Compliance
Bulletin

Flood Insurance Act Provides Relief from Planned Premium Increases

Provided by Long & Foster Insurance

Quick Facts

The Homeowner Flood Insurance Affordability Act of 2014 will:

- Limit flood insurance premium increases to no more than 18 percent a year.
- Repeal a provision requiring an immediate premium increase when a home changes ownership.
- Reinstate the flood insurance program's grandfathering provision.

The Flood Insurance Act modifies planned flood insurance reforms that would have dramatically increased premiums for many property owners in high-flood risk areas.

On March 21, 2014, the Homeowner Flood Insurance Affordability Act of 2014 (the Flood Insurance Act) was signed into law. This Act modifies planned flood insurance reforms that would have dramatically increased premiums for many property owners in high-flood risk areas.

These reforms were part of the Biggert-Waters Flood Insurance Reform Act of 2012 (the Biggert-Waters Act). The Biggert-Waters Act required changes to the National Flood Insurance Program (NFIP) to make it more financially stable, including the elimination of subsidized rates and grandfathering, which protected property owners from certain rate increases.

The implementation of these changes led to an outcry from property owners facing sudden and significant rate increases, which many homeowners called unaffordable. Congress passed the Flood Insurance Act to address the issues created by the Biggert-Waters Act.

PLANNED CHANGES TO THE NFIP

Congress created the NFIP in 1968 to enable property owners to obtain flood insurance. The NFIP offers flood insurance to homeowners, renters and business owners if their community participates in the NFIP. Participating communities agree to adopt and enforce ordinances that meet or exceed the Federal Emergency Management Agency (FEMA) requirements to reduce the risk of flooding.

The NFIP provides subsidized flood insurance rates to many property owners. This allows the property owners to obtain flood insurance at a cost that does not reflect the true risk rate for their policies.

The NFIP also contains a grandfathering provision, which allows properties built in compliance with then-current standards to receive discounted insurance rates after flood risk standards are revised. This grandfathering approach prevented rate increases for existing properties when the flood risk in their area increased.

The Biggert-Waters Act would have required a number of changes to the NFIP that would have resulted in steep increases in flood insurance premiums intended to make the NFIP solvent.

Specifically, homeowners with subsidized rates would lose the subsidies for primary residences when the property was sold, the policy lapsed, they had severe, repeated flood losses or they purchased a new policy. Also, owners of properties that experienced severe or repeated flooding, along with business property owners and non-primary homeowners in Special Flood Hazard Areas, were set to have rates increase 25 percent per year until their rates reflected their true risk.

Grandfathered rates originally permitted under the NFIP were set to be phased out under the Biggert-Waters Act. Properties with these grandfathered rates would have been moved to risk-based rates over a period of time once their community adopted a new Flood Insurance Rate Map (FIRM).

In January 2014, the spending bill known as the Omnibus Appropriations Package, H.R. 3547, was passed. The spending bill provided short-term rate increase relief to some homeowners covered by the NFIP, delaying scheduled premium increases until Oct. 1, 2014.

The Flood Insurance Act provides additional relief from the planned increases by retaining the NFIP's grandfathering and subsidy provisions.

MAJOR PROVISIONS OF THE FLOOD INSURANCE ACT

Reinstatement of Grandfathering Provision
The Flood Insurance Act reinstates the NFIP's grandfathering provision, which was to be phased out under the Biggert-Waters Act. Grandfathered properties were to be moved to risk-based rates upon the adoption of a new FIRM. New rates were due to increase by 20 percent per year for five years. The Flood Insurance Act reinstates the grandfathering approach that prevents rate increases for existing properties when the flood risk in their area is increased.

Continuation of Subsidized Rates
The Flood Insurance Act repeals a provision of the Biggert-Waters Act that would have required an immediate premium increase when a home was sold. This means that a change in home ownership no longer immediately changes the rate of insurance.

In addition to subsidies, the Flood Insurance Act provides **refunds** of premiums to property owners who purchased homes after the Biggert-Waters Act became law and experienced an immediate increase of their insurance rates.

Limit to Annual Premium Increases
The Flood Insurance Act limits yearly premium increases to an average of 15 percent per year for nine specific property categories listed by FEMA. It also limits all increases to no more than 18 percent per year.

Under the Flood Insurance Act, FEMA is encouraged to limit premiums to no more than 1 percent of the value of coverage for most policyholders.

FUNDING FOR SUBSIDIZED RATES

The cost of retaining subsidized flood insurance rates will be funded through a $25 surcharge for most homeowner policyholders. A $250 fee will apply for non-residential property owners and non-primary residence homeowners.

Although the Flood Insurance Act maintains the subsidized rates, it also retains a provision in the Biggert-Waters Act that will move toward the use of actuarial rates over time to increase the solvency of the NFIP.

MORE INFORMATION

The impact of the Flood Insurance Act on each property owner will depend on a number of factors. Contact Long & Foster Insurance for more information on how this law may affect your premium costs and coverage.