

Commissioner's Monthly Column

Update on the Homeowner Flood Insurance Affordability Act

April 2014

A year ago in this column I addressed the potentially devastating impact of the Biggert-Waters Flood Insurance Reform and Modernization Act of 2012 which reauthorized the National Flood Insurance Program (NFIP). Consumers and the business community reacted in a united front in opposition to this bill which had already begun to bring stagnation to real estate markets here in Louisiana and across the nation. A hard-fought battle resulted in a bipartisan Congressional response and passage of the Homeowner Flood Insurance Affordability Act, signed by the President on March 21. The Act aims to ensure the financial stability of the NFIP, which currently has \$24 billion of debt, while providing property owners with continued protection.

The Act limits astronomic insurance increases that were mandated under Biggert-Waters and it is truly a triumph for our working coast - the people who work and drive a huge part of our nation's economy. With the passage of this Act, a reasonable level of rate increase reliability is now in place for most of Louisiana's 480,000 properties insured by the NFIP and some 5.5 million nationally.

Although many of the actuarial reforms of Biggert-Waters were abandoned with this Act, actuarially rated homeowners flood insurance will eventually be achieved, it will just take a little longer. The Act provides an annual flood insurance rate cap for homeowners by limiting increases in flood insurance premiums to no more than 18 percent per year.

The Act repeals the property sales trigger that required homebuyers to pay the full-risk flood insurance rate at the time of purchase. This provision was making it nearly impossible for many homeowners to sell their homes, thereby stalling America's real estate market. Homeowners who purchased property after Biggert-Waters will receive a refund of the increase they experienced prior to passage of the Homeowner Flood Insurance Affordability Act just as existing homeowners who were impacted will receive.

The Homeowner Flood Insurance Affordability Act also repeals the new policy sales trigger which required property owners to pay full-risk rates when buying a new policy. Additionally, the Act reinstates grandfathering so that homes that complied with previous flood maps will no longer be hit with large increases when new maps show greater risk of flooding.

In order to pay for the continued subsidizing of rates, annual assessments will be implemented. Assessments of \$25 per year for primary residences and \$250 per year for businesses and vacations homes will be charged to property owners who get NFIP coverage.

There is also non-mandatory language directing FEMA to "strive" to reach the goal that most policyholders have a premium of no more than 1 percent of the value of their coverage - in other words, \$2,000 for a \$200,000 policy.

The Act does not address Biggert-Waters rate hikes for businesses, second homes, substantially damaged structures, structures with cumulative losses over the fair market value and severe repetitive loss properties that had been grandfathered into artificially lower premiums for flood insurance before flood maps were created. Such affected policyholders will see annual increases over the next few years of 25 percent of the actuarial cost until those policies are actuarially priced.

The Act's provisions that restore subsidized flood insurance rates for homes that are sold and establish a refund procedure for people who bought homes under Biggert-Waters without subsidized rates are critical in getting economies going in flood-prone areas. In mid-April FEMA announced that effective May 1, 2014, homeowners who purchased new homes after July 6, 2012 (when Biggert-Waters became law) will revert back to subsidized rates and not be charged actuarial rates.

These new FEMA guidelines were recently sent to Write Your Own companies that process flood insurance applications. FEMA has said it is ironing out the details on the process for refunding premiums to policyholders who renewed their flood insurance policies or purchased a new flood insurance policy and paid unsubsidized premiums under Biggert-Waters.

Concerns regarding the impact of FEMA flood maps on flood insurance rates as well as questions over how flood maps will impact current real estate values and future growth in the housing sector of our state have the attention of property owners, realtors and planners. In next month's column I will address the FEMA rate mapping process and how this process is being implemented in Louisiana.