



NFIP Reform & the Real Estate Professional

What You and Your Clients Need to Know about Rising Risks, Rising Rates, and Their Effects on Rebuilding Decisions

Lisa S. Jones, CFM, CPM, ANFI

4/4/2013

© Carolina Flood Solutions LLC

Presentation Objectives

- Overview of the NFIP
- How do I find out what flood zone my listing is located in?
- When is Flood Insurance Required?
- What is Pre-FIRM vs Post-FIRM?
- What is a Primary Residence?
- What is CBRS?
- FEMA Risk MAP Program
- What is PRP-Eligibility Extension?
- How to Save Money on Flood Insurance?



NFIP Overview

- Construction Standards
- Insurance Requirements



Sources of Flood Zone Information

- FEMA Map Service Center

<https://msc.fema.gov>

- Community Official
- Current Home Owner's Elevation Certificate,
or NFIP Policy's Declaration's Page
- Flood Hazard Determination Form
- Prior Letter of Map Change



Mandatory Purchase

- Flood Insurance is required
 - Federally backed Mortgage in a SFHA
 - Structure located in Zones AE (A1-A30), VE (V1-V30), V , AH, AO, A
- Flood insurance required for secured Property located in a SFHA
- Coverage Required- Amount of loan
 - Down payment? Is policy holder underinsured?
 - Proper rating
- Optional for Zones B, C, or X – Maybe eligible for Preferred Risk Policy - cheap & simple application



Pre-FIRM vs Post FIRM

Pre-FIRM: Built before the community's first Flood Insurance Rate Map became effective or 12/31/1974 whichever is later; and, not been

*Substantially Damaged?
Substantially Improved?*

Pre-FIRM

NFIP

MAP INDEX

FIRM

FLOOD INSURANCE RATE MAP

**RICHLAND COUNTY,
SOUTH CAROLINA**

AND INCORPORATED AREAS

MAP INDEX

PANELS PRINTED: 0025, 0050, 0070, 0075, 0090, 0091H, 0092H, 0094H, 0095, 0100, 0120, 0125, 0130, 0135, 0140, 0145, 0155, 0160H, 0165, 0170, 178H, 0185, 0190H, 0205, 0210, 0230, 0235, 0236, 0237, 0241, 0242, 0255, 0260, 0261, 0262, 0263, 0264, 0270, 0280, 0285, 0290, 0295, 0325, 0350, 0370, 0376, 0377, 0379, 0381, 0382, 0383, 0384, 0395, 0405, 0410, 0415, 0420, 0439, 0440, 0445, 0450, 0475, 0500, 0525, 0550, 0575, 0600, 0625, 0650

