



Impact of National Flood Insurance Program (NFIP) Changes

Note: This Fact Sheet deals specifically with Sections 205 and 207 of the Act.

In 2012, the U.S. Congress passed the Biggert Waters Flood Insurance Reform Act of 2012 which calls on the Federal Emergency Management Agency (FEMA) and other agencies to make a number of changes to the way the NFIP is run. Some of these changes have already been put in place, and others will be implemented in the coming months. Key provisions of the legislation will require the NFIP to raise rates to reflect true flood risk, make the program more financially stable, and change how Flood Insurance Rate Map (FIRM) updates impact policyholders. The changes will mean premium rate increases for some – but not all – policyholders over time.

Background:

In 1968, Congress created the National Flood Insurance Program (NFIP). Since most homeowners' insurance policies did not cover flood, property owners who experienced a flood often found themselves financially devastated and unable to rebuild. The NFIP was formed to fill that gap and was designed to incorporate community adoption of minimum standards for new construction and development to minimize future risk of flood damage. Pre-existing homes and businesses, however, could remain as they were. Owners of many of these older properties were eligible to obtain insurance at lower, subsidized rates that did not reflect the property's true flood risk.

In addition, as the initial flood risk identified by the NFIP has been updated, many homes and businesses that had been built in compliance with existing standards have received discounted rates in areas where the risk of flood was revised. This "Grandfathering" approach prevented rate increases for existing properties when the flood risk in their area increased.

After 45 years, flood risks continue and the costs and consequences of flooding are increasing dramatically. In 2012, Congress passed legislation to make the NFIP more sustainable and financially sound over the long term.

What this means:

The new law eliminates some artificially low rates and discounts which are no longer sustainable. Most flood insurance rates will now move to reflect full risk, and flood insurance rates will rise on some policies.

Actions such as buying a property, allowing a policy to lapse, or purchasing a new policy can trigger rate changes. You should talk to your insurance agent about how changes may affect your property and flood insurance policy. There are investments you and your community can make to reduce the impact of rate changes. And FEMA can help communities lower flood risk and flood insurance premiums.

What is Changing Now?

Most rates for most properties will more accurately reflect risk. Subsidized rates for non-primary/secondary residences are being phased out now. Subsidized rates for certain other classes of properties will be eliminated over time, beginning in late 2013. There are several actions which can trigger a rate change, and not everyone will be affected. It's important to know the distinctions and actions to avoid, or to *take, to lessen* the impacts.

Not everyone will be affected immediately by the new law – **only 20 percent of NFIP policies receive subsidies**. Talk to your agent about how rate changes could affect your policy. Your agent can help you understand if your policy is impacted by the changes.

- Owners of **non-primary/secondary** residences in a Special Flood Hazard Area (SFHA) will see 25 percent increase annually until rates reflect true risk – began January 1, 2013.
- Owners of **property that has experienced severe or repeated flooding** will see 25 percent rate increase annually until rates reflect true risk – beginning October 1, 2013.
- Owners of **business properties in a Special Flood Hazard Area** will see 25 percent rate increase annually until rates reflect true flood risk -- beginning October 1, 2013.
(Each property's risk is different. Some policyholders may reach their true risk rate after a couple years of increases, while other policyholder increases may go beyond five years to get to the full risk rate required by the new law. Rate tables on true risk will not be available until June 2013.)

Primary residences in SFHAs will be able to keep their subsidized rates unless or until:

- The property is sold;
- The policy lapses;
- You suffer severe, repeated, flood losses; or
- A new policy is purchased.

Grandfathering Changes Expected in 2014

The Act calls for a phase-out grandfathered rates and a move to risk-based rates for most properties when the community adopts a new Flood Insurance Rate Map. If you live in a community that adopts a new, updated Flood Insurance Rate Map (FIRM), grandfathered rates will be phased out. This will happen gradually, with new rates increasing by 20% per year for five years. Implementation is anticipated in late 2014.

What Can Be Done to Lower Costs?

For home owners and business owners:

- Talk to your insurance agent about your insurance options.
- You will probably need an Elevation Certificate to determine your correct rate.
- Higher deductibles might lower your premium.
- Consider incorporating flood mitigation into your remodeling or rebuilding.
 - Building or rebuilding higher will lower your risk and could reduce your premium.
 - Consider adding vents to your foundation or using breakaway walls.
- Talk with local officials about community-wide mitigation steps.

