Biggert-Waters Flood Insurance Reform Act of 2012

Section 205 & 207: Understanding the Changes
Biggert-Waters 2012 (BW-12)

- Enacted July 6, 2012
- Reauthorizes the NFIP for five years through September 30, 2017
- Requires changes to all major components of the NFIP
- Provides for financial stability
- Ensures rates more accurately reflect the risk
Sections 100205 and 100207 Impacts

**Section 100205**

Impacts pre-FIRM buildings:
- Non-Primary Residences
- Businesses
- Severe/Multiple Losses
- Newly purchased building or policy, lapsed policy

Implementation began January 1, 2013

**Section 100207**

Impacts map change rating options
- Grandfathering
- Preferred Risk Policy Eligibility Extension

Not currently implemented – targeted for late 2014
BW-12: EFFECTS ON INSURANCE
SECTION 100205
**BW-12 Related Definitions**

**Pre-FIRM Building:**
*Built before the community’s first Flood Insurance Rate Map became effective and not been substantially damaged or improved*

**Subsidized Rates:**
*Rates for pre-FIRM buildings that are in Zone D or in Zones A* and V that are not rated with an elevation certificate.**

**Full-risk Rates:**
*Rates for buildings that are elevation-rated and reflect the true flood risk.*

**Non-primary residence:**
*A building that will be lived in for less than 80% of the policy year by the policyholder.*

*Except certain zones like A99 & AR  **Except certain zones like unnumbered V
Elevation Certificates (ECs)

- **ECs needed for rating in Zones A & V**
  - Exceptions:
    - Unnumbered V, A99, AR
    - Zone AO if Certificate of Compliance is provided by community official
    - SFHA properties still qualifying for pre-FIRM rating

- **ECs completed by licensed surveyor, architect, engineer**
  - Homeowners can complete if unnumbered Zone A & AO

- **Existing EC can be used if no improvements to structure**
  - Photos may be needed
  - Provide updated FIRM information if changed
  - Vertical datum may have changed
What’s Changing for Pre-FIRM

▪ **Subsidized rates to be *phased out***
  ▪ Non-primary residences
  ▪ Business properties
  ▪ Severe repetitive loss properties (1-4 family residences), and properties where claims payments exceed fair market value

▪ **New policies to be *issued at full-risk rates***
  ▪ After the sale/purchase of a property
  ▪ After a lapse in insurance coverage
  ▪ After substantial damage/improvement
  ▪ For properties uninsured as of BW-12 enactment

Note: Post-FIRM buildings and buildings in Zone B, C, X are unaffected
Phase Out of Subsidized Rates

Rates increase 25% per year until they reflect full-risk rate

Effective January 1, 2013

- Pre-FIRM non-primary residences in Zone D and SFHAs (except AR & A99)
Phase Out of Subsidized Rates

Rates increase 25% per year until they reflect full-risk rate

Effective October 1, 2013

- Pre-FIRM Commercial*
  buildings in Zone D and SFHA (except AR & A99)

*Increase applies to all non-residential
Phase Out of Subsidized Rates

Rates increase 25% per year until they reflect full-risk rate

Effective October 1, 2013

- Pre-FIRM repetitively flooded buildings in Zone D and SFHA (except AR & A99)
  - Severe Repetitive Loss properties of 1-4 families
  - Buildings with cumulative flood insurance payments that meet or exceed fair market value
Severe Repetitive Loss Definition

- 2 losses within a 10-year period exceeding the market value of the building, or
- 4 or more claims over $5,000 each in a 10-year period
Determining Full-Risk Rate

- Obtain an Elevation Certificate (EC)
- Ask their insurance agent to rate using EC
- Estimate when 25% Phase-in = Full-Risk Premium

<table>
<thead>
<tr>
<th>YEARS</th>
<th>EXISTING</th>
<th>YEAR 1</th>
<th>YEAR 2</th>
<th>YEAR 3</th>
<th>YEAR 4</th>
<th>YEAR 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>YEAR 1</td>
<td>$2,968</td>
<td>$3,710</td>
<td>$4,637</td>
<td>$5,797</td>
<td>$7,246</td>
<td>$9,058</td>
</tr>
</tbody>
</table>

