United Policyholders
Empowering the Insured

# [Flood insurance reform law – what it means to homeowners](https://uphelp.org/flood-insurance-reform-law-what-it-means-to-homeowners/)

Insurance.com

By Marjorie Musick
The Biggert-Waters Flood Insurance Reform Act of 2012 was passed in July and requires the National Flood Insurance Program NFIP) to raise insurance rates for some older properties in high-risk areas to reflect the true flood risk.
Some homeowners have already received bills with the new higher flood insurance premiums as the rates are gradually phased in. According to FEMA, "Subsidized premiums for policies covering non-primary residences, businesses, and structures with severe repeated flood losses will have premium increases of 25 percent per year until rates reflect the full risk.Subsidized premiums for primary residences in Special Flood Hazard Areas will be able to keep their subsidized rates unless or until:
The property is sold.
The policy lapses.
The insured property suffers severe, repeated, flood losses where the owner refuses an offer to mitigate.
A new policy is purchased.
Until now, most homeowners received substantial subsidies that helped make the program affordable. For example, a homeowner might pay $300 a year for the insurance when the actual cost to the federal government was $6,000.The federal government would subsidize the remaining amount.
"The basics of the law are that the flood insurance program is to become self-sustaining. That means basically that the rates have to match the risks. Now they're eliminating subsidies. This will happen over a few years — consumers won't get the sticker shock all at once but it is still something that has a pretty big impact on those policyholders who have flood insurance," says Greg Serio, partner and managing director of Park Strategies LLC and a former insurance commissioner for New York.
The impact of eliminating subsidies will be felt gradually, as policies are renewed.
Serio notes that the program was losing money due to the increased number of extreme weather events over the last few years. Congress passed the law to save the program. The law also mandated that maps

for flood zones be redrawn, moving some residents into higher risk zones that come with higher rates.
“The flood insurance program was created by an act of legislation called the National Flood Insurance Act of 1968. In most other countries, flood insurance is covered by private insurance but it is a federal program in the U.S. because floods affect so many people in so many places that private insurers couldn’t manage the risk,” says Serio. “Whenever you have a large percentage of the population living within 100 miles of a coast, as we do in the U.S., flooding becomes a very big issue.”

Amy Bach, executive director of United Policyholders, agrees with that assessment.

“The average flood insurance premium has been in the range of $300 annually due to heavy government subsidies of the program,” says Bach. “Yet ever since Hurricane Katrina, there has been increasing pressure to reduce or eliminate some of those subsidies partly because of concerns over the flood insurance program’s viability and also because there is a sense that by subsidizing the premiums in coastal areas, we are encouraging people to live in harm’s way.”

Standard home insurance does not cover flood damage, so homeowners must buy a separate policy, typically provided through the NFIP and sold by private insurers.

Whose flood insurance rates will rise and by how much?

Although some homeowners will be grandfathered in and will not see prices go up, many others will be subject to rate hikes. Rates will increase by approximately 25 percent for newly purchased properties and coverage of second homes, as well as for those policyholders who have let their policies lapse through non-payment. Homes that have been flooded multiple times since policies were purchased will also be hit with higher rates.

According to Bach, the original Biggert-Waters legislation called for an affordability study before the rate increases took effect, but that study has not been completed. Bach notes that as a hybrid public and private insurance program under the jurisdiction of FEMA and the Department of Homeland Security, the NFIP has special obligations to run a fair program.

The NFIP sells policies through private insurance companies that participate in the program. Those participating insurers are called “Write Your Own WYO)'” insurance companies, says Bach. “Basically, private insurers sell and service the flood claim policies. They collect the premium, they get a commission, they adjust the losses but NFIP staff has oversight over these companies,” she says.

The removal of subsidies, which is equivalent to a rate increase, essentially means that many homeowners will be paying more for their flood insurance this year. Bach notes that she has heard unofficial stories of rates going from $1,000 a year to $18,000 a year in high-risk areas such as coastal Louisiana, Mississippi, Alabama and Florida.

“People have been saying for years that flood insurance is definitely far cheaper than it should be but it’s easy to say these things. When people actually get hit with the increases, it can be devastating and it can also render a property worthless. If there’s a property that now has a $10,000 price for the flood insurance, then that’s a hard house to sell,” Bach says.

Delay proposed for flood insurance rate increases

Due to public uproar against the higher costs, new legislation has been proposed to put the rate increases on hold. If Congress passes the new bill, policyholders will get a temporary reprieve; until then, they will have to pay the higher premiums.

A vote date on the legislation has not been set. Under the bill, the rate increases would go into effect two years after FEMA completes an affordability study, which would achieve a rate-hike delay of about four years for the most vulnerable properties. It also:

Allows FEMA to use National Flood Insurance Funds to reimburse policyholders who successfully appeal a map determination.

Establishes a Flood Insurance Rate Map Advocate within FEMA to answer current and prospective policyholder questions about the flood mapping process.

Requires FEMA to certify that the agency has fully adopted a risk-based approach to analyzing flood risk, among other things.

The new legislation would ease the burden on consumers by delaying the premium increases, but the program’s financial troubles would remain. As of July 31, 2013, the NFIP was $24 billion in debt to the U.S. Treasury.

“Congress is the only place where relief from the rate spikes is going to come from, as they were the ones who imposed them in the first place,” says Serio. “It does not take away the issue of, and pressing need for, some real reform, including much more aggressive risk management, in the federal flood insurance program.”