**MAP NUMBER
45079CIND0A**

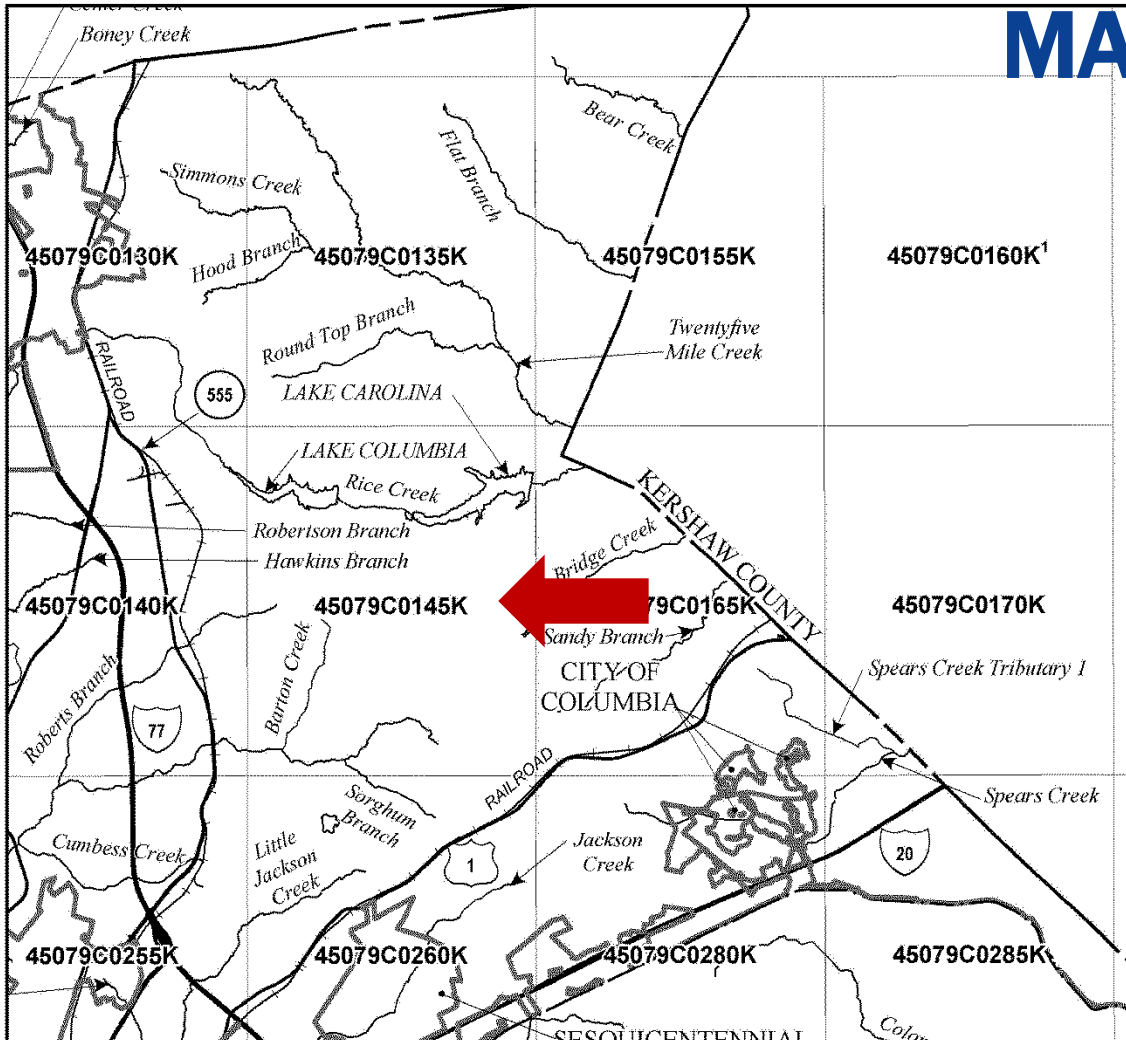
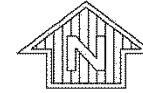
**MAP REVISED
SEPTEMBER 29, 2010**

Federal Emergency Management Agency

Post-FIRM



MAP INDEX



NATIONAL FLOOD INSURANCE PROGRAM

MAP INDEX

FIRM

FLOOD INSURANCE RATE MAP

**RICHLAND COUNTY,
SOUTH CAROLINA**

AND INCORPORATED AREAS

MAP INDEX

PANELS PRINTED: 0025, 0050, 0070, 0075, 0090, 0091H, 0092H, 0094H, 0095, 0100, 0120, 0125, 0130, 0135, 0140, 0145, 0155, 0160H, 0165, 0170, 178H, 0185, 0190H, 0205, 0210, 0230, 0235, 0236, 0237, 0241, 0242, 0255, 0260, 0261, 0262, 0263, 0264, 0270, 0280, 0285, 0290, 0295, 0325, 0350, 0370, 0376, 0377, 0379, 0381, 0382, 0383, 0384, 0395, 0405, 0410, 0415, 0420, 0439, 0440, 0445, 0450, 0475, 0500, 0525, 0550, 0575, 0600, 0625, 0650

**MAP NUMBER
45079CIND0A**



**MAP REVISED
SEPTEMBER 29, 2010**

Emergency Management Agency

above referenced flood map. It does not reflect changes made subsequent to the date on the map. For more information about National Flood Insurance Program flood maps, check the FEMA Flood Map Store at www.msc.fema.gov

