

Homownership Flood Insurance Affordability Act

FAQs

(January 6, 2015)

Why was it critical for Congress to pass the 2012 Biggert-Waters National Flood Insurance Reforms?

- Provided 5 years of certainty from NFIP shutdowns and extensions that had cost 40,000 home sales a month. Home owners can rest assured that flood insurance will be available at the closing table.
- Maintained NFIP coverage so no one must take their chances in a private market that cherry picks million-dollar properties. Flood insurance is accessible to all homeowners and businesses.
- Gradually phased-out subsidized flood insurance that had painted a giant budget “bull’s eye” on the NFIP. As a result, the program will borrow less from taxpayers to make up for undercharging older properties.
- \$24 billion - The amount NFIP had to borrow to cover flood damage claims after Hurricane Katrina. Biggert-Waters pays back \$5 billion and keeps the program from going broke in the long run.

Then why did NAR support amendments made by the Flood Insurance Affordability Act?

- NAR continues to support a gradual phase-out of taxpayer subsidies for flood insurance.
- But FEMA botched the implementation of Biggert-Waters.
 - Did not gradually phase-out subsidies for property buyers.
 - Did not tell Congress about \$30,000 flood insurance before Biggert-Waters passed.
 - Did not disclose rates of this magnitude until a year after many bought their home.
 - Did not train insurance companies to set one rate per property; wide ranges were common.
 - Did not check the accuracy of quotes that overestimated rates by tens of thousands of dollars.
 - Did not provide a FEMA ombudsman to answer questions or advocate for homeowners.
- Instead, FEMA left it to REALTORS® to explain the implementation mess created by the agency.
- Many buyers refused to come to the closing table or negotiated down the property’s price due to inaccurate rates; according to the RAND Institute, every \$500 premium increase translates to a \$10,000 decrease in property value.
- Home buying is complicated enough without introducing new variables like inaccurate flood insurance rates into the process.

How do the recent flood insurance amendments change the Biggert-Waters law?

- Restores the original intent of Biggert-Waters, which is to gradually phase-out subsidies.
 - No more time-of-sale increases; increases will occur when flood insurance is annually renewed.
 - Buyers will no longer see 100% of the increase upfront at closing; now it’s spread out over many years.
- Repeals FEMA’s authority to raise premium rates at the time of property sale.
- Returns to allowing buyers to assume the seller’s current rate so the rate transfers with the property, not the owner.
- Restores grandfathering so property owners who build and maintain to NFIP standards in one flood zone aren’t rated in higher cost zones, simply because FEMA maps change.
- Limits premium increases to 18% annually for newer properties and 25% for the older ones.
- Refunds premiums paid by property owners in excess of 18-25% increases.
- Provides for the accuracy of future flood insurance rates.

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- Requires technical review and certification of the flood insurance rate maps.
- Creates a flood insurance advocate for homeowners to challenge faulty flood maps and rates.
- Increases funding to reimburse property owners for successful flood map appeals.
- Accounts for flood-proofing or other alternative methods to elevating property.
- Provides for higher deductibles up to \$10,000 before flood losses are covered.
- Reduces NFIP borrowing by placing a small assessment on all NFIP policies until property owners are paying the full cost for flood insurance.

What if there's currently no flood insurance on the property?

- Read [NAR's updated legal guidance](#) on what to say about flood insurance.
- Refer clients to a qualified insurance agent or legal counsel to see if one these provisions can help.
- **Sec. 3** allows less-than-full-cost flood insurance for property owners who:
 - Purchased a property after July 7, 2012.
 - Purchased new flood insurance after July 7, 2012.But not for property owners who:
 - Let the prior flood insurance policy lapse, but not if coverage was no longer required.
 - Refuse to accept an offer for mitigation assistance from FEMA.
- **Sec. 4** restores grandfathering. If built and maintained to NFIP standards in one flood zone, the property retains the flood zone's rates if remapped into a higher cost zone. No one can tell you to build X-feet high, and then in 5 years tell you to rebuild higher or pay more for flood insurance. Read [FEMA Grandfathering Rules](#).
- **Sec. 6** clarifies that the full cost for flood insurance will phase-in for properties that are newly mapped into a flood zone for the first time after March 21, 2014. In year one, the owner will pay the preferred risk rate and then no more than 18-25% more each year after that, until the rate reaches full cost.

