increases immediately. . Subsidies will no longer be offered for policies covering newly purchased properties, lapsed policies, or new policies covering properties for the first time.

The 80% of all NFIP policies that already pay full-risk premiums will not see these large premium increases. Most policyholders will see a new charge on their premiums to cover the Reserve Fund assessment that is mandated by BW-12. Initially, there will be a 5% assessment to all policies except Preferred Risk Policies (PRPs). The Reserve Fund will increase over time and will also be assessed on PRPs at some undetermined future date.

Additional changes to premium rates will occur upon remapping, the provision calling for these premium rate changes will not be implemented until the latter half of 2014.

5. In general, which properties will be most affected by changes in rates?

Answer**:** Rate changes will have the greatest effect on properties located within a Special Flood Hazard Area (SFHA) that were constructed before a community adopted its first Flood Insurance Rate Map (FIRM) and have not been elevated. For many communities the initial FIRM would have been adopted in the 1970's and 1980's. Your local insurance agent will be able to provide you the initial FIRM date for your community.

Many of these pre-FIRM properties have been receiving subsidized rates. Subsidies are already being phased out for non-primary residences. Starting this fall, subsidies will be phased out for businesses; properties of one to four residences that have experienced severe repetitive loss; and properties that have incurred flood-related damages where claims payments exceed the fair market value of the property. Premiums for these properties will increase by 25% per year until they reach the full risk rate.

Subsidies are not being phased out for existing policies covering primary residences. However, the subsidy provided to primary residences could still be lost under conditions that apply to all subsidized policies. Subsidies will be immediately phased out for all new and lapsed policies and upon sale of the property. There may also be premium changes for policyholders after their community is remapped. But that provision of the Act is still under review and will be implemented in the future.

6. What happens if a policy with subsidized rates is allowed to lapse or the property is sold?

Answer: Starting this fall, for all currently subsidized policies, there will be an immediate increase to the full risk rates for all new and lapsed policies and upon the sale/purchase of a property. Full risk rates will be charged to the next owner of the policy.

7. What does "full risk rate" actually mean?

Answer: Simply put, it means that the premium reflects both the risk assumed by the program (that is, the expected average claims payment) and all administrative expenses. In the case of flood insurance, this means the premium takes into account the full range of possible flood losses, including the rare but catastrophic floods as well.

8. How can someone find out what a property's full risk rate will be?

Answer: Of the many factors that determine the full risk rate of a structure, the single most important is the elevation of the structure in relation to the Base Flood Elevation (BFE). A community's Flood Insurance Rate Map (FIRM) indicates the area of the community that has a 1% or greater annual chance of flooding. That area is called the Special Flood Hazard Area, or high-risk zone. Put another way, the BFE is the elevation where there is a 1% or greater annual chance of flooding. For a property in the high-risk zone, you need to know the elevation of the structure in relation to the BFE. Generally, the higher the elevation above the BFE, the lower the flood risk. The information is shown on an Elevation Certificate, which is a form completed and signed by a licensed engineer or surveyor. So to determine the premium for a property in a high-risk zone, you first need an elevation certificate. Then, an insurance agent can calculate the premium based on the amount of coverage desired.

9. What percentage of policies nationwide, and in high risk zones, actually receives these subsidized rates?

Answer: More than 80 percent of policyholders (representing approximately 4.48 million of the 5.6 million policies in force) do not pay subsidized rates. About 20 percent of all NFIP policies pay subsidized rates. However, only 5 percent of policyholders – those subsidized policies covering non-primary residences, businesses, and severe repetitive loss properties - will see immediate increases to their premiums.

10. When will NFIP Grandfathering be eliminated?

Answer**:** Currently**,** the NFIP Grandfather procedure provides eligible property owners the option of using risk data from previous Flood Insurance Rate Maps (FIRMs) if a policyholder maintained continuous coverage through a period of a FIRM revision or if a building was constructed "in compliance" with the requirements for the zone and BFE reflected on a previous FIRM. A provision of BW-12, however, requires FEMA to use revised flood risk data (zone and BFE) after a map revision. The legislation provides a 5-year mechanism to phase-in the new rates. This provision impacts the NFIP Grandfather procedure and will be implemented in the latter half of 2014. Many of the precise details of this implementation are still under development.

11. Is there any option for people who are now in a flood zone, did not have substantial damage, but now the BFE is 10 feet higher than previously and face dramatic rate increases?

Answer: FEMA's Hazard Mitigation Assistance (HMA) HMA programs provide funds for projects that reduce the risk to individuals and property from natural hazards. These programs enable mitigation measures to be implemented before, during, and after disaster recovery. Local jurisdictions develop projects that reduce property damage from future disasters and submit grant applications to the State. The States submit applications to FEMA based on State criteria and available funding. The HMA programs include:

- Hazard Mitigation Grant Program (HMGP) - The Hazard Mitigation Grant Program provides grants to implement long-term hazard mitigation measures after a major disaster declaration. The purpose of HMGP is to reduce the loss of life and property due to natural disasters and to enable mitigation measures to be implemented during recovery from a disaster.

- Flood Mitigation Assistance (FMA) - The Flood Mitigation Assistance program provides funds on an annual basis so that measures can be taken to reduce or eliminate risk of flood damage to buildings insured under the NFIP.

- Pre-Disaster Mitigation Program (PDM) - The Pre-Disaster Mitigation Program provides nationally competitive grants for hazard mitigation plans and projects before a disaster event. States can receive PDM funds regardless of whether or not there has been a disaster declared in that state.

FEMA encourages property and business owners interested in implementing mitigation activities to contact their local community planning, emergency management, or State Hazard Mitigation Officer for more information. Individuals and businesses may not apply directly to the State or FEMA, but eligible local governments may apply on behalf of a private entity. Your community will be working with the State to develop applications for HMA funding and implement the approved mitigation projects. Information about the HMA programs can be found at http://www.fema.gov/hazard-mitigation-assistance.