Example 1*: LFE-BFE = -3’ Full-Risk Premium = $7,922

Example 2*: LFE-BFE =0’ Full-Risk Premium = $1,722

*Pre-FIRM Zone AE, Slab, Secondary Home, $200K/$80K (Building/Contents); Oct 2013
Direct Move to **Full-Risk Rates**

For pre-FIRM buildings in Zone D and SFHA (except AR & A99)

**As of October 1, 2013**

- After the purchase of a property after 7/5/2012
- When a new policy is effective after 7/5/2012
- After a policy lapse after 10/3/2012
- After refusal of a mitigation assistance offer after 7/5/2012

*Renewal letters are being sent*
NATIONAL FLOOD INSURANCE PROGRAM
NOTICE REGARDING YOUR POLICY RENEWAL

<Date>

 Named Insured: < >

 Mailing Address: < >

 Property Address: < >

IMPORTANT – YOUR ACTION IS REQUIRED
A RENEWAL OFFER WILL NOT BE MADE FOR YOUR FLOOD INSURANCE POLICY

The Biggert-Waters Flood Insurance Reform Act of 2012 eliminates subsidized\(^1\) premium rates and mandates a building’s full-risk premium rate be applied to the following National Flood Insurance Program (NFIP) policies:

- New policies written with an effective date on or after July 6, 2012
- Policies written as new business, or existing policies assigned to a new owner as a result of a property purchase on or after July 6, 2012
- Policies that have lapsed and been reinstated on or after October 4, 2012.

Our records indicate that your flood insurance policy receives NFIP subsidized premium rates, but is no longer eligible for those rates because it meets one of the above criteria. Since the subsidized rates used to determine the premium for your expiring policy are no longer available, a renewal bill cannot be provided without additional information.

To maintain NFIP coverage, your agent must complete a Renewal Application using full-risk premium rates. To determine the full-risk premium rates, you must provide your agent with the information and supporting documentation listed below, which was not required at the time your original policy was issued. You and your agent must submit this documentation and information for submission to and receipt by the insurer within 30 days of the expiration date shown on your policy.

- An Elevation Certificate for Flood Insurance.\(^2\)
- Clear exterior photographs of the front and back of the building to be insured.
- A Renewal Application completed and signed by your agent.
- The annual premium determined with full-risk premium rates or tentative premium rates.
Full-Risk Rate Example Timeline

- **BW-12 Passes** 7/6/12
- **Pre-FIRM House Bought*** 8/1/12
- **Pre-FIRM Policy Renewed*** 8/1/13
- **Pre-FIRM Policy Renews At Full-Risk Rates** 8/1/14
- **New Pre-FIRM Policy Bought*** 11/30/12
- **“Non-Renewal” Notice** 10/2/13
- **Pre-FIRM Policy Renews at Full-Risk Rates** 11/30/13

*Subsidized rates

**or

Tentative Rates
Who Is/Isn’t Affected By 205

NFIP Policyholders under Section 205
(data as of 12/31/2012)

- Not subsidized pre-FIRM policies (4.480 M) - 81%
- Pre-FIRM primary residences retain subsidies until sold or lapse (578K) - 5%
- Won’t see immediate subsidy removal; e.g., pre-FIRM condos; multifamily properties (244K) - 4%
- 25% Phase-in for non-primary residences, non-residential buildings, and SRLPs (253K) - 10%

November 2013
Section 205 – Region IX Impact

Region IX BW 12 Percentage Impacted - Section 205

- Guam 47%
- NV 9%
- AZ 17%
- CA 19%
- HI 23%

Legend:
- NV
- AZ
- CA
- HI
- Guam
How Is Your Community Affected?

Section 205 Summary

For pre-FIRM subsidized-rated buildings in Zone D or SFHA (except Zone AR and A99):

- **25% Phase-in:**
  - non-primary residences,
  - non-residential, and
  - SRL/repeated loss buildings

- **Full-risk rate:**
  - newly purchased building,
  - newly purchased policy, and
  - lapsed policy
Section 205 Summary

For pre-FIRM subsidized-rated primary residences in Zone D or SFHA (except Zone AR and A99) are not affected unless/until:

- Building is sold
- Purchase a new policy
- Policy lapses
- Severe/repeated flood losses

• Note: Rates went up 16-17%

(Post-FIRM buildings and buildings in NSFHA are not impacted by Section 205)
BW-12: Effects on Insurance

Section 100207
What About Grandfathering?

