



Calumet City

Flood Awareness Week

Aprile 12 – April 18 2018

Understanding the Biggert-Waters
Flood Insurance Reform Act of
2012 (BW12)

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Merrillville, Indiana, Chicago, Cleveland

Welcome, thank you all for coming.

It's finally spring! And while we look forward to the warm weather spring also brings increased rainfall. Thus it's important to recognize risks throughout the area associated with flooding. In order to reduce Flood Insurance Policy Rates the City is part of the FEMA Community Rating System or CRS.

One of the requirements is that the City host a Flood Awareness week and provided education to the public for flood related topics. Today we will talk about the Biggert Waters Act that was passed by Congress in 2012 and subsequent Acts and how they are making significant reforms to the National Flood Insurance Program.

Introduction

FEMA overview of Biggert Waters Act Changes

Changes to the Biggert Waters Act by the Homeowner Flood Insurance Affordability Act of 2014

How your community's participation in the Community Rating System helps

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Below is a summary of the topics we will discuss today.

On July 6, 2012, the Biggert-Waters Flood Insurance Reform Act of 2012 was passed by Congress making significant reforms to the National Flood Insurance Program, or NFIP. Many of the reforms would have resulted in significant increases to flood insurance policy premiums.

Many of the changes to the NFIP were recently revised on March 21, 2014 by the Homeowner Flood Insurance Affordability Act of 2014.

No changes have occurred to the Community Rating System as a result of Biggert Waters or the Homeowner Flood Insurance Affordability Act

BW-12: What's Changing

Subsidies to be phased out


- Non-primary residences
- Business properties
- Severe repetitive loss properties (1-4 residences); and properties where claims payments exceed fair market value

New policies to be issued at full-risk rates

- After the sale/purchase of a property
- After a lapse in insurance coverage
- After substantial damage/improvement
- For properties uninsured as of BW-12 enactment
- As new or revised Flood Insurance Rate Maps are issued (grandfathered rates planned to be phased out over 5 years)


Pre-FIRM:
Built before the community's first Flood Insurance Rate Map became effective and not been substantially damaged or improved

Subsidized Rates:
Pre-FIRM properties that are in Zone D or in Zones A and V that are not rated with an elevation certificate.



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On July 6, 2012, the Biggert-Waters Flood Insurance Reform Act of 2012 was passed by Congress making significant reforms to the National Flood Insurance Program, or NFIP.

Among other things, this law required FEMA to take immediate steps to eliminate a variety of flood insurance subsidies.

Here is a quick summary of the changes in flood insurance rates that began in 2013. First, subsidized rates are being phased out.

What is a subsidized rate?

A subsidized premium rate is one that does not reflect the true risk of flood to that property. Homes located in a high-risk flood zone, for example, zones beginning with an “A” that were built before the first flood insurance rate map became effective for a community, and that have not been substantially damaged or improved, may currently be receiving subsidized rates. The Biggert Waters Act required subsidized rates for “pre-FIRM” properties to be phased out.

Second, some policies that previously could be issued at lower rates were to be moved to full-risk rates under the Biggert Waters Act.


FEMA notes that not everyone will be affected immediately by the new law – about 20

percent of all NFIP policies nationwide were paying subsidized rates.


Changes for Non-Primary Residences

Changes became effective January 1, 2013, at policy renewal


- Subsidized premium rates for “pre-FIRM” properties in high-risk (A) zones will be phased out
- Rates will increase 25 percent per year until they reflect the full-risk rate.




Pre-FIRM:
Built before the community's first Flood Insurance Rate Map became effective and not been substantially damaged or improved



Non-primary residence:
A building that will be lived in for less than 80 percent of the year



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This image shows various communities and their associated percentage of subsidized rates. Currently 51-75% of the insurance policies in your community are subsidized.

This is because most structures in the floodplain were built before the communities first Flood Insurance Rate Map. The first FIRM for Calumet City is dated 1978. This is a segment of that map, any structure in the gray area built before 1978 would be considered pre-firm and receive a subsidized rate.

Now, let's look at these changes in more detail.

Currently, those Non-Primary, “Pre-FIRM” properties in high risk zones, like A, are seeing a phased out removal of the subsidized rates beginning at renewal.

A “pre-FIRM” property, again, is one that was built before the community’s first Flood Insurance Rate Map, or FIRM, became effective and has not been substantially damaged or improved. The NFIP defines a “non-primary residence” as a building that will be lived in for less than 80% of the year. It would be possible for a homeowner to have two non-primary residences by this definition if they spend less than 80% of the year in each. Rates for these properties will increase 25 percent each year until they reflect the full-risk rates, or the property owner provides an elevation certificate that shows their actual risk.


Direct Move to Full-Risk Rates

After the sale/purchase of a property - Subsidized rates can no longer be assigned to the new owner.