LISTING OF COMMUNITIES

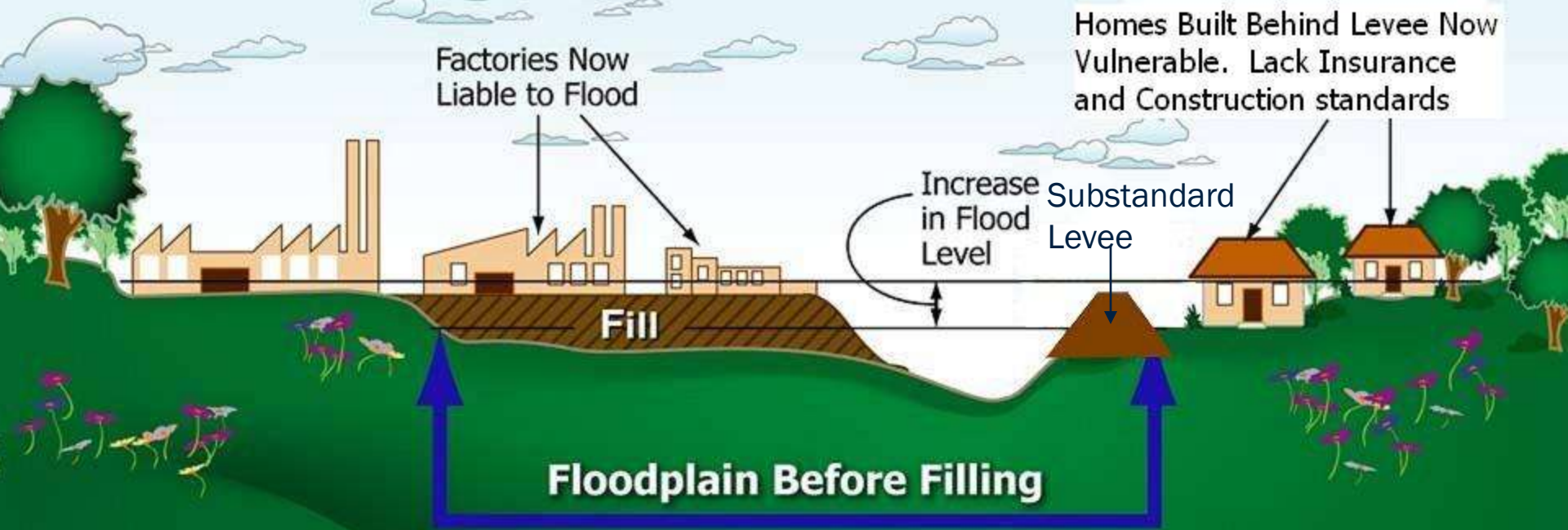
COMMUNITY NAME	COMMUNITY NUMBER	LOCATED ON PANEL(S)	INITIAL NFIP MAP DATE	INITIAL FIRM DATE	MOST RECENT FIRM PANEL DATE
ARCADIA LAKES, TOWN OF	450171	0261, 0262	August 2, 1974	November 19, 1980	2010
BLYTHEWOOD, TOWN OF	450258	0120, 0125, 0130, 0140	September 29, 2010	September 29, 2010	September 29, 2010

What Your Need to Know

- Flood risks are changing.
Risks may have increased since the last maps.
- Flood insurance rates will reflect those changes.
With new maps, rates on many properties will rise.
- You can no longer rely on subsidized rates.
Most subsidized rates for older properties will be eliminated.
- Building or rebuilding higher lowers your risk and could save you money.
- Consider flood insurance when making construction decisions.