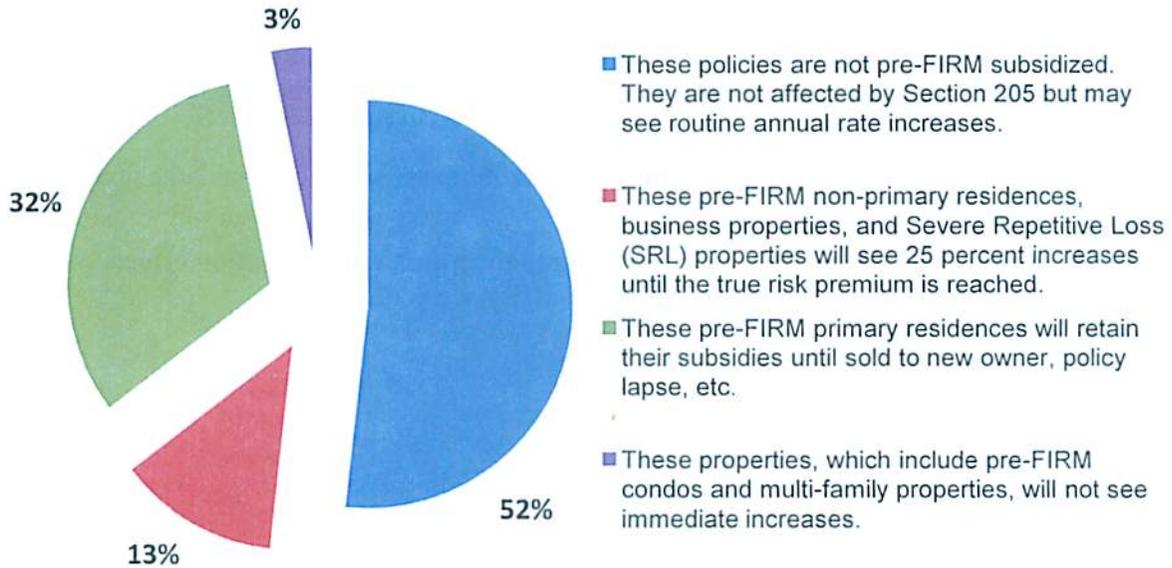
For community officials:

- Consider joining the Community Rating System (CRS) or increasing your CRS activities to lower premiums for residents.
- Talk to your state about grants. FEMA issues grants to states, which can then distribute the funds to communities to help with mitigation and rebuilding.



Who Will Be Impacted by Rate Increases in Kentucky under Section 205?

Kentucky NFIP Policyholders under Section 205 (data as of 12/31/2012)



Notes:

Pre-Flood Insurance Rate Map (pre-FIRM): Properties located within a Special Flood Hazard Area (SFHA) that were constructed before a community adopted its first Flood Insurance Rate Map (FIRM).

Some structures are captured under more than one category (example: multi-family severe repetitive loss properties.)

- 52 percent of NFIP policyholders (12,972 policies) in Kentucky are not subsidized. These policyholders will not be affected by Section 205, but may see routine annual rate increases.
- Only 13 percent of all Kentucky NFIP policies (3,212 policies) will see immediate 25 percent increases. This includes non-primary residences, businesses, and severe repetitive loss properties. These properties will see immediate changes to their premiums.
- 32 percent of all Kentucky policies (8,071 policies) cover subsidized primary residences, which will remain subsidized, unless or until:
 - The property is sold (new rates will be charged to the next owner);
 - The policy lapses;
 - The property suffers severe, repeated flood losses; or
 - A new policy is purchased.
- The remaining 3 percent of Kentucky policies (804 policies) includes subsidized condominiums and non-condo multi-family structures. These policyholders will keep their subsidies until FEMA develops guidance for their removal.

Important Items to Note:

- **Updated and revised maps could trigger increases under Section 207 as early as October 2014.** More information will be available in 2014 on how remapping changes will be implemented.
- **Not all subsidized policyholders will see large increases.** Obtaining an elevation certificate is the best way to know a structure's risk and true-risk premiums. Some will find their premiums will decrease; some will stay about the same; some will see minor to moderate premium increases; and some policyholders will see large increases. Without an elevation certificate, homeowners cannot evaluate actual risk.
- **Mitigation steps can drastically reduce the premium** for many with potential large premium increases.
- **States and communities should consider focusing their grants and mitigation efforts** where owner-initiated mitigation is not a reasonable solution and assistance is needed.