

# For Immediate Release



To: Media Distribution  
From: Fayette County Office of Emergency Management,  
Media Contact: Janet L. Carrigan (979) 968-6469  
Date: January 9, 2013  
Re: *Congress Legislation Reforms National Flood Insurance Program*

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## **Biggert-Waters Flood Insurance Reform Act 2012: *Second homes to lose flood subsidy***

Changes to the National Flood Insurance Program (NFIP) will result in homeowners unable to receive subsidies (for their flood insurance) for secondary homes. NFIP rates for pre-Flood Insurance Rate Map (FIRM) homes will increase upon policy renewal beginning Jan. 1, 2013. Damaging hurricanes of the magnitude of Katrina and Rita, and a few other storms, forced NFIP to increase revenue by phasing out of pre-FIRM subsidies.

The NFIP is nearly \$18 billion in debt to the national treasury; the program was conceived as a self-supporting insurance program - it mostly was until Katrina and Rita. Efforts to get Congress to forgive the loan from the treasury failed, and the Biggert-Waters Flood Insurance Reform Act of 2012 requires that this debt, and any future debt, be repaid within 10 years. The reform also requires the Federal Insurance Management Agency (FEMA) to build up a reserve fund. Actuarial rates must also be calculated, per the reform, using average losses that include the catastrophic loss years. In the past, large losses were not calculated in the average.

Pre-FIRM means built before the first flood insurance rate map was made available in a jurisdiction. Pre-FIRM dates vary; pre-FIRM dates can be determined by looking at FEMA's *Community Status Book* online. The Pre-FIRM date is in the "Init FIRM identified" column; prior to that date is defined as pre-FIRM.

The Biggert-Waters Act also requires that subsidized rates not be offered on policies that have been allowed to lapse. It is very important that owners of pre-FIRM buildings maintain their flood insurance for the subsidy to phase out over several years rather than all at once; it is not clear whether people who buy new flood insurance policies now will be allowed the subsidized rates or if they will be required to pay the full actuarial cost of new policies.

FEMA has indicated that rulemaking associated with the reform will begin to be rolled out for public comment beginning in January, 2013; there are still many unknowns with respect to how FEMA intends to implement the reform act. The only thing for certain is that pre-FIRM vacation homes have their premiums increased by 25 percent per year until actuarial rates are reached, beginning with renewals after Jan. 1, 2013.

FEMA suggests that insurance companies insert the following language in their policy renewals for pre-FIRM second homes: *The National Flood Insurance Program (NFIP) historically has offered subsidized rates to certain structures built prior to a community's full implementation of the Program. These subsidized rates do not reflect the full risk of flood loss to such structures.*

On July 6, 2012, the Biggert-Waters Flood Insurance Reform Act of 2012 was signed into law. Among other provisions, this Act phases out subsidized rates for certain properties, including non-primary residences. FEMA defines non-primary residence as a structure that has not been occupied by the policyholder, or their spouse, for 80 percent of: (a) the 365 days immediately preceding the policy renewal; or (b) the period of ownership, if the period of ownership is less than 365 days. These properties will no longer receive reduced premium rates for flood insurance, and the annual premium rates will increase by 25 percent, per year, until the full risk of flood loss is reflected.

The reform act also changed other key provisions of the NFIP. Go to the Association of State Floodplain Managers website at [www.floods.org](http://www.floods.org) for further information.

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