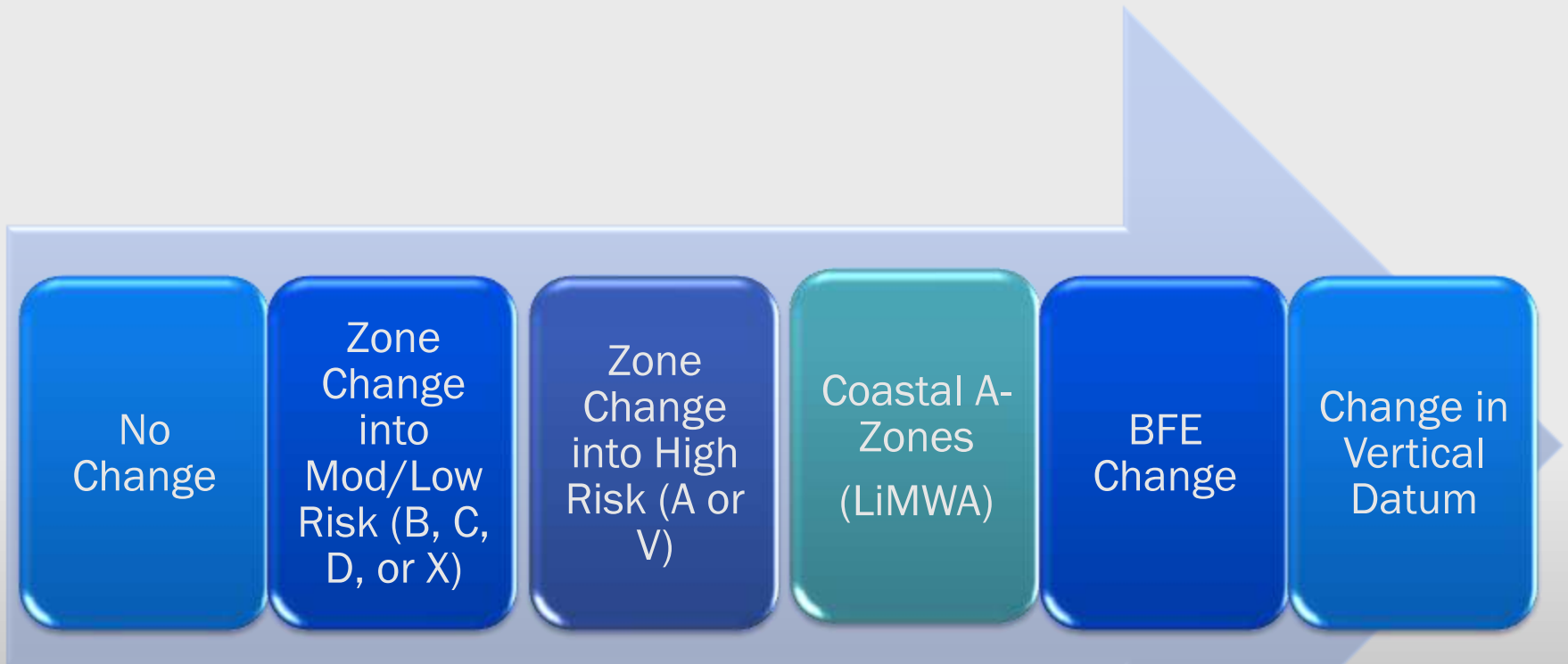


Today's Floodplain Is Not Necessarily Tomorrow's Floodplain



**If large areas of the floodplain are filled, then there will be an increase in the land area needed to store flood waters.
This means your home or business may be impacted.**

Effects of Map Revisions on Insurable Buildings & Policies



Program Overview

Risk MAP

- Mapping – Flood hazard and risk identification
- Assessment – HAZUS and other risk assessment tools
- Planning – Hazard mitigation planning and HMA grants

Risk MAP Vision

- Deliver quality data
- Increase public awareness of flood risk
- Encourage local/regional actions that reduce risk



NFIP Reform

What's Changing?

- Increases the CAP (annual limitation) on premium increases from 10% to 20%
- Expect Insurance Increases on older housing inventory.
- Non-Primary Residences (vacation, secondary, rentals)
- Annual Rate increase 9%-10% plus increase due to subsidy removal (Pre-FIRM)



Primary Residence

*A building that will be lived in for **80 percent** or more of the year (292 days or approx 10 months).*



Biggert-Waters NFIP Reform Act 2012

Changes affecting Non-Primary Residence Coverage

Require the Administrator of the Federal Emergency Management Agency (FEMA) to phase in actuarial rates over 4 years for the following **pre-FIRM** properties:

- non-primary residences,
- severe repetitive loss properties,
- any properties where flood losses have exceeded the property value,
- any business property,
- any property that has sustained substantial damage (50% or over Fair Market Value (FMV); or
- Improved over 30% of FMV.

The premium increases for the above mentioned categories of pre-FIRM properties are subject to a 25% annual limitation.



Biggert-Waters NFIP Reform Act 2012

Changes to Subsidized Rates

Pre-FIRM Subsidies to be phased out

- Non-primary residences (implemented 1/1/2013)
- Business/Commercial Properties
- Severe repetitive loss properties (1-4 residences), and properties where claims payments exceed fair market value



Biggert-Waters NFIP Reform Act 2012

Changes to Other Subsidized Rates

- Rates on Pre-FIRM commercial buildings
Increase by 25% a year until they reach full-risk rates.
- Rates for repetitively flooded buildings (known as Severe Repetitive Loss properties) of 1-4 family residences increase 25% a year until they reach full-risk rates.

