FEMA

Flood Insurance, Legislation and Implementations

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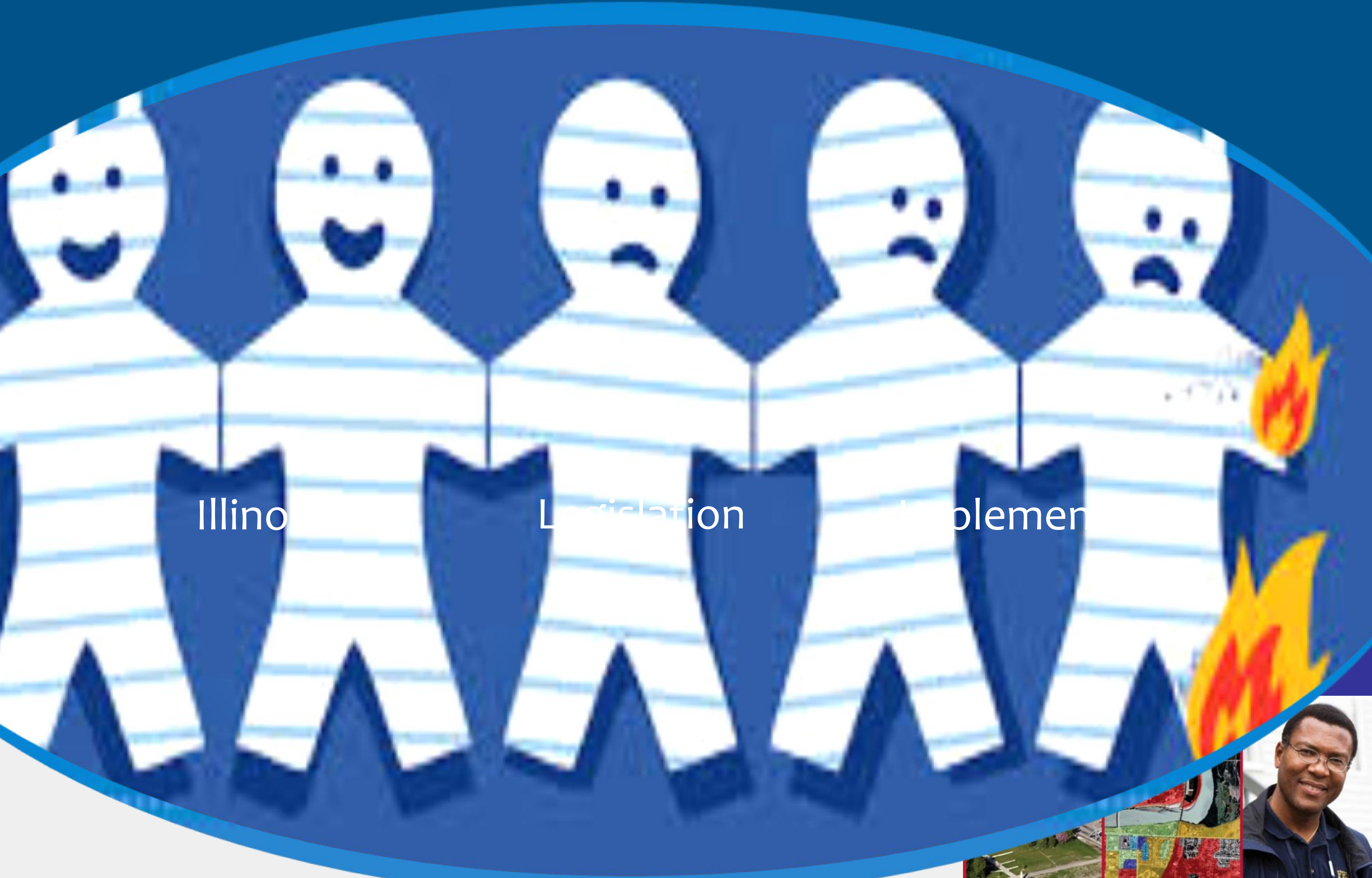
FEMA



Remember this?

