

Flood insurance prices expected to surge

NASDAQ

A tide of flood insurance rate increases is rolling in, despite the efforts of state and federal legislators to stem it in waterlogged areas, with 25 percent hikes in the offing beginning Oct. 1, 2013. The nonprofit consumer group United Policyholders, which provides insurance advice to homeowners and businesses, offers two pieces of advice:

If you have flood insurance, don't let it lapse .

If you need flood insurance, get it now .

Congress passed the Biggert-Waters Flood Insurance Act of 2012 to put the National Flood Insurance Program (NFIP) on sound financial footing. The NFIP is \$26 billion in debt from paying off disaster claims such as those for the most expensive hurricane in history, Katrina in 2005.

Subsidies for homeowners and businesses are being squeezed out, and premiums up to \$31,000 a year loom for those who don't raise their homes on stilts.

The act had broad bipartisan support until Superstorm Sandy hit in late 2012.

"Its aftermath changed the way some U.S. House and Senate members viewed the new law," says Michael Barry of the Insurance Information Institute.

Support for Biggert-Waters is eroding fast as influential East Coast legislators realize just how much coastal residents are going to pay for insurance policies from this federally sponsored program.

A New York Times story reported that one retired Queens firefighter who used to pay less than \$500 for flood insurance will now pay as much as \$15,000 a year.

"Coastal residents are justifiably panicking about the economic tsunami that is scheduled to crash down on them when Biggert-Waters fully kicks in," warns Amy Bach, the executive director of United Policyholders.

On Sept. 18, 2013, the Committee on Banking, Housing and Urban Affairs Subcommittee on Economic Policy will hold a hearing to assess the act's viability.

No way out

"The bind is impossible," says Bach. "Your mortgage lender makes you buy flood insurance [if you live in a flood zone], but you won't be able to afford it. And you can't sell your home because no buyer wants

the yoke of that insurance price tag.”

Bach isn't the only one who understands the dilemma. Groups all over the country, such as the Coalition for Sustainable Flood Insurance, are demanding that the Federal Emergency Management Agency (FEMA), which runs the flood insurance program, produce a promised “affordability study” to show how prices can be raised without driving residents away.

Another demand: FEMA must produce accurate and current flood maps to explain what residents of low-lying areas need to do to get reasonably priced insurance, hopefully before they undertake the expense of rebuilding.

Flood insurance football

These demands have resonated in Congress, where leaders from New Jersey's Sen. Robert Menendez to Louisiana's Mary Landrieu have demanded delays in the NFIP rate hikes. Even New York City Mayor Mike Bloomberg is advocating changes to make flood insurance more affordable.

But other lobbying groups, like the Taxpayers for Common Sense, are insisting that the rate hikes go through to prevent further “beachfront bailouts” of million-dollar homes. Inland congressmen such as Pennsylvania Sen. Pat Toomey have been able to beat down delaying tactics.

Murky waters

The Biggert-Waters law itself doesn't help much when it comes to understanding the future cost of flood insurance. While FEMA claims that “only 5 percent” of all flood policies will see those massive increases, the Associated Press says the number affected will be in the “hundreds of thousands,” including many lower-income residents in Florida and Louisiana.

The act also includes acronyms and jargon such as Special Flood Hazard Area (SFHA), Base Flood Elevation (BFE) and Flood Insurance Rate Map (FIRM) that are difficult for the average homeowner to understand, partly because each flood-prone area is unique.

FEMA's advice: Get an elevation certificate, which can cost about \$700 per home, and then talk to your insurance agent. Private insurance companies that sell flood insurance keep about 30 percent of the premium but are not responsible for paying a claim. NFIP pays the claims.

Flood insurance chaos

In surveying this “chaos,” Bach and United Policyholders suggest a buy and hold strategy. If you have flood insurance, don't give it up. A “grandfathering” provision in the law allows homeowners who maintain continuous coverage to use data from previous flood maps, which aren't so stringent. FEMA says the new maps will be phased in over five years.

But every flood insurance policy ends when a home is sold, and the new — and higher — cost for flood insurance starts immediately.

As for buying flood insurance now , Bach, like a lot of others, is gambling that federal legislators will want to avoid the anger of constituents who face the prospect of losing their homes due to high insurance costs. She hopes for a “last-minute partial repeal and [or] some other lifesaver that will be tossed to home and business owners.”

But any reprieve for flood insurance, which is leaking millions in cash every year, will be only temporary. In other words, later could be too late.