# NAR Issue Brief
# Flood Insurance Premium Rates – At a Glance

(Updated January 7, 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 a property is estimated to claim $10,000 for flood damage in 2015, conceptually the 2015 rate for this property would be $10,000 plus administrative expenses.) There are essentially only two rates tables for the NFIP:

- High-Cost Properties – Geographic areas within flood map where flood insurance is required and 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.
  - 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 is an "X zone" and flood insurance is not required.

**"Subsidized" Premium Rates**

Before the 2012 Biggert-Water Law, two types of property were allowed to pay less than a full-cost premium:

- Generally Built before 1975 – Congress wanted to encourage owners of property built before the Flood Insurance Rate Map (or "pre-FIRM") to buy flood insurance, rather relying on disaster relief – 100% at taxpayer expense. However, charging full price of owners who built before they knew the flood risk was considered punitive.
- Flood Map Changed –Allowed to keep or "grandfather" the property in lower cost flood zones. This was to protect homeowners who built to code in A zones from being required to retrofit to V-zone standards (cost prohibitive), simply because FEMA updated an inaccurate map. Changing the rules in the middle of the game was considered unfair.

**Biggert-Waters Law (July 2012)**

Generally phased-out subsidies for older or pre-FIRM properties according to these formulas:

- 25% increases until these categories of property are paying full cost for flood insurance:
  - Non-Primary Residences (second homes)
  - Business Properties (commercial)
  - Severe Repetitive Flood Losses
  - Substantially Damaged/Improved
- 5-year subsidy phase-out (20% per year) for grandfathered properties triggered upon remapping.
- 100% jump to Full Cost Premium at the closing table triggered by the purchase of a first home, second home, or commercial property.

Newer-property owners (built generally after 1975) were already paying the full cost. However, the cap on how much their rate could increase from one year to the next was raised from 10% to 20% on average.

**Flood Insurance Affordability Amendments to Biggert-Waters**

- 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)
- Reduces the maximum annual increase for most current property owners from as high as 40% to 18%.
- Clarifies 18-25% phase-in of full cost rates for properties mapped into A/ V zones for the first time.
- Imposes small surcharge on all NFIP policies until all property owners pay a full-cost premium rate.