Includes buildings with cumulative flood insurance payments that meet or exceed fair market value

- These changes planned to start **October 1, 2013**



Biggert-Waters NFIP Reform Act 2012

Direct Move to Actuarial Rating

New policies to be issued at full-risk rates

- After the **sale/purchase** of a property
- After a **lapse** in insurance coverage (deliberate choice of the policyholder)
- After **substantial damage** (50%FMV) **or substantial improvement** (30%FMV)
- For **properties uninsured** as of BW-12 enactment

These changes also planned to start **October 1, 2013**

•As **new or revised Flood Insurance Rate**

Maps are issued (grandfathered rates planned to be phased out over 5 years)

Planned phase out of the PRP-EE 2014



Biggert-Waters NFIP Reform Act 2012

Grandfathering

- Grandfathering will be phased – The Biggert-Waters Reform Act calls for a phase-out of discounts, including grandfathering provisions, and a move to full actuarial rates
- Section 100207 implementation anticipated in 2014 - *Phase-in to full-risk rates anticipated to begin*

Note: The Preferred Risk Policy Eligibility Extension (PRP-EE) will be eliminated when Section 100207 implementation takes place



BW-12 What's Changing

Mitigation Grant Programs

- Streamlines FMA, RFC and SRL program to allow mitigation of repetitive or severe repetitive loss structures;
 - requires consideration of demo and rebuild of properties under FMA
- Modifies use of CDBG funds to include flood insurance outreach and community building code administration
- Increases the annual cap for premium rate increases from 10 percent to 20 percent; allows options of annual or installment premium payments



Biggert-Waters NFIP Reform Act 2012

Mortgagee Changes

- Permits a lending institutions to accept non-NFIP flood policy to satisfy the mandatory purchase requirements
- Requires lending institutions to create escrow accounts for the payment of flood insurance premiums.
- Authorizes FEMA to accept the payment of flood insurance premium in installments for non-escrowed premiums.



Until specifically addressed by FEMA new and renewing policies are still eligible for:

- Pre-FIRM subsidies (except pre-FIRM non-primary residences)
- Grandfathering (Built In Compliance or Continuous Coverage)
- Extension of Preferred Risk Policy Eligibility

• FEMA will clearly communicate when these subsidies are no longer available

What
About
New
Policies
Written
Today?



Coastal Barrier Resource System Area

- Flood insurance may not be available depending on when the structure was built, substantially damage or improved compared with the CBRS or OPA Designation date
- Appeals to boundaries decided by US Fish and Wildlife Service not FEMA.



What is Preferred Risk Policy (PRP)?

- Peace of Mind Coverage (Structures located in B, C or X Zones)
- Participating Communities in the Regular Program
- Coverage Available
 - ✓ Contents only
 - ✓ Building and Contents
- Limited Loss History Eligibility Requirements



What is PRP-Eligibility Extension?

Buildings newly designated within a SFHA (including those previously identified as D zone) due to a map revision on or after October 1, 2008, may be eligible to purchase or continue PRP rate coverage under the PRP-EE

