NORTH CAROLINA SEA GRANT
EXTENSION PROGRAM

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To: Interested Parties
From: Spencer Rogers, North Carolina Sea Grant
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Subject: Pending flood insurance rate increases

After approval by Congress and the President's signature, the Biggert-Waters Flood Insurance Reform Act took effect on July 1, 2012. The Act make makes numerous changes in the National Flood Insurance Program (NFIP) that will increase the cost of insurance to offset the high losses incurred by the program, primarily due to Hurricane Katrina. Many of the increases will be relatively moderate or affect specific high-risk groups such as repetitive loss properties. However, the Act also removes two long-standing "grandfather" clauses that are likely to be very expensive for property owners in or even near the respective 100-year floodplain shown on flood maps.

Pre-FIRM Subsidies. The first grandfather clause applied to buildings that were constructed before Dec. 31, 1974, or the initial Flood Insurance Rate Map (FIRM) for each local community, whichever is later. The buildings are called pre-FIRM. Since NFIP was developed in the 1970s, various groups recognized that in order to get communities to join the program and adopt the local flood ordinances, the program must offer subsidized or lower than actuarial rates for the existing, noncompliant buildings. The NFIP offered flood insurance for all buildings in the community, at subsidized rates, if they were willing to adopt higher flood standards on new construction after the maps were implemented. There have been regular calls for removing the subsidized rates since they were implemented.

The Reform Act leaves the subsidized rates in place for primary residences except for houses: 1) newly purchased; 2) not previously insured; 3) with temporary policy lapses; or 4) substantially damaged or with improvements more than a cumulative 30% of the fair market value. The Act deletes all subsidies for second homes, rental houses, businesses and severe repetitive loss properties. The present subsidized rates will be increased 25% each year until the actuarial rates are reached.

The increase in annual premiums is estimated for several coverages, zones, and conditions in the attached table. The revised program assumes that the present base rates are actuarial. Because base rates also are expected to rise, the table underestimates the eventual increase in cost to property owners. The NFIP only publishes rates for buildings below the base flood elevation (BFE) by 1 foot in the AE-zone and 3 feet in the VE-zone. Lower-elevation buildings must be individually submitted for rating. The lower the pre-FIRM floor elevation below the latest base flood elevation, the higher the rate. Although only 1 to 3 feet below BFE is included, in many areas it is common for pre-FIRM buildings to be more than 8 feet below BFE. Premiums for such lower-elevation buildings will be much higher than listed in the table.

As an example of the premium increases, coverage for a $100,000 building/$40,000 contents now has an approximate annual pre-FIRM premium in the AE-zone of $1,256. If the older building can meet the present floor-elevation requirement, the rate increases 16%. In the case that the building is at least 1 foot below BFE, the present rate triples or more. In the VE-zone, the present $2,221 premium will increase to $7,566 (241% increase) or more if the building is 3 feet or more below BFE on the latest maps. The premium for the highest coverage in the VE-zone increases from $7,123 to $18,828 annually.

When Maps Change. Previously, premiums could be calculated using the latest flood map requirements or the map in place at the time of construction, whichever was in the owner's advantage. Once rated by zone and elevation, those map conditions could be used to calculate future premiums, even if the zone or base flood elevation was changed in a later map. The Reform Act removes the grandfather provisions for buildings originally constructed in full compliance with the NFIP at the time of construction. All buildings will now be rated using the latest maps. When the maps change, the rate increases will be phased in at each policy renewal, over the next 5 years (20% per year).

The table can also be used to estimate the eventual premium increases. If constructed to the minimum BFE in the AE-zone, the $100,000 building/$40,000 contents example, would have a premium of $1,458. If new flood maps raised the elevation 1 foot, the AE-zone premium would be $3,844. In the VE-zone it would increase from $3,478 to $4,670. A 3-foot map increase in the VE-zone would raise the premium to $7,566. For the higher coverage building example a 3-foot map increase in the VE premium adds over $10,000 per year.

The cost of a map change becomes even more dramatic when the new maps move a building into a higher-risk zone. Many buildings located in X-zones, outside of the predicted 100-year floodplain, can qualify for Preferred Risk Policies that are included in the table for comparison. These lowest-cost policies are already lost when a new map moves a building into a higher-risk flood zone.

