

# HOMEOWNER FLOOD INSURANCE AFFORDABILITY ACT

## KEY PROVISIONS OF SENATE AND HOUSE MEASURES

Issue	Biggert-Waters (P.L. 112-557) Passed July 6, 2012	S. 1926 Passed Jan. 30, 2014	H.R. 3370 (as amended) Passed March 4, 2014
<p><b>Pre-FIRM Properties<sup>1</sup></b></p>	<p>Phases out subsidies for second homes, business properties, severe repetitive loss properties, or substantially improved/damaged properties – rates for these properties will increase by 25 percent per year until premiums meet full actuarial costs</p> <p>Pushes pre-FIRM subsidized primary residences to full risk rates upon sale or lapse of policy</p>	<p>Would delay up to four years annual premium insurance rate increases associated with the sale of a pre-FIRM primary home (upon the sale of a pre-FIRM home, the new buyer immediately assumes the full actuarial rate)</p> <p>Bill would not impact second homes, businesses, severe repetitive loss properties or substantially improved/damaged properties (i.e. existing owners who do not sell) whose rates under BW-12 will go up 25 percent a year until the full risk rate is achieved</p>	<p>Would remove new policy, lapsed policy and sales “triggers” for actuarial rates on pre-FIRM primary residences</p> <p>Would retroactively refund owner’s pre-FIRM primary homes: FEMA would refund the insurance rates already collected if the new rates are lower than the premiums previously paid. Rate differences would be paid after FEMA releases final regulations and provides the new rate tables. Refunds to be issued no later than 8 months after final regulations</p> <p>Bill would not impact second homes, commercial business properties, severe repetitive loss properties whose rates under BW-12 will go up 25 percent a year until the full risk rate is achieved. However, the rate tables will be based on pre-BW-12 rates, rather than post. Additionally, rate increases triggered by a property’s sale would be delayed for second homes or business properties</p>

<sup>1</sup> Pre-FIRM: built before the community’s first Flood Insurance Rate Map (FIRM) became effective and not been substantially damaged or improved.

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<b>Grandfathered Properties<sup>2</sup></b>	For properties located in areas not previously designated as an area having special flood hazards and becomes designated as such (i.e. a grandfathered property), the chargeable risk premium will be phased in over a five year period, at the rate of 20 percent following the effective date of the remapping	Would delay up to four years, the BW-12 premium increases of 20 percent per year for grandfathered properties	Repeals section 207 of BW-12, allowing grandfathering to continue
<b>Annual Rate Increases Subject to FEMA's Authority to Increase Rates</b>	<p>Increased annual rate increase within any single risk classification (grouping of policies) from 10 to 20 percent</p> <p>Phases out subsidies for second homes, business properties, severe repetitive loss properties, or substantially improved/damaged properties – rates for these properties will increase by 25 percent per year until premiums meet full actuarial cost</p>	Would delay up to four years implementation of BW-12 on subsidized grandfathered properties; provision would expire six months after FEMA provides affordability framework or when FEMA certifies their flood mapping approach results in technically credible flood maps in NFIP zones	<p>Would limit annual rate increase within any single risk classification (grouping of policies) to 5-15 percent of pre-BW-12 premiums until actuarial rates are met; <b>5 percent floor only applies to pre-FIRM primary residences</b> (all other properties/buildings may see an increase between 0-15 percent). <b>Per property premium increase capped at 18 percent each year</b></p> <p>Bill recommends (not requires) FEMA to minimize the number of <i>policies</i> that exceed 1 percent of the total coverage of the policy (e.g. \$2000 on a policy coverage of \$200,000). For policies that exceed one percent threshold, FEMA is to submit report to Congress</p> <p>Newly mapped “special flood hazard areas” would see a preferred risk premium for the property in its first policy year and upon renewal would be calculated considering the community’s flood protection system</p>

<sup>2</sup> The National Flood Insurance Program (NFIP) provides a lower-cost flood insurance option known as “grandfathering.” It is available for property owners who have a flood insurance policy in effect when the new flood map becomes effective and then maintain continuous coverage OR have built in compliance with the flood insurance rate map (FIRM) at the time of construction. Source: FEMA