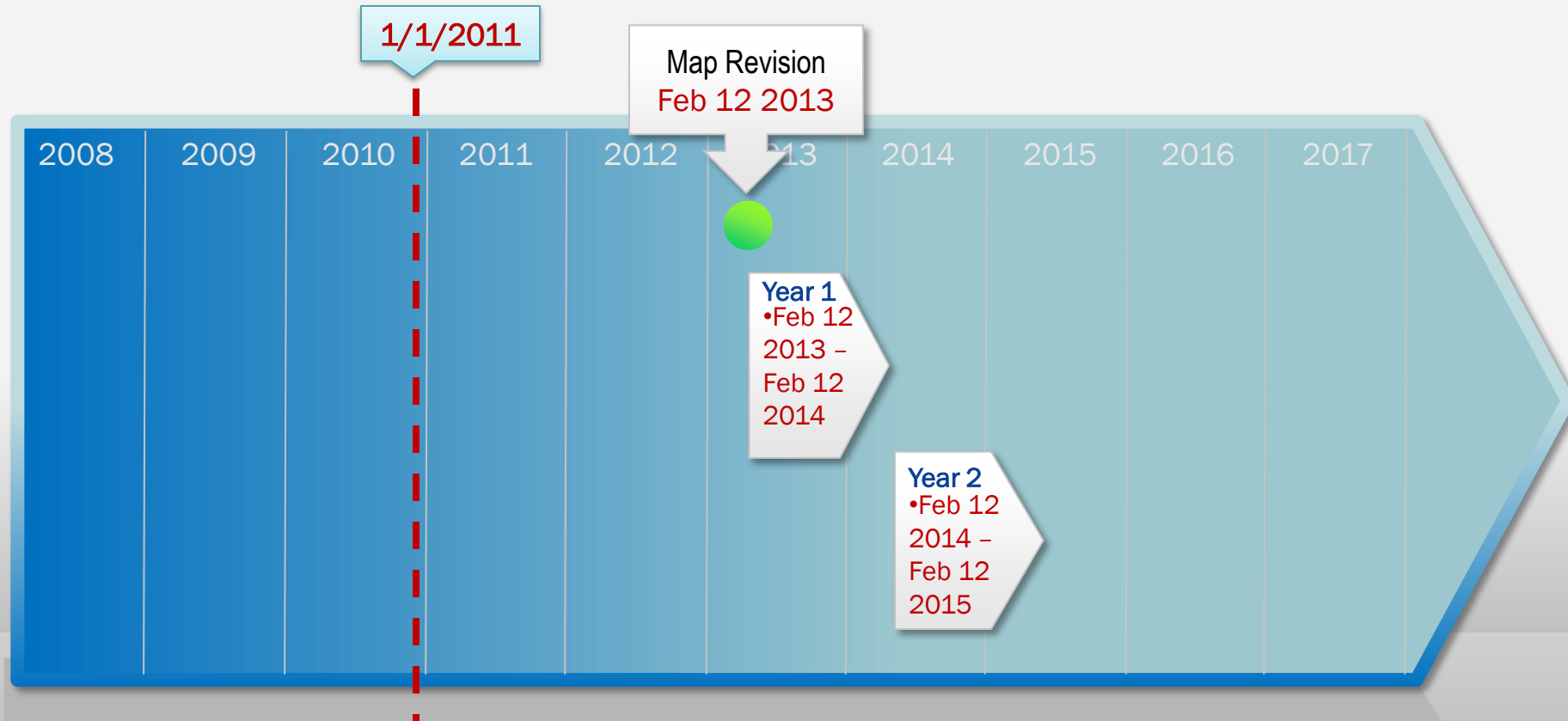
Must meet limited loss
history requirements



PRP EE

Example 2

Affected Buildings Map Revisions From 1/1/11 Onward



Eligible for a PRP EE for two policy years after the map revision date. **Update: FEMA extended PRP-EE until further notice.**



In the meantime...TRANSFERRING OR ASSIGNING an NFIP Policy

- Provides for continuous coverage
- Current policy holder can transfer docs (e.g., elevation certificate, etc.)
- Grandfathered rates (subsidized rates, except Pre-FIRM, Non-primary) available until further notice from FEMA.



What you need to know

- Does Community Participate in the NFIP?
CRS Discount?
- Date of construction
 - ✓ Pre-/Post-FIRM
- Structure/Property located in the floodway?
CBRS or OPA?
 - ✓ Impacts ability to improve, expand or use and may increase costs
- ASK - Any prior flood claims or Flooding history? Repetitive Loss?



NFIP Bottom Line

The elimination of subsidies and discounts could mean big increases for some property owners

- Properties that do not meet current requirements (e.g., below the current Base Flood Elevation) could see rates increase dramatically.
- Properties that meet current requirements still could see increases when new maps show higher risk

Do your homework. Whether your Seller 's or the Buyer 's Agent - Know everything you can about the flood risk and the cost of flood insurance.



Saving Money on Flood Insurance

FEMA has programs/tools to help owners reduce their risk and save money on flood insurance

Community-wide discounts through the Community Rating System (CRS)

Insurance - Use of higher deductibles to lower premium costs

FEMA grant programs support rebuilding and relocating

Ask me for help.

Flood Insurance Check-up

Is you client's structure built properly/rated properly?

Do they have the right type of NFIP Policy and Coverage?