Do the flood insurance amendments repeal or temporarily delay rate increases?

- While originally delaying increases pending an affordability study, the bill was dramatically amended before being signed into law.
- The signed bill actually goes further by repealing and restricting FEMA's authority to raise premium rates at certain times or above specified limits (for more on what the bill does, see [above](#)).
- Makes these changes into permanent law regardless of affordability study results, though the study is retained in the final bill to monitor implementation.

Do the flood insurance amendments apply to second homes and commercial properties?

- Yes. The amendments will slow the largest rate increases under Biggert-Waters for the vast majority of second homes and commercial properties.
- While not everyone will see a "rate reduction" under these amendments, there are other provisions which enable property owners to sell, assume, grandfather, appeal or mitigate, and moderate the impact.
- Before, second home and commercial property owners were stuck:
 - Buyers were either balking at annual rate increases above 25% or worried that the property might one day lose its "grandfathered" status.
 - Owners could not afford to elevate the property (if it were physically possible), appeal the

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- flood insurance rate map, raise deductibles further, or find anyone at FEMA to advocate on their behalf with insurance companies that were providing wildly inaccurate rates and quotes.
- Recent amendments cleared the way and corrected a disparity between owners and sellers/buyers of all property types.
 - Deletes provisions triggering increases into the tens of thousands of dollars; it was not congressional intent for any second home or commercial owner to see more than a 25% annual increase – even at purchase, according to FEMA.
 - Allows buyers to assume the seller's current rate and limits future increases to 25% a year.
 - Refunds any rate increase above 25%.
 - Restores grandfathering under lower cost flood zones if/when FEMA's maps change; second homes/commercial properties are not singled out or excluded just because theirs is not a first home.
 - Reduces the maximum rate increase on newer second homes and commercial properties from 40% to 18%. 18% is a hard cap per-property -- not an average across a flood zone where otherwise, individuals could have seen much higher.
 - Adds more options, like mitigation alternatives to elevation, to address a wider range of circumstances and properties (e.g., it's constructed of concrete block).
 - Technically reviews the accuracy of flood insurance rate maps and requires certification.
 - Creates a flood insurance advocate for property owners to challenge faulty flood maps or rates.
 - Increases funding to reimburse property owners for successful flood map appeals.
 - Reduces rates based on flood-proofing or other alternative methods to elevating property.
 - Provides for a higher deductible up to \$10,000 for a second home before flood losses are covered by insurance.
 - Finally, if all of these amendments fail to resolve the affordability issues, requires FEMA to report to Congress, particularly on the small businesses and low value properties, and propose additional solutions, like means-tested vouchers.

Will my flood insurance increase 18% every year into perpetuity until it skyrockets?

- No, FEMA will set rates each year according to a cost analysis – same as before Biggert-Waters.
- 18% is the absolute upper-bound limit on how high FEMA can raise rates in any given year.
- Historically under this cost approach, increases have been closer to 5% so any idle speculation about perpetual 18% annual increases is just that: speculation.
- Before, FEMA could have raise rates by as much as 40% on individual properties so long as the average increase did not exceed 20%; 18% could be a significant reduction from previous rates.
- Also, FEMA is required to review the accuracy of flood insurance rates so while the future is uncertain, the rate after 10 years could be significantly lower than the inaccurate rate you're quoted today.
- Nevertheless if it turns out that some future increases are closer to 18%, FEMA is to report to Congress on any affordability issues and propose additional solutions, like means-tested vouchers.