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<b>Addressing NFIP Fiscal Solvency</b>	<p>Requires FEMA to create repayment schedule to eliminate the debt and report on its progress every six months</p> <p>Requires FEMA to build up reserve fund to help meet expected future obligations of the NFIP in higher-than-average loss years</p> <p>Phases out subsidies for second homes, business properties, severe repetitive loss properties, or substantially improved/damaged properties – rates for these properties will increase by 25 percent per year until premiums meet full actuarial cost</p>	<p>Would provide short term relief to increasing premiums as well as a long-term plan to address affordability</p>	<p>Certain properties subject to rate increases (refer to section Annual Rate Increases)</p> <p>Would address offsets through annual surcharge of \$25 for primary residences and \$250 for secondary residences and businesses to be deposited in reserve fund</p> <p><a href="#">Congressional Budget Office (CBO) estimates a zero cost</a> to the NFIP to implement these provisions over the 2015-2024 period</p>
<b>Affordability Study</b>	<p>Requires FEMA to conduct study on possible methods to encourage and maintain participation in the NFIP as well as making the NFIP more affordable for certain people through targeted assistance. Study will also include economic analysis by the National Academy of Sciences</p> <p>Study funded at \$750,000</p> <p>To date, FEMA has not completed this study</p>	<p>Two years after enactment of the Act, FEMA would submit to Senate Financial Services and House Banking Committees the affordability study as authorized under BW-12</p> <p>Removes BW-12 cap for study funding</p>	<p>Mandates FEMA complete the affordability study, as required under BW-12, within 18 months of enactment of bill.</p> <p>Would increase funding for affordability study from \$750,000 to \$2.5 million</p> <p>Requires FEMA to look at affordability impacts if annual premiums increased more than two percent of the liability coverage amount of policy (capped at \$250,000) and other options to change program</p>

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<b>Home Improvement Threshold</b>	Premium increases triggered when the NFIP property undergoes renovation or substantial damage that equals <b>30 percent</b> of the structure's fair market value	Would increase home improvement threshold - premium increases triggered when renovation or substantial damage to property equals or is above <b>50 percent</b> of the structure's fair market value	Same as S. 1926
<b>Residential Basements</b>	Base flood elevation (BFE) calculated based on lowest floor structure; i.e. lowest floor is the basement floor, regardless of flood-proofing	Would preserve pre-BW-12 basement exception allowing the lowest flood-proofed opening in a home to be used for determining flood insurance rates  Basements not flood-proofed would remain subject to BW-12 provisions	Would exclude detached structures from mandatory purchase requirement  Would allow FEMA to use exceptions and variances for flood-proofed basements
<b>Map Appeals</b>	Establishes a process for local communities to request a remapping based on standards recommended by the Technical Mapping Advisory Council (Established by BW-12 to address map modernization issues)  Current law limited FEMA's map appeal reimbursements to \$250,000	Same as H.R. 3370	Would reimburse owner, lessees or the community for successful map appeals; removes \$250,000 total reimbursement limitation imposed by current law

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<p><b>Updates to Flood Maps and Appeals Process</b></p>	<p>FEMA shall revise or update floodplain areas and flood-risk zones once during each 5 year period or more often as FEMA determines necessary</p> <p>Requires FEMA to notify Congressional members upon the issuance of any proposed map and any notice of an opportunity to make an appeal relating to the proposed map</p>	<p>Would create a Flood Insurance Advocate to advocate for fair treatment for NFIP policy holders</p> <p>Would require FEMA to certify its flood mapping approach before rate changes are made</p>	<p>FEMA to consult with the Technical Mapping Advisory Council to ensure FIRMs include “technical credible flood hazard data”</p> <p>Would require FEMA to consult directly with impacted communities before, during, and after the mapping process to allow community input for each stage</p> <p>Would require FEMA to notify Congressional members of impacted communities at least 30 days prior to FEMA issuing any preliminary flood zone map. The data must include the number of homes and businesses affected, including the number of structures newly mapped in a flood hazard zone and the schedule for public notices and community meetings</p> <p>Would designate a Flood Insurance Advocate to work with NFIP policy holders</p>