Increased Cost of Compliance - ICC

- Out of Compliance
- ICC claim is separate from the flood damage claim filed
- Requires a separate Notice of Loss from the community
- Must build to adopted local ordinance; advisory data does not apply unless adopted

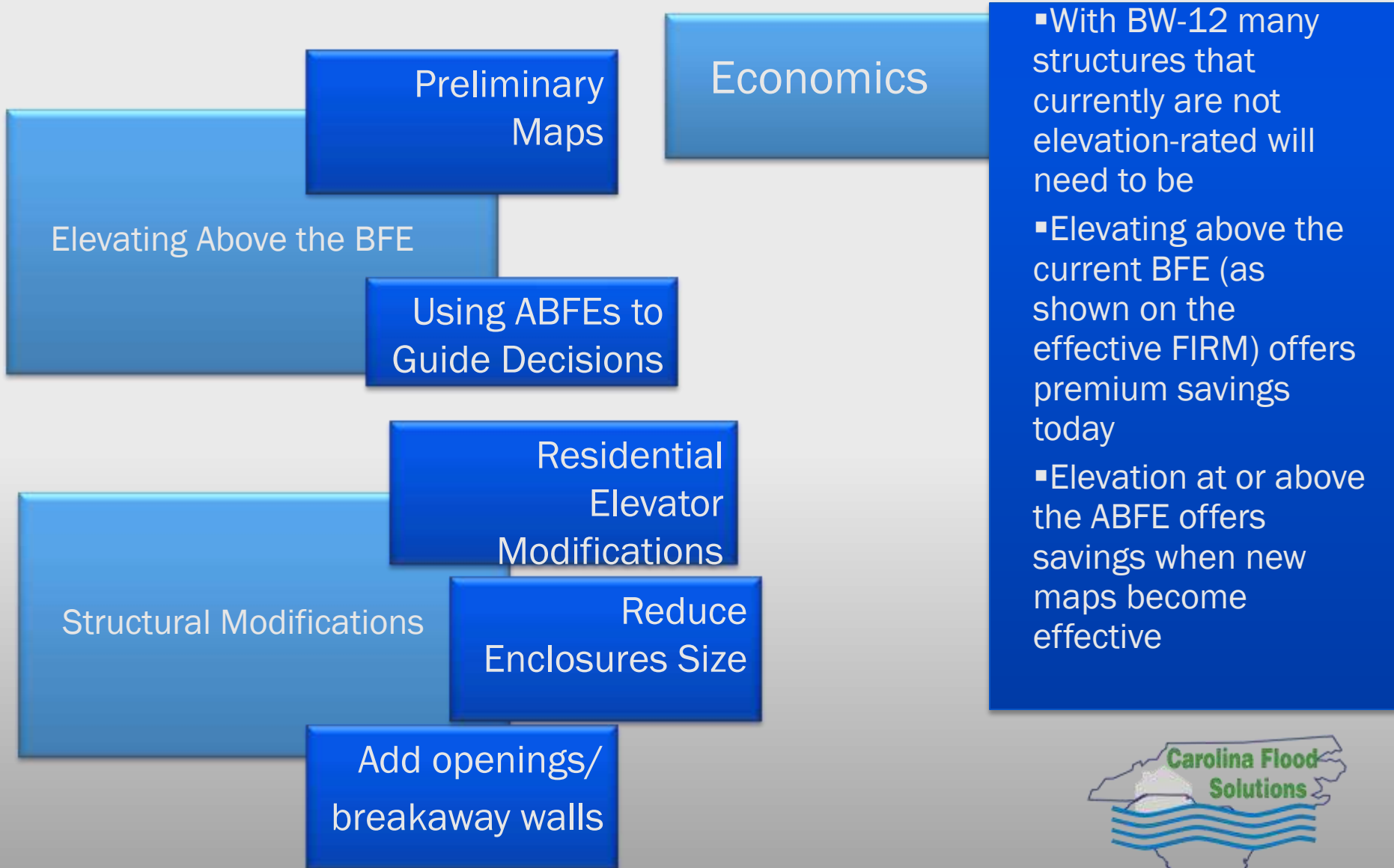


How to Apply for ICC

- Get an estimate for the project
- Submit estimate and Substantial Damage Determination Letter
- Adjuster will review
- 4 Years to complete project



Consider Structural Modifications



BW-12 and Rebuilding Decisions

Elevation lowers premiums.