Per Section 100207, Grandfathering will be phased out

- Phase-in to full-risk rates at 20% a year for 5 years
- Implementation anticipated in late 2014, at the earliest
- PRP Eligibility Extension (PRP-EE) will most likely be phased out.

Note: PRP-EE rates went up 19% starting October 1, 2013
Implementation of 100207

- How:  
- When:  
- What:  
  

REDUCE THE RISK.
REDUCE THE RATE.
Options & Actions

- **Property Owners (and insurance agents)**
  - Identify what full-risk rate is; get an EC
  - Look into effect of higher deductibles
  - Look into rate-reducing mitigation actions; e.g.,
Reduce the Risk. Reduce the Rate

- As building elevations go up, premiums can drop

<table>
<thead>
<tr>
<th>Premium at 4 Feet Below Base Flood Elevation</th>
<th>Premium at Base Flood Elevation</th>
<th>Premium at 3 Feet Above Base Flood Elevation</th>
</tr>
</thead>
<tbody>
<tr>
<td>$9,500/year</td>
<td>$1,410/year</td>
<td>$427/year</td>
</tr>
<tr>
<td>$95,000/10 years</td>
<td>$14,100/10 years</td>
<td>$4,270/10 years</td>
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</tbody>
</table>

Zone AE Rates Effective October 1, 2012
Reduce the Risk. Reduce the Rate

Coastal High Hazard Area: Zone VE

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Elevation</td>
<td>4ft</td>
<td>8ft</td>
<td>10ft</td>
</tr>
<tr>
<td>Total Cost of Foundation</td>
<td>$18,000</td>
<td>$29,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>Increase in Monthly Mortgage Payment</td>
<td>n/a</td>
<td>$49*</td>
<td>$54*</td>
</tr>
<tr>
<td>Annual Flood Insurance Premium (Coastal High Hazard Area: Zone VE)</td>
<td>$31,500</td>
<td>$7,000</td>
<td>$3,500</td>
</tr>
<tr>
<td>Monthly Cost (Mortgage Increase + Flood Insurance)</td>
<td>$2,625</td>
<td>$632</td>
<td>$346</td>
</tr>
<tr>
<td>Months to Recover Foundation Cost</td>
<td>n/a</td>
<td>14</td>
<td>13</td>
</tr>
<tr>
<td>Savings Over 10 Years</td>
<td>n/a</td>
<td>$239,160**</td>
<td>$273,480**</td>
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<tr>
<td>Peace of Mind</td>
<td>😞</td>
<td>😊</td>
<td>😊</td>
</tr>
</tbody>
</table>

*Based on the additional expense, compared to Scenario A, of elevating a home from the current BFE to the new BFE.

**Based on a lower flood insurance premium, compared to Scenario A, minus an increase in monthly mortgage payment.

$2,279 per month savings compared to the current BFE
Real Estate Professionals

- Know if the building for sale/purchase is pre- or post-FIRM and if in SFHA or Zone D
- If pre-FIRM in SFHA, provide/ask for the full-risk rated premium if interested in selling/buying
  - As of 01/14/2014, Qualifying Mortgages must meet a 43% Debt-To-Income Ratio
- Know if map study in area is occurring and potential change (mapped in/out of SFHA)
Options & Actions

- **Communities**
  - Join CRS/Increase CRS Rating
  - Be aware of potential mitigation grants
  - Provide technical advice
    - Elevation Certificates
    - Building/Rebuilding to reduce flood risk
Example Messaging

LEARN YOUR RISK
Get an Elevation Certificate for your home (risk can change)

REDUCE YOUR RISK
Building or Rebuilding? Build Higher Than current standards

GET INSURED
Be proactive: don’t risk the consequences of a flood

STAY INSURED
Letting your flood insurance policy lapse could be costly
RESOURCES
Flood Insurance Reform Act of 2012

In July 2012, the U.S. Congress passed the Biggert-Waters Flood Insurance Reform Act of 2012 (BW-12) which calls on the Federal Emergency Management Agency (FEMA), and other agencies, to make a number of changes to the way the National Flood Insurance Program (NFIP) is run. Some of these changes already have occurred, 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. Homeowners and business owners are encouraged to learn their flood risk and talk to their insurance agent to determine if their policy will be affected by BW-12.

