



FEMA

# Biggert-Waters 2012

## The Changing Script



# TWO TYPES of SUBSIDIES

- **1. PRE-FIRM Buildings –**
  - Built prior to the community joining the NFIP
  - Not rated using elevation
  - Basic premium is lower than what should be charged
  
- 2. GRANDFATHER RULES**
  - Loyal Customer
  - Built-in-Compliance



# The House at 370 Waterview Drive

- 1) Residential property
- 2) Located in a Special Flood Hazard Area
- 3) Current owners have flood insurance



# Scenario: Buying the House

## *THEN*

- Flood insurance required
- Subsidized rates apply to pre-FIRM buildings
- Lower “Grandfathered” rate continues to apply if policy is transferred



## *NOW*

- Flood insurance required
- Full-risk rates apply, not pre-FIRM subsidized rates
- “Grandfathering” applies until/unless maps change
- Plan ahead: consider risk as you plan and budget
- Obtain an Elevation Certificate (EC) as soon as possible to learn your full-risk rate – you could save money

# Scenario: Selling the House

## *THEN*

- Avoid surprises at closing – let buyers know they will need flood insurance
- Help the buyer: assign your policy so the new owner can continue to receive any subsidized or discounted rate



## *NOW*

- Avoid surprises at closing – let buyers know they will need flood insurance
- Subsidized rates no longer apply; new owner will pay full-risk rate
- New owner can often keep “Grandfathered” rate, but only until next map change
- Consider getting an EC and showing insurance costs – risk and rates could be lower than anticipated
- Consider mitigating, including elevating the home, before listing it for sale

# New Message to Homeowners

- **Talk to your insurance agent about options**
  - You'll likely need an Elevation Certificate to determine your correct rate
  - Higher deductibles might lower your premium
- **Mitigate**
  - 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
  - Look at mitigation as a way to improve resale value

# Scenario: Policy Renewal (Full-Risk or Grandfathered)

## *THEN*

- Renew the policy at the same rate
- Rates subject to routine actuarial adjustment



## *NOW*

- Renew the policy at the same (full-risk) rate
- Rates subject to routine actuarial adjustment plus increase for the Reserve Fund
- If Grandfathered, talk to your agent to learn your current risk

# Scenario: Policy Renewal (Subsidized) *Primary Home*

## THEN

- Don't get caught without coverage in a disaster; stay fully insured
- Renew flood insurance policy at the current (subsidized) rate
- Rates subject to routine actuarial adjustment



## NOW

- Retain subsidized rate as long as home is a primary residence and continuous coverage is maintained
- Rates subject to routine actuarial adjustment plus increase for Reserve Fund
- Full-risk rates will apply if the property sold or the policy lapses (effective October 2013)

# Scenario: Policy Renewal (Subsidized) Secondary/SRL Home

## THEN

- Don't get caught without coverage in a disaster; stay insured
- Renew flood insurance policy at the current (subsidized) rate
- Rates subject to routine actuarial adjustment



## NOW

- Previous premium did not reflect the home's full flood risk
- Premium will increase 25 percent a year until it reaches the full-risk rate
- Rates subject to routine actuarial adjustment plus increase for Reserve Fund
- Obtain an Elevation Certificate (EC) as soon as possible to learn your full-risk rate – you could save money

# Impact of Retrofitting and Elevation in Rebuilding

**Under the Flood Insurance Reform Act of 2012, You Could Save More than \$90,000 over 10 Years if You Build 3 Feet above Base Flood Elevation\***

**PREMIUM AT 4 FEET BELOW  
BASE FLOOD ELEVATION**

**\$9,500/year  
\$95,000/10 years**



**BFE**

**PREMIUM AT  
BASE FLOOD ELEVATION**

**\$1,410/year  
\$14,100/10 years**



**BFE**

**PREMIUM AT 3 FEET ABOVE  
BASE FLOOD ELEVATION**

**\$427/year  
\$4,270/10 years**



**BFE**

\*\$250,000 building coverage only (does not include contents), AB (high to moderate risk) zone, single-family, one-story structure without a basement at: 4 feet below Base Flood Elevation (BFE); at BFE; and at 3 feet above BFE. (Rating per FEMA flood insurance manual, October 1, 2012). The illustration above is based on a standard National Flood Insurance Program (NFIP) deductible.

# Scenario #3: Building/Rebuilding a New Home in a Special Flood Hazard Area

## *THEN*

- Be aware of building in a high-risk flood zone
- Need to build to current building code requirements
- Flood insurance premium will be based on elevation at or above FEMA's minimum elevation standard; the community's standard might be higher



## *NOW*

- Be aware of building in a high-risk flood zone
- Risk changes over time, so consider current and future flood risks
- Build higher/stronger than current standards to lower risk and flood insurance premiums
- Talk to local floodplain manager to learn about new maps or data that may be available
- Building higher may increase home value

# Scenario #7: Receiving Map Updates

## *THEN*

- New maps could identify that flood risk has changed
- Buy flood insurance now to receive low preferred risk rates in moderate-to-low risk areas
- Having a policy in place allows it to be “Grandfathered In” at a lower rate when maps are adopted



## *NOW*

- New maps could identify that flood risk has changed
- As maps change, discounts, including Grandfathering, will be phased out
- New rates will be phased in at 20 percent a year for five years
- Implementation anticipated in 2014

# ADDRESS YOUR RISK



# Conclusion

- Congress has ideas and change in mind
- Maps and the mapping process should empower and inform people – not scare them
- Maps provide room for important dialogue about flood risk and should serve that purpose – not drive it
- Maps and process get us to where we want to be: a sustainable state of flood resilience



# Terminology

- **Elevation Certificate (EC):** An official FEMA form, typically completed by a land surveyor, that documents a building's elevation
- **Full-Risk Rate:** The cost of insuring the possible losses of a structure based on many factors including the building's elevation and the flood zone on the current Flood Insurance Rate Map (FIRM)
- **Subsidized Rate:** Available for homes built before a community adopted its first FIRM; not based on a building's elevation or true flood risk
- **Grandfathered Rate:** Available for property owners who had a flood insurance policy in effect when a new flood map became effective and maintained continuous coverage, or who built in compliance with the FIRM in effect at the time of construction

*Insurance agents can identify if an existing rate is Full Risk, Subsidized, or Grandfathered.*

***Note:** A policy is either Subsidized **OR** Grandfathered, not both.*