Backgrounder

National Flood Insurance Program: April 1, 2015, Program Changes
Continued Implementation of Biggert-Waters and HFIAA

FEMA continues to take important steps to implement changes to the National Flood Insurance Program as called upon by the Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters) and the Homeowner Flood Insurance Affordability Act of 2014 (HFIAA). These reforms slow some flood insurance rate increases and offers relief to some policyholders who experienced steep flood insurance premium increases in 2013 and early 2014.

Guidance on how to implement additional program changes is being provided to the NFIP's private sector, Write Your Own insurance company partners today, October 1, 2014. These changes will take effect April 1, 2015. The companies have six months to implement these changes as outlined in the reform legislation.

Below is a summary of the changes, guidance, and clarification to assist our Write Your Own partners in carrying out the program.

Summary of Premium Increases and Surcharges (Biggert-Waters Section 100205 and HFIAA Section 5)

Premium increases effective April 1, 2015 will comply with HFIAA, which limits average annual increases in flood insurance premiums to 15 percent for each rate class, while also requiring the average increase for all Pre-Flood Insurance Rate Map subsidized policies be at least 5 percent. In addition, 18 percent is the most any individual premium may increase with some limited exceptions that include but, are not limited to, misratings and increases in the amount of insurance coverage. When premium increases are evaluated for compliance with these caps, the Reserve Fund Assessment is included.

Another important exception to the 18 percent limitation on premium increases is those groups of subsidized policies for which Biggert-Waters mandates annual premium increases of 25 percent. Premiums on subsidized policies are being increased 25 percent for policies covering non-primary residences, Severe Repetitive Loss properties and substantially-damaged / substantially-improved properties. The 25 percent premium increase on business properties will be implemented in 2015 – 2016.

HFIAA also introduces a new mandatory surcharge on all new and renewed policies of either $25 for policies on primary residences or $250 for all other policies. The Congressionally-mandated surcharge, the probation surcharge and the Federal Policy Fee (FPF) are not considered premiums and, therefore, are not subject to rate increase limitations. As a result, the increase in the total amount charged a policyholder may exceed 18 percent in some cases.

- **Non-Primary and Severe Repetitive Loss Properties (Biggert-Waters Section 100205)**: These properties will continue to receive annual 25 percent premium increases on a rate class basis, not an individual basis, until full-risk rates are achieved.

- **Substantial Damage/Substantial Improvement (Biggert-Waters Section 100205)**: New rate tables are provided for Pre- Flood Insurance Rate Map (Pre-FIRM) structures that have been declared substantially damaged/substantially improved. Policies for these structures will receive a 25 percent annual premium rate increase until they reach full-risk rating.

- **Reserve Fund (Biggert-Waters Section 100212)**: The Reserve Fund Assessment is a requirement of Biggert-Waters to assist with the cost of NFIP claims that exceed the annual premiums collected to support programs sustainability. The Reserve Fund Assessment will increase to 15 percent in alignment with Biggert Waters, for all policies except Preferred Risk Policies. The Reserve Fund Assessment for Preferred Risk Policies will be 10 percent. In order to comply with the 15 percent limitation on average annual increases, increases to the Reserve Fund Assessment must be phased in over time.

- **HFIAA Surcharges (HFIAA Section 8)**: Beginning April 1, 2015, a new annual premium surcharge must be collected for each policy as shown below:
    - $25 for single-family primary residences or individual condominium units or apartments in non-condominium buildings used as a primary residence by the named insured;
    - $250 for non-residential properties or non-primary residences; and
    - $250 for condominium buildings or non-condominium multi-family building policies.

- **Properties Newly Mapped into the Special Flood Hazard Area (SFHA) (HFIAA Section 6)**: This category includes properties that were previously rated under the Preferred Risk Policy - Eligibility Extension. New premium tables for Properties Newly Mapped into Special Flood Hazard Area have been developed. These properties are also subject to a 15 percent Reserve Fund Assessment and a HFIAA Surcharge.

