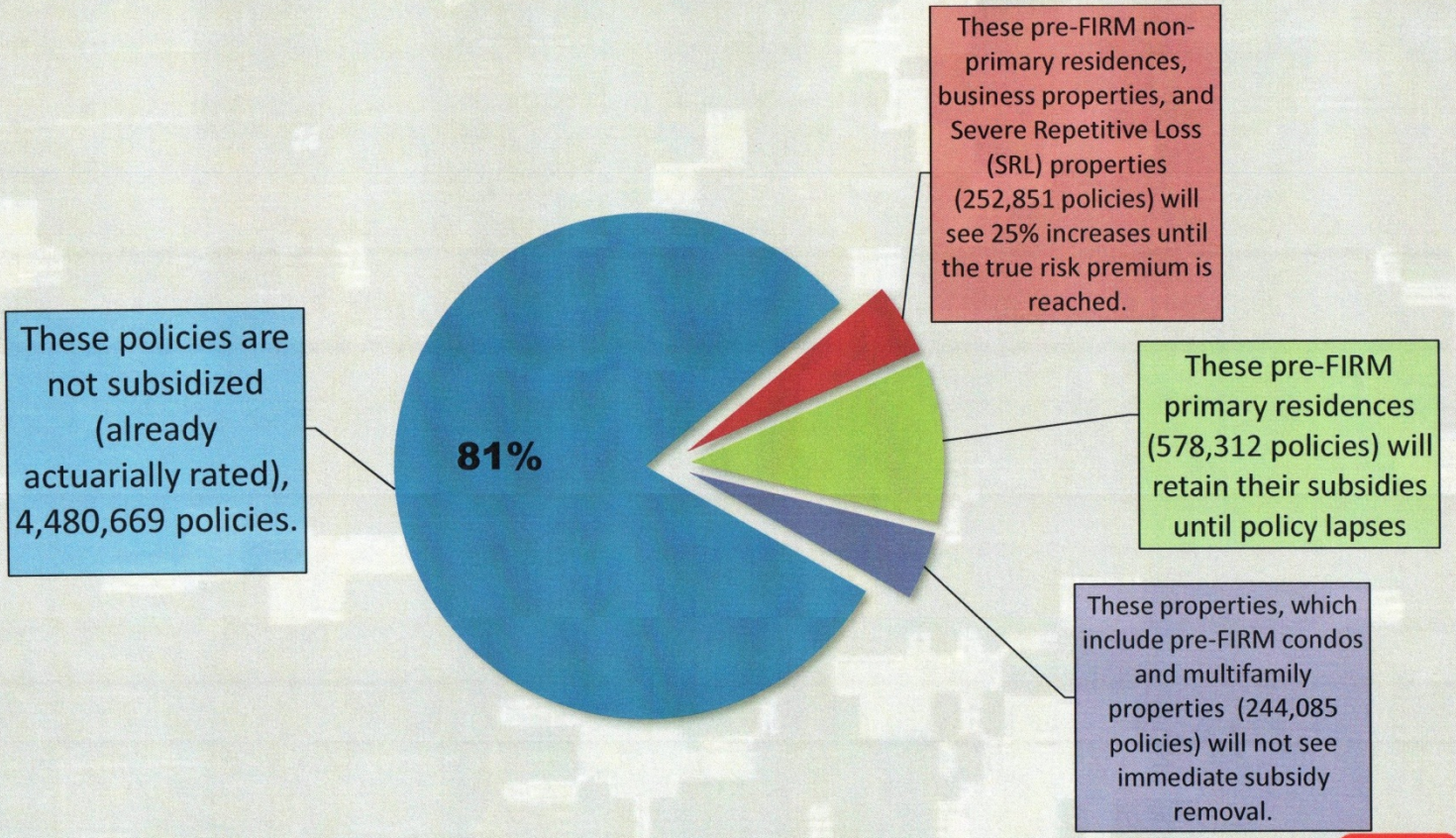
Flood Insurance Update

National Flood Insurance Program

- **Problem**
  - 5.6 Million Policies Worth $1.3 Trillion(2012)
  - 1.1 Million Policies are Subsidized
  - Premiums Collected = $3.35 Billion (2012)
  - $25 Billion Debt (2012)
  - $110 Million Annual Interest (0.5%)
  - Financially Unstable, Insolvent, Inefficient
  - Servicing Debt and Future Catastrophic Losses

NFIP Policyholders
(12/31/2012)



Congressionally Mandated Reforms

- **Objectives**
  - Help Families Maintain Affordable Flood Insurance
  - Ensure Financial Stability of the NFIP
  - Reduce the Risk and Consequences of Flooding Nationwide

Biggert Waters Flood Insurance Reform Act of 2012 (BW-12)