Des Plaines, IL
June, 2008

Illinois Floods

Quick Facts on Flooding

- 80% of Declared Disasters are flood related
- Illinois had had 9 flood related declarations in the last 10 years.
- A home in the SFHA has a 25-30% chance of flood during a 30 Year Mortgage
- Most property owners buy flood insurance only when it is mandated by lender

Illinois Floods

Flood Insurance In Illinois

- 878 Participating Communities
- 60 in CRS
  - All Class 8 - Class 5
- 45,571 Policies in Force
- 1,831 properties insured
- $8,580,356,600 in Coverage
- $7,670,863 Losses 2015
- $504,367,979 loss since 1978

FEMA

RECENT LEGISLATION

Biggert-Waters Flood Insurance Reform Act of 2012
Homeowners Flood Insurance Affordability Act of 2014

Biggert-Waters Flood Insurance Reform Act of 2012

- **Passed on July 6, 2012.**
- **Extended the National Flood Insurance Program 5 years, until September 30, 2017.**
- **Its purpose:**
  - Make the NFIP more financially stable by raising rates on certain classes of property to **reflect true flood risk**
  - Create a funding pool for large disasters.
  - Trigger rate changes for certain properties, when certain events were met to accurately reflect the flood risk

Main Effect on Insurance

Move away from subsidy

- **Pre-FIRM structures wrote at full-risk rates**
  - Newly purchased policies required to go to full-risk rates
  - Elevation Certificates required for full-risk rating
- **Annual Percentage Increase Policies**
  - Cap rose on how high policies could go
  - Some had 25% and over rate increases
- **Grandfathered policies phase-out (not subsidized)**
  - Full-risk rate if mapped into SFHA

Impact of Biggert-Waters

- **Newly purchased policies Pre-FIRM policies were going straight to elevation based full-risk rates**
  - Many policyholders had to purchase an elevation certificate to obtain and/or keep flood insurance
    - This additional expense could be burdensome
    - Didn't have a positive elevation outcome
- **Policies jumped in some cases by $1,000s**
- **Most other policy rate classes had a jump in rates, around 20% annually.**
- **We all started feeling the effects……**

- **Congress then tried to rectify the affects of Biggert-Waters and the impacts on homeowners**

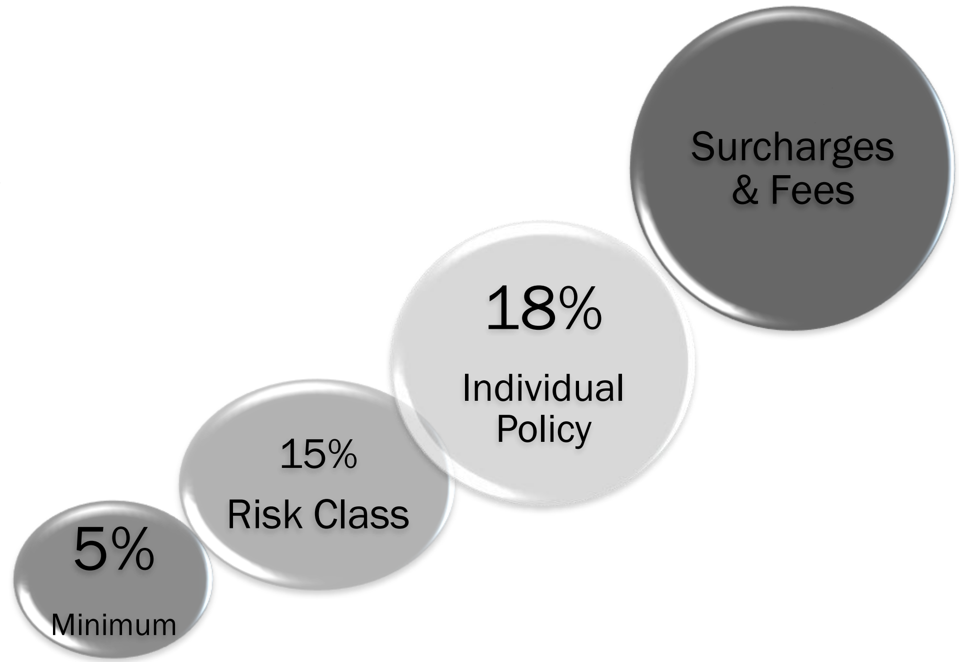
Homeowners Flood Insurance Affordability Act

