NAR Issue Brief
Flood Insurance Premium Rates – At a Glance
(Updated March 26, 2014)

[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. If say, this year a property is expected to claim $10,000, conceptually its premium would be $10,000 plus administrative expenses.

- High-Cost Areas – anywhere in a flood map where there is more than a 1-in-4 chance a property will flood over a 30-year mortgage, flood insurance is required. Most of these are "A zones" but areas nearest the coast (where there is a storm-surge risk) are so-called "V" (for Velocity) zones.
- Low-Cost Areas. Everywhere else in the map is an "X zone" and flood insurance is not required for a federally backed mortgage (Fannie Mae, Freddie Mac, FHA, VA, etc.)

Subsidized Premium Rates

Before the 2012 Biggert-Water Law, two types of property were allowed to pay less than the full-cost premium, in order to encourage purchase of flood insurance over the continued use of post-disaster relief -- 100% at the taxpayer expense:

- Generally Built before 1975 – Allowed to cover the historic average cost which did not fully account for catastrophic years like 2005 (Katrina). Congress allowed this because at the time, it was felt punitive to charge full cost of owners who had built before there was a flood map so they could not have known/adjusted to the flood risk when building. These are also known as "Pre-F.I.R.M." or "Pre-Flood-Insurance-Rate-Map" properties.
- Flood Map Changed –Allowed to keep or "grandfather" the lower rate when mapped into a higher cost zone where the property is no longer in code compliance. Congress rewarded the owners who built to code in an A zone before it changed to a "V" or voluntarily bought flood insurance before the property was mapped into an A or V zone.

Biggert-Waters Law (July 2012)

For properties built generally AFTER 1975 (and therefore already paying a full-cost rate, aka "Post-FIRM" properties) – Allowed up to an average 20% increase per year, instead of 10%, depending on FEMA's actuarial cost analysis. [Note: this is an "average" increase; in other words, it is theoretically possible for an individual to pay up to 30% increase in a given year as long as one other individual pays a 0% increase, in order to keep the average increase at/below 20%.]

For all other properties (i.e., properties built generally BEFORE 1975 or grandfathered into a lower-cost flood zone (i.e., "A" or "X")):

- Automatic 25% increases each year until the current owner is paying the full cost
  - Non-primary residences (began 1/2013)
  - Business properties (began 10/2013)
  - Repeated Flood Claims/Losses (began 10/2013)
  - Substantially Damaged/Improved (won't begin until FEMA issues regulation)
- Premium increases which are triggered by one of two events (not automatic):
  - Purchase of property – buyers would immediately pay the full cost; this is the only category of property whose annual increase was not capped by Biggert-Waters. [Note: Applied to a purchase of a second home/business.]
  - Remapping of property – grandfathered rate increases to full cost over 5 years (20% each year). [Note: the 2014 Omnibus Appropriations prohibited FEMA from using funds to continue work on implementing this provision until Sept. 30, 2014).]

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Biggert-Waters as amended by the Homeowner Flood Insurance Affordability Act (March 2014)

- Repeals the sale/map triggers and refunds rate increases triggered either a) by a property's sale or b) new flood map.
- Restores grandfathering of properties in the flood zone when the property was built to code (e.g., properties built in the A zone may keep the A-zone rate if the property is later remapped into the higher cost V zone)
- Reduces the maximum annual increase for most current property owners:
  - Post-FIRM (built generally after 1975 and thus already paying the full-cost premium): Allows up to an 18% increase each year, depending on FEMA's cost analysis.
  - Pre-FIRM (built generally before 1975):
    - Allows up to an 18-25% annual increase depending on property type.
    - Sets a floor on increases for primary homes so their rates will increase no less than 5% each year (historically, these properties have seen larger increases).
    - Assesses $25 per policy on all NFIP primary homes; $250 on the businesses and second homes in the NFIP until all property owners are paying the full-cost premium rate.

Examples by Property Type

1) Primary residence built generally BEFORE 1975 (pre-FIRM)

If I buy the property:

- Original Biggert-Waters: Immediately pay the full-cost premium at time of sale
- As Amended: Repeals/refunds the time-of-sale increases; no more than 18% increase each year beginning at the first insurance policy renewal

If I own and do not sell:

- Biggert-Waters: Up to an average 20% increase per year
- As Amended: Between 5-18% increase per year per property

2) Second home or a commercial property built generally BEFORE 1975 (pre-FIRM)

If I buy the property:

- Biggert-Waters: Immediately pay the full-cost premium at time of sale
- As Amended: Repeals/refunds time-of-sale increases; no more than 25% increase each year at policy renewal

If I own and do not sell:

- Biggert-Waters: 25% increase per year
- As Amended: No change

3) Primary home, second home or commercial property built generally AFTER 1975 (post-FIRM)

If I buy the property:

- Biggert-Waters: Up to an average 20% increase per year
- As Amended: Up to an average 15% increase, but no more than 18% for any property

If I own and do not sell:

- Biggert-Waters: Up to an average 20% increase per year
- As Amended: Up to an average 15% increase, but no more than 18% for any property

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