- Enacted July 6, 2012
- Reauthorized the National Flood Insurance Program
- Changed all major components to provide financial security to the program
- Changed subsidized insurance rates to reflect the full-risk of flooding
- Estimated to save $25 Billion

Homeowner Flood Insurance Affordability Act 2014

- Enacted March 21, 2014
- Repeals and Modifies Certain BW-12 Provisions
- Increases subsidized insurance rates to reflect the full-risk, but at a slower rate than BW-12
- Focuses on Affordability
- All Policyholders Pay More

BW-12 to Affordability Act 2014

- **Pre-FIRM Buildings**: Built before the communities first FIRM became effective and not been substantially damaged or improved
  - **Non-primary residential; all non-residential; and severe repetitive loss properties** (5% of all NFIP policy holder)
  - Rates increase 25% per year until reach full-risk rate for Zones A and V (high risk areas) or D (possible but undetermined areas)
  - (No Changes) (Started October 1, 2013)

BW-12 to Affordability Act 2014

- For pre-FIRM **Primary Residences** (PR) (living in homes more than (changed 80 to 50%) of the year), which consists of 10 percent of all NFIP policy holders, residences retain subsidies until the policy lapses or they refuse mitigation offer. Max rate increase changed 20 to 18% per year.
- Changed: Subsidized rate can be transferred to new owner. Full-risk rate does not apply to a new policy. FEMA will restore pre-FIRM rates and refund excess premiums. All policy holders pay new surcharge ($25/yr PR/$250 Others).

What Is FEMA Doing?

- FEMA has actively begun analyzing and prioritizing implementation of the new laws
- Changes will not happen immediately
- Some changes in 2014 are retroactive back to BW-12 & refund certain policy holders
- Some changes require new programs, processes, and procedures
- FEMA's priority is to assess NFIP's business processes to stop policy increases for certain subsidized holders

What Can You Do?

- Encourage those who do not have flood insurance to get it.
- Encourage those that have it to keep it and not to let it lapse.
- Reduce the risks and consequences of flooding in your city and county
- Communicate the risks of flooding
- Reduce flood insurance premiums

Ways to Reduce Flood Insurance Premiums

Community Rating System (CRS)

- Voluntary program for participating communities that have adopted and are enforcing higher standards than the minimum NFIP standards
- CRS encourages a comprehensive approach to floodplain management
- CRS program provides incentives through premium discounts
- 18 classes of activities that receive credits under CRS

CRS

- All communities start at a CRS Class 10
- Communities that join CRS may earn points for certain activities identified in the program
- For each 500 points earned, the community drops a CRS class which earns a 5% discount on every flood policy in the SFHA
- A CRS Class 1 receives a 45% premium discount

Ways to Reduce Flood Insurance Premiums

Select High Deductibles

- Select a higher deductible on the flood insurance policy
  - **Reduces the premium**
  - **Requires approval of mortgage lender**
  - **Requires more out-of-pocket expense when a flood loss occurs**

Ways to Reduce Premiums Mitigation Actions

- Existing Post-FIRM structures (built after 12-31-1974 or the date of the communities first FIRM)
  - **Verify if structure has adequate flood openings in any Zone A for areas below the base flood elevation (including enclosures or garage areas)**
  - **Elevate machinery and equipment servicing the structure –water heater, HVAC, furnace, etc.**
  - **Areas below lowest floor are unfinished and flood resistant and used *only* for storage, parking of vehicles, and building access**

Ways to Reduce Premiums New & Improved Buildings

- Consider adding freeboard (additional height above the BFE) -- every foot above the BFE lowers the insurance premium
- Consider limiting the size of enclosures below the BFE by updating the ordinance
- Consider lowering the substantial improvement or substantial damage threshold from 50% to 30% in the ordinance; or adopt a cumulative substantial improvement provision

Impact of Elevating Structures

Under the Flood Insurance Reform Act of 2012, You Could Save More than $90,000 over 10 Years if You Build 3 Feet above Base Flood Elevation*

PREMIUM AT 4 FEET BELOW BASE FLOOD ELEVATION	PREMIUM AT BASE FLOOD ELEVATION	PREMIUM AT 3 FEET ABOVE BASE FLOOD ELEVATION
$9,500/year	$1,410/year	$427/year
$95,000/10 years	$14,100/10 years	$4,270/10 years

*$250,000 building coverage only (does not include contents), AE (high to moderate risk) zone, single-family, one-story structure without a basement at: 4 feet below Base Flood Elevation (BFE); at BFE; and at 3 feet above BFE. (Rating per FEMA flood insurance manual, October 1, 2012). The illustration above is based on a standard National Flood Insurance Program (NFIP) deductible.

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