- **Increased Optional Deductible (HFIAA Section 12)**: A new $10,000 deductible is available for residential properties. When selecting this new option, the same deductible option must apply to both building and contents coverage.

- **Federal Policy Fee (FPF)**: The FPF will remain $22 for Preferred Risk Policies and will increase to $45 for all other policies except Residential Condominium Building Association Policies. This $45 FPF also applies to those policies rated under Properties Newly Mapped into the Special Flood Hazard Area that was previously rated under Preferred Risk Policies - Eligibility Extension.

Minimum Deductibles (Biggert-Waters Section 100210)

Effective April 1, 2015, as required by Biggert Waters, new minimum deductibles for Preferred Risk Polices and Mortgage Portfolio Protection Program (MPPP) policies will be $1,000 for both building and contents if the building coverage is less than or equal to $100,000 and $1,250 if building coverage is over $100,000.Preferred Risk Policies and MPPP contents-only policies will have a $1,000 minimum deductible.

Property Newly Mapped into the Special Flood Hazard Area (HFIAA Sections 4 and 6)

Section 4 of HFIAA allows grandfathering to continue for policyholders newly mapped into the floodplain. The grandfathering option provides an affordable option for these policyholders to maintain coverage as the risk of flooding increases. Section 6 of HFIAA mandates that following a map revision, a property newly mapped into the Special Flood Hazard Area will receive a "preferred risk premium" the year following the map revision, after which the policy will transition to a full-risk rate in accordance with annual premium caps discussed above (assuming no change in coverage or Community Rating System status).

The NFIP has accomplished this in the past by providing a Preferred Risk Policy - Eligibility Extension policy. Going forward this same type of rate will be provided through a renamed policy for administrative purposes. For new policies effective on or after April 1, 2015, properties newly mapped into a Special Flood Hazard Area by a revision to the Flood Insurance Rate Map that became effective on or after March 21, 2014, will be eligible for a preferred risk premium. This rate is available for the first year, after which they will transition to full-risk rates through average premium increases of 15% but not exceeding 18% per policy (excluding the HFIAA surcharge). The full-risk rates may be based on the grandfathered zone or the Base Flood Elevation. Beginning at the first renewal after remapping, the policies must be rated using the rate tables established for Property Newly Mapped into the Special Flood Hazard Area.

Increased Optional Deductibles (HFIAA Section 12)

In accordance with HFIAA, a Congressionally created $10,000 deductible option for all residential property owners is being implemented. If the property owner selects this option, the $10,000 deductible will apply to both building and contents coverage. Policyholders will receive information on this option that may be available to them with an explanation that in the event of an insured loss, the insured is responsible for out-of-pocket losses to the extent of the deductible selected.

Substantially Damaged/Substantially Improved Structures (HFIAA Section 15)

Beginning April 1, 2015, Pre-FIRM properties that have been identified as substantially damaged/substantially improved structures will be subject to annual 25 percent premium rate increases until they reach full-risk premiums. This represents a change from the previous policy that moved these properties directly to Post-FIRM and immediately required a full-risk rate. If the full-risk premium is lower than the subsidized premium, the full-risk rating will always be used.

Additional Rating Guidance for Pre-FIRM Buildings

Full-risk rates should always be used for Pre-FIRM buildings with elevation information when the full-risk rate is lower than the appropriate subsidized rates. Pre-FIRM subsidized rates should be utilized for Pre-FIRM buildings when more favorable than a full-risk rate or when insufficient information is submitted to determine a full-risk rate.

Expense Loading

The NFIP is reformulating expense loading on premiums to reduce the load on the highest risk policies as an interim step while investigating management expenses on policies as required by Biggert-Waters.

Clarifications Regarding Property Addresses

The NFIP is adding an additional input section when collecting information from policyholders to identify legal addresses for a property location (e.g., lot, block, plat), as mapping information is difficult to validate for legal addresses.