Because of differences in how the minimum elevation is determined between zones, a house that is remapped from an AE to VE-zone that was previously at the minimum BFE will have a floor rated at 2 feet below the new BFE. Even if the elevation requirement did not change (only the zone), the premium would increase from $1,458 to $6,334 annually. If the new zone went up 1 foot, the premium would increase to $7,566. A similar shift for the highest-coverage example would raise the annual premium by more than $17,000 annually. It should be noted that elevation changes can be much larger than 1 foot, so the numbers are minimums and can go up much higher if the NFIP "submit for rating" rates were available.

Links to Federally Guaranteed Mortgages. Most will agree that the eventual success of the NFIP with local communities was tied to the added requirement for flood insurance coverage for any federally guaranteed mortgage. The insurance is required no matter what the cost. No insurance = no mortgage. No significant private insurance market exists for most houses. Therefore, any owner with a federally backed mortgage will have little choice but to pay the new NFIP rates.

Other Changes. The Reform Act includes many other provisions. Several will potentially affect future flood insurance rates. For many years, Congress had limited any NFIP rate increase to less than 10%. That limit has been increased to 20%. NFIP rules and policy have historically required that the Flood Insurance Rate Maps and the insurance rates were based on present rather than future conditions. The Reform Act establishes a Technical Mapping Advisory Council, which is given one year to develop recommendations for future condition mapping, including sea-level rise and future development. The latter refers to stormwater runoff increases due to future development, which can be an issue in riverine flood modeling. Both could potentially result in significant increases in the base flood elevations. The Council could choose to add either to future flood mapping methods or maintain the present policy preventing any impact on insurance premiums.

Spencer Rogers has been a North Carolina Sea Grant extension specialist for more than 30 years, with a focus on coastal hazards. He has worked with property owners, as well as local, state and federal officials, on floodmapping and recommendations for new construction and mitigation efforts for existing structures in and near flood zones. Changes in federal law approved earlier this year are significant not only for North Carolina property owners but also for others around the country who are in or near floodplains. This summary, prepared by Rogers and reviewed by other experts, provides general background on the Flood Insurance Reform Act. For specific changes, building owners should contact their insurance agent.

APPROXIMATE ANNUAL FLOOD INSURANCE PREMIUM INCREASES DUE TO THE BIGGERT-WATERS FLOOD INSURANCE REFORM ACT

Coverage	Zone	pre-FIRM Premium	If Floor at Base Flood Elevation (BFE)	Pre-FIRM Premium Change	Floor 1 foot below BFE	Pre-FIRM Premium Change	Floor 2 feet below BFE	Pre-FIRM Premium Change	Floor 3 feet below BFE	Pre-FIRM Premium Change	Floor > 3 feet below BFE
$100k building/ $40k contents	AE	$1,256	$1,458	16%	$3,844	206%	?		?		?
	VE	$2,221	$3,478	57%	$4,670	110%	$6,334	185%	$7,566	241%	?
	Preferred Risk - X	$282									
$200k building/ $80k contents	AE	$2,578	$1,636	-37%	$5,042	96%	?		?		?
	VE	$5,489	$6,898	26%	$9,282	69%	$12,610	130%	$15,074	175%	?
	Preferred Risk - X	$353									
$250k building/ $100k contents	AE	$3,239	$1,725	-47%	$5,641	74%	?		?		?
	VE	$7,123	$8,608	21%	$11,588	63%	$15,748	121%	$18,828	164%	?
	Preferred Risk - X	$376									

Assumptions: Single-family, no basement/enclosure, $1,000 deductable, full replacement cost coverage, Oct. 1, 2012 rates.
Present base rates are actuarial. (Because the Act also raises base rates, the table underestimates the premium increases.)
Present pre-FIRM rates will be increased 25% per year until actuarial rates are reached.
Present post-FIRM rates will be increased to latest map rates in five years (20%/year).

Estimated annual premiums prepared by Spencer Rogers, Dec. 14, 2012
For your exact premiums, contact your flood insurance agent.