After a policy lapse - Policyholders should know that allowing a policy to lapse could be costly.

When a new policy is issued - Policies for buildings uninsured as of the date BW-12 was enacted

*Changes began October, 2013 for pre-FIRM properties in Zones A, D or V

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Beginning in October, 2013, subsidized rates on pre-FIRM business properties and severe repetitive loss properties began to increase at 25% per year until they reach full-risk rates. Each property's risk is different. This includes any property that has incurred flood-related damages where claim payments exceed the fair market value of the property. For application purposes, a business property is any non-residential building that produces income, or a building designed for use as office or retail space, or for wholesale, hospitality or similar uses.

Starting in October, 2013, FEMA began to apply full-risk rates after a property was sold, after the owner had allowed a policy to lapse, and when a new policy was issued for a building not covered as of July 6, 2012, the date the BW-12 legislation was enacted.

- It's important to note that after October 2013, subsidized rates could no longer be assigned to the new owner at the act of sale. The new owner began to immediately pay full risk rates for insurance.
- Letting a flood policy lapse could prove costly.
- Also, new policies for buildings uninsured as July 6, 2012, reflected the full-risk rate.

What about Grandfathering?



The charging of insurance premiums based on a prior FIRM – known as “grandfathering” - will be phased out with Section 100207



When a community receives new, effective Flood Insurance Rate Maps (FIRMs):

- The Biggert-Waters Act Section 100207 calls for phase-out of grandfathering discounts for properties shown on Flood Insurance Rate Maps that are updated
- New rates will be gradually phased in at 20% per year for five years
- Section 100207 Implementation anticipated in late 2014



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Please note the Homeowner Flood Insurance Affordability Act of 2014 has made some changes to this which we will discuss shortly.

Currently, the NFIP Grandfathering procedure provides eligible property owners to pay insurance premiums based on the previous effective Flood Insurance Rate Map, or FIRM.


As planned in 2014, the NFIP Reform will phase out grandfathered rates. Once a community receives new effective maps, full risk rates will be phased in over five years, at a rate of 20 percent per year until they reach full risk rates.


In this case, property owners may want to get an elevation certificate to establish actuarial rates for the structure

The Preferred Risk Policy, or PRP, will continue to be available. At this time the future status of the PRP Eligibility Extension has not been determined. This PRP Eligibility Extension allow buildings newly mapped into a special Flood hazard Area to retain their PRP premiums for an additional period of time.

BW-12 Timeline

DATE	BW-12 IMPLEMENTATION STEP
July 6, 2012	BW-12 becomes law; reauthorizes the NFIP for five years and requires FEMA to eliminate discounts and subsidies
January 2013	Subsidized rates phased out for non-primary residences
February 2013 and ongoing	FEMA anticipates issuing additional guidance and details on BW-12 implementation
October 2013	Subsidized rates anticipated to phase out for business properties, SRL properties, and others. Move to full-risk rates after sale/purchase of property, substantial damage/improvement or policy lapse.
Late 2014	FEMA anticipates implementing phase-in of full risk rates for properties affected by map changes


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Please note the Homeowner Flood Insurance Affordability Act of 2014 has made some changes to grandfathering which we will discuss shortly.


So to review, here is the Biggert Waters Act timeline for changes in the NFIP.

- The Flood Insurance Reform passed by Congress on July 6, 2012, reauthorized the NFIP and required FEMA to eliminate certain discounts and subsidies.
- January 2013 began the phasing out of subsidies for Pre-FIRM, non-primary residence with pre-FIRM policies went into effect.
- The last section, which is anticipated in late 2014, is when Grandfathering was to begin being phased out.


Please note, that much of this has changed since the Homeowners Affordability Act was signed last month.

On Friday, March 21st, 2014 President Obama signed into law “The Homeowner Flood Insurance Affordability Act.”

HFIAA - Pre-FIRM Changes:




Yearly premium increases will be limited to an average of 15 percent per year;



The following properties will continue to see up to a 25 percent annual increases as required by BW-12 until they reach their full-risk rate:

- Older business properties insured with subsidized rates;
- Older non-primary residences insured with subsidized rates;
- Severe Repetitive Loss Properties insured with subsidized rates; and
- Buildings that have been substantially damaged or improved built before the local adoption of a Flood Insurance Rate Map (known as Pre-FIRM properties)



The provision that required an immediate hike to actuarial levels when a home changes ownership was removed.

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The bill made major changes to Biggert Waters Flood Insurance Reform Act which was passed by Congress in July 2012. The new bill overturns many efforts made in Biggert Waters to eliminate artificially subsidized premiums and move the NFIP towards an actuarially-sound program. The bill calls on FEMA to "strive" to reach the goal that most policyholders have a premium of no more than 1 percent of the value of their coverage - in other words premiums of \$2,000 for \$200,000 worth of coverage. Among other things, the act:

Yearly premium increases will be limited to an average of 15 percent per year, and stipulates that no individual policyholder pay an increase of more than 18 percent per year;

Increases will remain for business properties, non-primary residences, severe repetitive loss properties and buildings that were substantially damaged or substantially improved.

