NAR Issue Brief
Flood Insurance Premium Rates

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, the premium for the property is simply $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 the subset of areas nearest the coast (where there is a risk of tsunami damage) are the so-called "V" (for Velocity) zones.
- Low-Cost Areas. Everywhere else in the map is an "X zone" and flood insurance is not required even if the property is financed with 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 the fact (more expensive):

- Built before 1975 – Were instead allowed to pay the 40-year average cost premium that excluded data from 2005 (Katrina) or other wet years. Congress allowed this because at the time, it was felt punitive to charge the full cost of owners who had built before there was a flood map so they could not have known the flood risk when they built. 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 AFTER 1975 (and therefore already paying the full cost 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 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).

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 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. (Note: current law allows up to a 20% increase, so this is a 5% decrease from 20% cap down to 15%)
    - Primary Homes Built Before 1975 (Pre-FIRM): The bill also reduces the annual cap on this category from 20% down to 15%. 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 so this is more of an optics/not substantive change, though it's theoretically possible that the category might see less than 5% in some freak dry year sometime in the distant future).
    - 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
- 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 5-15% 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 20% annual increase depending on FEMA cost analysis
- Senate Bill: No change
- House Bill: Up to a 15% increase, down from 20%

If I own and do not sell:

- Current Law: Up to 20% annual increase
- Senate Bill: No change
- House Bill: Up to 15% increase, down from 20%