- Passed March 21, 2014, President Obama signed into law
- Stop policy increases for certain subsidized policyholders
- Reverts full-risk rating for Pre-FIRM properties that hit full risk the triggers
- Set a Cap on how high policies can go in a given year
- Created refunds for policies that went over a cap
- Halts the elimination of Grandfathering (for now)
- Implements a surcharge on all policyholders
- Portions of HFIAA and B-W is being phased-in through time.

Rate Increases & Surcharges

Gradual Rate Increases

- Requires at least a 5% increase in subsidized rates a year
- Prohibits increasing rates by more than 15 percent for any risk class and 18 percent for an individual policy
- With some exceptions
  - Pre-FIRM non-primary Pre-FIRM
  - Severe Repetitive Loss
  - Pre-FIRM business properties
- Surcharges and Fees



Reserve Fund Assessment

- The Reserve Fund is aimed at assisting with the costs of NFIP claims that exceed the annual premiums collected and supporting the program's sustainability.

- As of April 1, 2016 :
  - <u>15</u> percent annual rate assessment calculated off of premium for all policies.

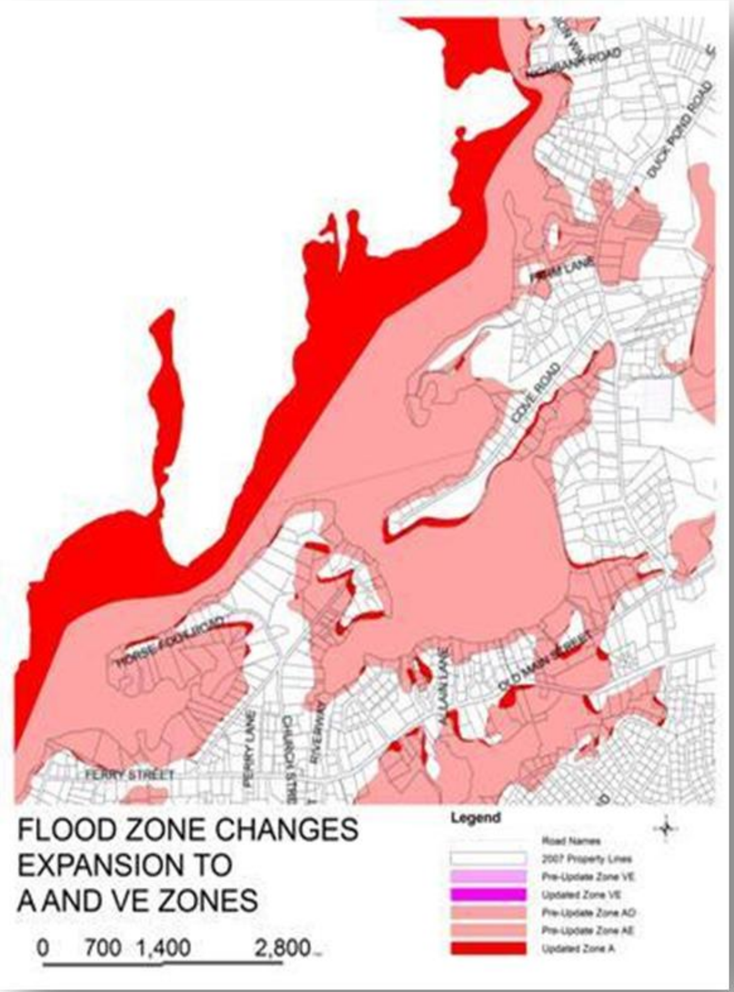
Mandatory Surcharges

- Applies to all policies
- Surcharges are not considered premium and are therefore not subject to premium increase caps required under Section 5 under the new Act
- Began April 1, 2015

