NAR Issue Brief

Flood Insurance Premium Rates – At a Glance

(Updated January 27, 2015)

[The following responds to member requests for simplified information on flood insurance rate changes and is not intended to be legal advice or used by the reader in connection with a particular transaction.]

Full-Cost (Actuarial) Premiums --Each year, FEMA sets premium rates based on an actuarial analysis of what the typical property will cost the National Flood Insurance Program (NFIP). (If, in 2015, a property is expected to claim $10,000 in flood damage, conceptually its 2015 rate would be $10,000 plus administrative expenses.) There are essentially only two rates tables for the NFIP:

- High-Cost Properties –Geographic areas within the flood map where flood insurance is required. Here, there is more than a 1-in-4 chance that the property will flood over the life of a 30-year mortgage.
    - Most of these areas are “A zones” and have an associated “Base Flood Elevation” (or “BFE”) – i.e., how high the flood waters are expected to rise during a 100-year storm event.
    - For the ~1% of properties nearest the coast, FEMA adjusts the A-zone table upward to create a “V” zone table that accounts for velocity damage due to storm surge, in addition to water rise.
- Low-Cost Properties –Everywhere else in the map are “X zones,” where flood insurance is not required.

“Subsidized” Premium Rates –Historically, two kinds of property were allowed to pay less than full cost to encourage the purchase of flood insurance over continued reliance on disaster relief –all at taxpayer expense:

- Built generally before 1975 – Property owners who built before the area’s first Flood Insurance Rate Map (or “pre-FIRM”) could not have known the flood risk nor built to flood standards before they existed.
- Flood Map Changed –Allowed to keep or “grandfather” the property in lower cost flood zones. This was to protect owners that built to code in A zones from later being required to retrofit to cost-prohibitive V-zone standards, simply because FEMA updated an inaccurate flood map.

Biggert-Waters Law (July 2012) –Generally phased-out subsidies for pre-FIRM properties according to one of several formulas. [Rationale: By artificially depressing rates below their full cost, subsidies prevent property owners from knowing/mitigating their flood risk and cost taxpayers ~$1 billion a year in forgone revenue to help pay down the $24 billion debt, according to the Congressional Budget Office.]

- Categories of Property: 25% increase each year until paying a full-cost premium:
    - Non-primary residences
    - Non-residential properties
    - Severe repetitive flood losses
    - Substantially damaged or improved
- Remapping: 5-year phase-out (20% per year) for grandfathered properties, triggered upon remapping.
- Property Sale: Buyer jumps 100% to the full-cost rate at closing, triggered by purchase of <u>any</u> property (first home, second home, or commercial property).

[Note: Newer-property owners (built generally after 1975) were already paying full cost. However, the cap on how much their rate may increase from year to year was raised from an average of 10% to 20%.]

Flood Insurance Affordability Amendments –Due to severe Biggert-Waters implementation problems:

- Repealed both triggers (property sale and remapping) and refunded premium in excess of 18-25% a year.
- Restored grandfathering (e.g., those who built to A zones keep the A-zone rate if later remapped into V)
- Reduced the maximum annual increase for most current property owners from as high as 40% to 18%.
- Clarified 18-25% phase-in of full-cost rates for properties mapped into A or V zones for the first time.
- Imposed a small surcharge on all NFIP policies until all property owners are paying a full-cost premium.

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