BW-12 Overview | BW-12 Instructional Videos | Pre-FIRM Subsidy Removal | Building and Rebuilding Information for Home and Business Owners | Information for Real Estate Professionals | Information for the Insurance Industry | Information for State and Local Officials | Other

BW-12 Overview
Website Resources include:

- Overview
- General BW-12 Information
- Information for Real Estate & Insurance Professionals
- Information for State & Local Officials
- Information for Home & Business Owners
- Instructional Videos
More BW-12 Resources

www.FloodSmart.gov


Biggert-Waters Reform Act of 2012

Provisions of the Biggert-Waters Flood Insurance Reform Act of 2012 (BW-12) require the NFIP to raise insurance rates for some older properties in high-risk areas to reflect true flood risk.

- The affected properties are among those built before the community joined the NFIP and adopted its Flood Insurance Rate Map (FIRM). Communities began joining the NFIP in the late 1960s. To find out when your community joined, contact your local floodplain manager. Properties built before that date and not improved since are known as “pre-FIRM.”

- Many of the pre-FIRM properties in high-risk areas do not meet current standards for construction and elevation, and they have been receiving subsidized rates that do not reflect their actual risk. The subsidized rates are being eliminated in some cases, as noted in the chart below. Some current policyholders and all future policyholders owning pre-FIRM properties in high-risk areas will pay rates based on their true risk of flood damage. However, most NFIP-insured properties (85 percent or more) are not affected by the changes.

- **How properties and policies are affected by subsidy changes**

<table>
<thead>
<tr>
<th>For These Pre-FIRM Properties With Newly Issued Policies</th>
<th>Subsidized Rates Are Eliminated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recently purchased pre-FIRM buildings in high-risk areas</td>
<td>Policies for newly purchased pre-FIRM buildings are issued at full-risk rates. Policies that were issued at subsidized rates for pre-FIRM buildings purchased on or after 7/6/2012 renew at full-risk rates starting 10/1/2013.</td>
</tr>
</tbody>
</table>
  | Policies issued for the first time on buildings in high- | New policies are issued at full-risk rates. Pre-FIRM subsidized policies first in effect on or after 7/6/2012.

- Typically, there is a 30-day waiting period on new flood insurance policies.
Other Resources-
www.FloodSmart.gov/Partners
Other Resources-
www.FloodSmart.gov/CRS

Community Rating System (CRS)

ABOUT CRS

The National Flood Insurance Program’s (NFIP’s) Community Rating System (CRS) is a voluntary incentive program that recognizes communities for implementing floodplain management practices that exceed the Federal minimum requirements of the NFIP to provide protection from flooding.

In exchange for a community’s proactive efforts to reduce flood risk, policyholders can receive reduced flood insurance premiums for buildings in the community. These reduced premiums reflect the reduced flood risk resulting from community efforts toward achieving the three CRS goals:

1. Reduce flood damage to insurable property
2. Strengthen and support the insurance aspects of the NFIP
3. Encourage a comprehensive approach to floodplain management

Participation in the Community Rating System (CRS) is voluntary. By participating, communities earn credit points that determine classifications. There are 10 CRS Classes: Class 1 requires the most credit points and provides the largest flood insurance premium reduction (45 percent), while Class 10 means the community does not participate in the CRS or has not earned the minimum required credit points, and residents receive no premium reduction. The CRS Classes are based on completion of 10 creditable activities organized into 4 categories:

1. Public Information
2. Mapping and Regulations
3. Flood Damage Reduction
4. Community Rating System (CRS)
Other Resources

- Region IX Mapping Website
  www.R9MAP.org

- Region IX Newsletters

- NFIP Bulletins
  www.NFIPiService.com

- Elevation Certificate
  www.FEMA.gov/media-library/assets/documents/160?id=1383

- EC Made EZ Training Video
  www.youtube.com/watch?v=BHvQg0jqLmc

- Today’s PowerPoint
  www.r9map.org/Pages/Professional-Development.aspx
Questions & Contact Information

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