TALKING POINTS

HR 5740 and Section 100205 of BW-12

Removal of Flood Insurance Subsidies for Non-Primary Residences, Repetitively Flood Buildings, Commercial Buildings, and Other Properties

On July 6, 2012, a law took effect that made significant reforms to the National Flood Insurance Program (NFIP). Among other things, this law requires FEMA to take immediate steps to eliminate a variety of existing flood insurance premium subsidies.

- Subsidies will be phased out for non-primary residences, severe repetitive loss properties consisting of 1-4 residences, business properties, and properties that have incurred flood-related damages where claims payments exceed the fair market value of the property.

- Properties with subsidized rates will move directly to full-risk rates after a sale of the property or after the policy has lapsed.

- New policies will be issued at full-risk rates.

Changes to Rates for Non-Primary Residences

- Effective on January 1, 2013, previously subsidized premium rates for some older non-primary residences in high-risk zones will be subject to premium rate increases, as mandated by Federal law (HR 5740).

- Some older residences in high-risk zones have been receiving subsidized premium rates based on their “pre-Flood Insurance Rate Map” or “pre-FIRM” status. A pre-FIRM building is one that was built before the community’s first flood map became effective and has not been substantially damaged or improved.

- For these properties, rates will increase 25 percent per year until they reflect the full-risk rate.

- For flood insurance rating purposes, a primary residence is a building that will be lived in by the insured or the insured’s spouse for at least 80 percent of the 365 days following the policy effective date. If the building will be lived in for less than 80 percent of the policy year, it is considered to be a non-primary residence.

Changes to Rates for Businesses and Severe Repetitive Loss Properties

- Effective on August 1, 2013, the NFIP will also begin to eliminate subsidized premiums for other buildings as mandated by Section 100205 of BW-12.
- Subsidies for pre-FIRM business buildings will be phased out.
- Rates for these buildings will increase by 25 percent a year until they reach the full-risk rate.
- Rates for repetitively flooded buildings (known as severe repetitive loss properties) of one to four residences also will increase by 25 percent a year until they reach the full-risk rate, as will rates for buildings that have received cumulative flood insurance payments that meet or exceed the fair market value of the building.
- For all these properties, the full-risk rates will be calculated so that the average risk premium rate is equal to the average of the risk premium for actuarially rated policies.

Changes to Rates as New Policies Are Written

- In late 2013, FEMA will begin to apply full-risk rates to policies written for newly purchased properties.
- The sale of a pre-FIRM building will result in an immediate increase to full-risk rates for the owner of the newly purchased property. Policies no longer can be assigned to a new owner at subsidized rates.
- In most cases, if a property was not insured when the law was enacted, subsidized rates will not be available.
- Policyholders should be aware that deliberately allowing a policy to lapse could be costly. A new application will be required, and full-risk rates will take effect.