NAR Issue Brief

Flood Insurance Premium Rates – At a Glance

(Updated March 7, 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 costs the National Flood Insurance Program. If say, this year that property is expected to claim $10,000, conceptually the 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 labeled "A zones" but areas nearest the coast (where there is a risk of storm-surge damage) 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 (GSE, FHA, VA, etc.)

Subsidized Premiums

Before the 2012 Biggert-Waters Reauthorization law, two types of property were allowed to pay less than the full-cost premium, in order to encourage them to purchase flood insurance rather than relying on 100%-taxpayer-financed disaster relief after it's too late:

- 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 flood zone before it changed to a "V" or if they voluntarily bought flood insurance before the property was mapped into a flood zone (A or V) and became subject to the mandatory purchase requirement.

Biggert-Waters Law (July 2012)

For properties built generally AFTER 1975 (and therefore already paying a full-cost rate prior to Biggert-Waters, aka "Post-FIRM" properties) – Allowed up to a 20% annual increase, instead of 10%, depending on FEMA's actuarial cost analysis which is updated annually.

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 existing owners are 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):
  - Buys a property (began 10/2013) – buyers immediately pay the full cost; this is the only category of property whose annual increase was not capped under the Biggert-Waters law. Note: This applies to all purchases including purchases of a second home or business, not just the primary homes that are sold and bought.
  - Remapped property (won't begin until 10/2015) – grandfathered rate increases to full cost over 5 years (20% each year). FEMA has not figured out how to apply this because they only recently began tracking data on grandfathered properties. (Note: The 2014 Consolidated Appropriation Bill (the Omnibus) prohibited FEMA from using the funds to continue working on the when, how, and what through the end of the fiscal year (Sept. 30, 2014).

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Homeowner Flood Insurance Affordability Act

- **Senate Bill (S. 1926)** -- 4-year "Timeout" until FEMA submits cost study
- Delays the buyer and remapping triggers until FEMA submits affordability study.
- All existing owners (who don't sell/grandfather) keep increasing 20-25% a year.
- **Substitute House Bill (H.R. 3370 with an amendment)** – Repeals/Reforms today; does not wait on FEMA's affordability study): Repeals/refunds both the buyer and remapping triggers.
- For most existing owners of property, would reduce the automatic increases:
    - Post-FIRM (built AFTER 1975 and already paying the full-cost premium): Allows up to a 15% increase depending on FEMA's annual cost analysis.
    - Primary Homes Built Before 1975 (Pre-FIRM): The bill also reduces the annual cap on this category from 20% down to 18%. In addition, the bill sets a 5% floor for these properties, requiring that their rates increase no less than 5% a year (historically, this category has seen more than that).
    - The rest of the existing owners (who don't sell or grandfather) will continue seeing automatic increases of 25% a year until they reach the full-cost rate.

Examples by Property Type

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

   If I buy the property:
    - Current Law: Immediately pay the full cost premium
    - Senate Bill: Delayed 4 years
    - House Bill (as amended): Repealed/refunded

   If I own and do not sell:
    - Current law: Up to 20% annual increase
    - Senate Bill: No change
    - House Bill: Between 5-18% annual increase

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

   If I buy the property:
    - Current Law: Immediately pay the full cost
    - Senate Bill: Delayed 4 years
    - House Bill: Repealed/refunded

   If I own and do not sell:
    - Current Law: 25% increases
    - Senate Bill: No change
    - House Bill: No change

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

   If I buy the property:
    - Current Law: Up to a 20% annual increase
    - Senate Bill: No change
    - House Bill: Up to a 18% increase

   If I own and do not sell:
    - Current Law: Up to a 20% annual increase
    - Senate Bill: No change
    - House Bill: Up to 18% increase

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