“ZONE A” EXAMPLE

\$250,000 Building/\$100,000
Contents coverage, AE, standard
deductible



Homes built below
BFE could be hit
hard by an increase
to full-risk rates

Elevating 3 feet
above the BFE could
lower premiums
significantly!



“A” Zone considerations

- Ensure adequate flood openings in all enclosures AND garages. (1 square inch for each square foot, minimum of 2 openings on 2 walls)
- Ensure enclosures are used for parking, storage and building access ONLY and are not finished.
- Ensure Machinery and Equipment are elevated and anchored properly
- Adopt a freeboard elevation requirement
- Adopt a lower substantial improvement threshold, perhaps 30%

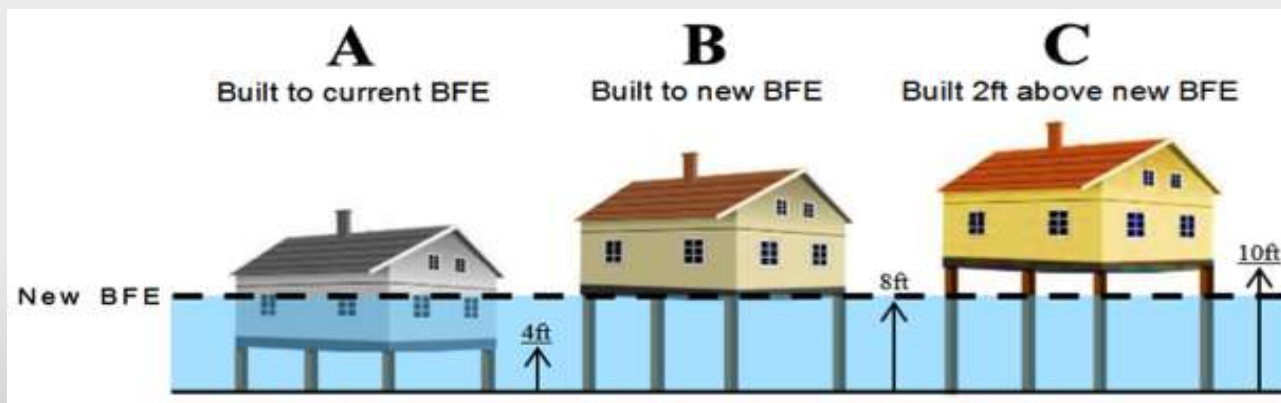


BW-12 and Rebuilding Decisions

Future insurance savings can offset higher construction costs.

“ZONE V” EXAMPLE

(ABFE SHOWS 4' HIGHER RISK)



ELEVATION / COSTS	4 ft	8 ft	10 ft
Foundation	\$18,000	\$29,000	\$30,000
Flood Insurance/yr	\$17,500	\$ 7,000	\$ 3,500
Mortgage increase + flood/yr	\$17,500	\$ 7,588	\$ 4,148
Peace of Mind	☹️	😊	😊😊

Homeowner pockets more than \$13,000/year compared to the current BFE



Other “V” Zone Considerations

- Waves exert tremendous force; buildings in “V” zones must offer minimal wave resistance
- Buildings in “V” zones must use pier/piling construction and be free of obstruction below the BFE (breakaway walls OK)
- Using these smart building practices also increases safety for buildings near V zones



Other V Zone Considerations

- Limit the size of enclosures to 299 square feet or less.
- Elevators below the base flood cause a significant increase in premium even if the machinery is elevated. Consider open elevator car.
- Allow only lattice or wood screening below bfe.



Homes With Basements

- Homeowners with basements in high-risk zones face difficult choices

Restricted coverage

High risk of water damage

- Options

Fill in basement

Or pay more for flood insurance



Takeaway: What to Tell Clients





Before your client decides what path to take make sure that they consult a professional and understand the outcome.

The professional MUST know the floodplain management requirements AND the flood insurance ramifications – if not they maybe wasting their time and throwing their money away.



Questions?
Comments?



Carolina Flood Solutions LLC

Lisa S. Jones, CFM, CPM, ANFI
(803) 730-8626
lisajonescfm@gmail.com

www.carolinafloodsolutions.com