

Flood Insurance Reform: Premium Rates, Maps, Affordability and Risk Reduction

Outline of Remarks

Merrie Inderfurth

Association of State Floodplain Managers

Basics of National Flood Insurance Program

- original intent: make more whole, those at risk help to pay; reduction of future risk
- not just insurance program; risk reduction a major component
- risk identification key to both insurance rating and local planning, land use and permitting
- voluntary program for communities – quid pro quo to adopt land use and building ordinances for flood risk reduction
- pre-FIRM subsidies because risk not identified when structure built
- Treasury borrowing – to be repaid with interest – seen as the “reinsurance”
- Program almost entirely self-supporting until 2004, 2005

Biggert-Waters Flood Insurance Reform - Overview

- first reform since 2004; developed over several years; signed July 6, 2012
- response to large debt and several lapses of program authorization
- set up catastrophe reserve fund, authorized exploration of using private reinsurance; phased-in elimination of subsidies built into program and re-authorized program for 5 years
- Driving purposes: improve long-term sustainability and fiscal soundness, respond to rising cost and consequences of flooding, encourage expansion of private sector involvement

Biggert-Waters Flood Insurance Reform – Some Specifics

- Authorized on-going mapping program for first time; provided for new mapping tasks, established a Technical Mapping Advisory Council and a Scientific Review Panel for map appeals
- made programs to mitigate repetitive losses and claims easier to use

- allowed use of “demolish and rebuild” under all mitigation programs
- increased federal percent of cost-shares for mitigation programs of NFIP
- directed FEMA to conduct a study of affordability issues associated with the reforms
- Section 205 phases in – at 25% per year – premium increases for non-primary residences (January 1, 2013), commercial and other non-residential structures and repetitively flooded buildings (October 1, 2013).
- Section 205 also requires new policies for pre-FIRM structures to move immediately to full actuarial rates for a new purchaser of the property, in cases where a policy has lapsed, after substantial damage or improvement and for any properties not insured as of enactment of BW-12.
- Section 207 provides for 20% per year increases to full risk rates in 5 years for properties newly mapped as in a floodplain and properties for which premium rates have been “grandfathered” as Preferred Risk Rate Eligibility Extensions. FEMA has anticipated implementation of this section in late 2014.
- Language in the just finalized Omnibus Appropriations Act for FY 2014 says that FEMA may spend no money during this fiscal year to implement Section 207. Presumably that will delay implementation into 2015.

BW-12 Observations

1. The legislation made important improvements, but did not sufficiently address affordability issues
2. There is broad agreement that thoughtful ways to address affordability should be developed. ASFPM has produced a paper on flood insurance affordability which can be found on the ASFPM website at www.floods.org.
3. Path to removal of subsidies (discounts) is resulting in better messaging about the true risk of flooding
4. More true risk messaging and related concern about significant premium increases is driving increased interest in mitigation actions to “buy down” risk

5. Communities and local jurisdictions are expressing more interest in the NFIP's Community Rating System (CRS) as a way to help their citizens with reduced premiums

Options and Actions for Property Owners, Communities and Counties

For Property Owners

- If the structure is in a mapped floodplain, but is somewhat elevated or built on fill, get an Elevation Certificate and apply for a LOMA, LOMR or LOMR-F.
- Check on the possibility of a higher deductible to reduce premium
- Explore mitigation options such as: adding vents to foundations and crawl spaces, using breadaway walls, filling in enclosed spaces, elevating the structure

For Communities and Counties

- join the Community Rating System
- take steps to improve CRS Rating if already a CRS community
- provide technical advice to citizens about elevation certificates, ways to build or improve properties to reduce risk
- explore ways to encourage group surveys for ECs (to cut costs)
- help and facilitate education of local officials (planning officials, permitting officials), insurance agents and realtors about ways to reduce flood insurance costs through mitigation
- Learn about the various programs at the federal level and in some states to promote and assist with the costs of mitigation In addition to the Flood Mitigation Assistance Program which uses NFIP funds, FEMA has the Hazard Mitigation Grant program for post-disaster situations and the small Pre-Disaster Mitigation program.
- ASFPM is working at the federal level to identify more programs that could be used to support mitigation such as HUD's 203K loan program, CDBG and CDBG-DR. The Army Corps of Engineers has programs which can assist communities, counties and states to identify and evaluate various structural and non-structural means of addressing local flooding issues. These are: Planning Assistance to States, Flood Plain Management Services and the Silver Jackets program which brings various federal agency experts together to develop solutions to flood problems.

Current Legislative Proposals

A variety of bills have been introduced in the Congress in response to concerns about projected dramatic premium increases. Most notable are:

H.R. 3547 Omnibus Appropriations for FY 2014 was signed into law on January 17, 2014. That measure prohibits FEMA from expending funds to implement Section 207 of BW'12, the section involving map changes and grandfathering.

S. 1846 (revised version of S. 1610) provides for at least a 4 year delay in implementing Section 207 and the portion of Section 205 moving primary pre-FIRM residences to actuarial rates at the point of sale. Resumption of implementation would be contingent on completion of the affordability study, development of a framework and legislation to implement the study's recommendations and certification by FEMA that all flood maps are accurate. This could amount to an indefinite delay. That bill has, at last count, 27 cosponsors. The Senate is scheduled to begin consideration of the measure on Monday, January 27, as soon as the Senate reconvenes after this Martin Luther King recess.

A number of amendments are likely, including one which would substitute a longer phase-in period for the subsidy removals in the bill instead of a delay. Other possible amendments would provide for a study of the feasibility of group flood insurance, change the definition of substantial damage/substantial improvement from the 30% provided for in BW back to 50%, make the escrow requirement in BW optional.

H.R. 3370, a similar bill, has been introduced in the House. The Chairman of the House Financial Services Committee opposes the bill and Speaker Boehner announced last week that he does not plan to bring that measure to the House floor for consideration. Chairman Hensarling (House Financial Services) has indicated his intent to develop alternative legislation to address problems with excessive premium rate increases.

Resources on Biggert-Waters and flood insurance

ASFPM website: www.floods.org ASFPM BW-12 Resources

FEMA BW-12 website: www.FEMA.gov/BW12

www.FloodSmart.gov/Partner

www.FloodSmart.gov/CRS