Primary Residences/Condominium Dwelling Policy	$25
Non-Residential and Non-Primary Residence	$250
RCBAP and Other Residential	$250

Grandfathering

- **HFIAA restores ability to grandfather properties into lower risk classes**
  - For newly mapped properties, the law sets first year premiums at the same rate offered to properties located outside the SFHA (Preferred Risk Policy rates)



Properties Newly Mapped

- **Properties newly mapped into the SFHA (Started April 1, 2015)**
  - Between October 1, 2008, and March 31, 2015, are eligible for the Newly Mapped Procedure if they obtain coverage before **March 1, 2016.** (PRP Eligibility Extension)
  - New maps published after April 1, 2015 homeowner must obtain coverage within 12 months of the map revision date.
- **Eligible properties begin with a Preferred Risk Policy premium for a year (before fees and surcharges)**
  - Must meet loss history requirements of PRP
  - After initial policy year will get a multiplier added until it reaches full risk rates
  - May be able to have a standard X zone rated policy after (Grandfathering)

Residential Policy Deductible Option

- **$10,000 deductible option is available for residential properties**

- **A disclosure must be made at the time of application**
  - If selecting the $10,000 for a policy with both building and contents coverage, the deductible is $10,000 on each ($20,000 combined)

Flood Insurance Advocate

- Assists in understanding how to appeal preliminary rate maps and implementing measures to mitigate evolving flood risks;
- Coordinates outreach and education with local officials and community leaders in areas impacted by map amendments and revisions; and
- Aids potential policy holders in obtaining and verifying accurate rate information when purchasing or renewing a policy.

Effective December 22nd, 2014

Director of the Office of Flood Insurance Advocate

David Stearrett

It's Official!

This April

- **Policy Rates will continue to go up in all rate classes**
- **Subsidized (Pre-FIRM, no elevation)**
  - Non-Primary Residences Pre-FIRM A and V zones- **24%**
  - Primary Residence- **5%**
  - Business Class, SRL -**25%**
- **Elevation based rates**
  - Unnumbered A- **13%**
  - AE-**9%**
  - AO, AH, AR, A99 -**4%**
- **X zone, outside SFHA**
  - Standard-**3%**
  - PRP- **5%**
- **Federal Policy Fee**
  - **$25 PRP and $50 Standard Policy**

This April

- **Subsidy Elimination for Lapsed /Canceled Policies**
  - Previously covered by NFIP
  - Under same ownership
  - Lapsed more than 90 days then reinstated
  - Legally Required to carry a policy (Mandatory Purchase)

- **Clear Communications**
  - FEMA and WYO must clearly communicate to policyholders the risk of flood damage and how flood insurance premiums do or do not correlate with that risk
  - Insurance companies must keep current map information,
  - If available: EC, SFHD, LOMA/LOMR information
  - In October all companies must re-underwrite policies

Where Should It Stop?

Food For Thought

- **Major flood events continue to happen**
- **HFIAA only slowed B-W changes, subsidy is phasing out**
- **Riding the subsidized rate increases up may surpass the true-risk rate**
- **Some private companies are insuring flood now**
  - They can drop a policyholder if there are repetitive losses
  - If a lender is involved they have to approve the private policy
  - Some GSEs won't accept a private policy
- **Floodplain management and mitigation is still the best tool for risk reduction and insurance costs**
  - Enforce Floodplain Management Rules
  - Set higher standards

Resources

- **Flood Insurance reform page-**
  - http://www.fema.gov/national-flood-insurance-program/flood-insurance-reform
- **NFIP I-Services**
  - www.NFIPiservice.com (FEMA Bulletins, Reports, Training, Mailing Lists for flood insurance)
- **Floodsmart –**
  - www.FloodSmart.gov
- **Map Service Center (including historic maps)**
  - www.msc.fema.gov
- **FEMA NFIP Homepage**
  - https://www.fema.gov/national-flood-insurance-program
- **New Elevation Certificate**
  - http://nfipiservice.com/Stakeholder/W_16002/W-16002.html