The provision that required an immediate hike to actuarial levels when a home changes ownership was removed, as it was slowing home sales in many communities designated high risk by FEMA flood maps. In order to enable new purchasers of property to retain

HFIAA - Grandfathering Changes:

Reinstates the flood insurance program's grandfathering provision.

For newly mapped in properties, the new law sets first year premiums at the same rate offered to properties located outside the Special Flood Hazard Area (preferred risk policy rates).

Flood insurance premiums cannot increase more than 18 percent annually.

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PreFIRM rates while FEMA is developing its guidelines, a new purchaser will be allowed to assume the prior owner's flood insurance policy and retain the same rates until the guidance is finalized. Also, lapsed policies receiving Pre-FIRM subsidized rates may be reinstated with Pre-FIRM subsidized rates pending FEMA's implementation of the rate increases required by the Homeowner Flood Insurance Affordability Act.

Reinstates the flood insurance program's grandfathering provision, meaning homes that complied with previous flood maps would not see large premium increases when new maps show greater risk of flooding.


Repeals a provision of BW-12 that required FEMA, upon the effective date of a new or updated Flood Insurance Rate Map, to phase in premium increases over five years by 20 percent a year to reflect the current risk of flood to a property, effectively eliminating FEMA's ability to grandfather properties into lower risk classes.

A new surcharge will be added to all policies to offset the subsidized policies and achieve the financial sustainability goals of BW-12. A policy for a primary residence will include a

HFIAA - Other Changes:

- New surcharge on all policies
 - Primary residence = \$25 surcharge
 - All other policies = \$250 surcharge
- Flood Insurance Advocate- A Flood Insurance Advocate will be designated for the fair treatment of NFIP policy holders.
- Draft Affordability Framework
- Mapping

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\$25 surcharge. All other policies will include a \$250 surcharge. The fee will be included on all policies, including full-risk rated policies, until all Pre-FIRM subsidies are eliminated.

A Flood Insurance Advocate will be designated for the fair treatment of NFIP policy holders.

The Advocate will:

Educate property owners and policyholders on individual flood risks; flood mitigation; measures to reduce flood insurance rates through effective mitigation; the flood insurance rate map review and amendment process; and any changes in the flood insurance program as a result of any newly enacted laws. The advocate will also coordinate outreach and education with local officials and community leaders in areas impacted by proposed flood insurance rate map amendments and revisions.

The law requires FEMA to complete a study on how to keep the program affordable as it moves to make the program more solvent.

The law also requires FEMA to enhance coordination with communities before and during mapping activities.

Community Rating System

Participation in the Community Rating System (CRS) is voluntary.

- By participating, communities earn credit points that determine classifications.
- There are 10 CRS Classes: Class 1 requires the most credit points and provides the largest flood insurance premium reduction (45 percent)
- Class 10 means the community does not participate in the CRS or has not earned the minimum required credit points, and residents receive no premium reduction.

The CRS Classes are based on completion of 19 creditable activities organized into 4 categories:

- Public Information
- Mapping and Regulations
- Flood Damage Reduction
- Warning and Response

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The National Flood Insurance Program's (NFIP's) Community Rating System (CRS) is a voluntary incentive program that recognizes communities for implementing floodplain management practices that exceed the Federal minimum requirements of the NFIP to provide protection from flooding.

In exchange for a community's proactive efforts to reduce flood risk, policyholders can receive reduced flood insurance premiums for buildings in the community. These reduced premiums reflect the reduced flood risk resulting from community efforts toward achieving the three CRS goals:

- Reduce flood damage to insurable property
- Strengthen and support the insurance aspects of the NFIP
- Encourage a comprehensive approach to floodplain management
- The City is a Class 6 CRS community, which means a 20% discount on flood insurance premiums for residents in the 100-year floodplain.

Summary

Big changes are being made to the NFIP

If you have a flood insurance policy you should talk to your insurance agent to see how Biggert Waters and the Homeowner Flood insurance Affordability Act will affect you

Your community continues to participate in the Community Rating System which reduces insurance premiums for those within that community

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- Currently there are 619 policies receiving this discount with a savings of \$84,342 per year community-wide.
- For properties in the floodplain this amounts to a savings of \$267 per policy annually.

Resources

- Building Science - <http://www.fema.gov/building-science>
- FloodSmart for Consumers - www.FloodSmart.gov
- Flood Insurance Manual - <http://www.fema.gov/flood-insurance-manual>
- Flood Insurance Reform Act Webpage - <http://www.fema.gov/bw12>
- Hazard Mitigation - <http://www.fema.gov/hazard-mitigation-grant-program>



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