



Changes to the National Flood Insurance Program – What to Expect

Impact of changes to the NFIP under Homeowner Flood Insurance Affordability Act of 2014 and Biggert-Waters 12

October 2014



Key Priorities

- FEMA continues to analyze and implement the new Act.
- Initial Priority
 - FEMA's initial priority was to **stop policy increases** for subsidized policyholders as outlined in the Act.
- Key Priorities include:
 - Refunds, Rates, and Surcharges
 - Mapping
 - Promote Mitigation
 - Flood Insurance Advocate

Latest Actions - October 2014

- **October 1, 2014 Bulletin to Write Your Own (WYO) insurance companies with guidance to change systems on the following matters:**
 - Bring all rate tables up to date on the rates required by HFIAA
 - Implement a new Congressionally approved surcharge for all policy-holders
 - Implement a new Congressionally mandated high deductible option
 - Maintain grandfathered rates for existing policyholders newly mapped into higher risk in the flood plain.
- **TMAC first meeting September 30 – October 1, 2014**
- **Refunds begin October 1, 2104**

Refunds, Rates, and Surcharges

Refunds

- The new Act mandates refunds of the excess premiums for certain flood insurance policies affected by the Pre-Flood Insurance Rate Map (Pre-FIRM) subsidy elimination required by BW-12.
- WYOs will be permitted to retain the expense allowance in compensation for work completed.
- **Refunds to be issued on or after October 1, 2014 and will be completed by the end of the calendar year.**
- *An estimated 1 million policyholders will receive refunds. The average refund will be \$100, with refunds ranging from only a few dollars to thousands of dollars.*



18 Percent Cap on Premium Increases

- The bulletin aligns rates with the 18 percent cap on most individual policyholders with the following exceptions:
 - Non-primary residences;
 - Severe Repetitive Loss properties; and
 - Substantially damaged and substantially improved properties.
- *Moving forward, NFIP will be developing requirements for noting business properties and practices for charging HFIAA compliant rates in 2015.*

Refunds, Rates, and Surcharges

Premium Rates for Subsidized Policies

- Exceptions to these general rules and limitations:
 - Policies for the following properties will continue to see up to 25 percent annual increases as required by BW-12 until they reach their full-risk rate:
 - Older business properties insured with subsidized rates;
 - Older non-primary residences insured with subsidized rates;
 - Severe Repetitive Loss Properties insured with subsidized rates;
 - Buildings that have been substantially damaged or improved built after the local adoption of a Flood Insurance Rate Map.

Reserve Fund Assessment

- New changes in the October 1, 2014 bulletin make changes to the Reserve Fund assessment as required by Biggert Waters. The Reserve Fund is aimed at assisting with the costs of NFIP claims that exceed the annual premiums collected and supporting the program's sustainability.
- As of April 1, 2015 :
 - 10 percent annual rate assessment for Preferred Risk Policies (PRPs); and
 - 15 percent annual rate assessment for all other policies.

HFIAA Surcharges

- HFIAA introduces a new mandatory surcharge that does not count towards the 18 percent cap on individual policy increases.
- Beginning April 1, 2015 for new policies and upon renewal, all policyholders will be required to pay:
 - \$25 for policies on primary residences; and
 - \$250 for all other policies.
- The surcharges will be collected, with limited exceptions, until all policies are rated at the full risk rate.

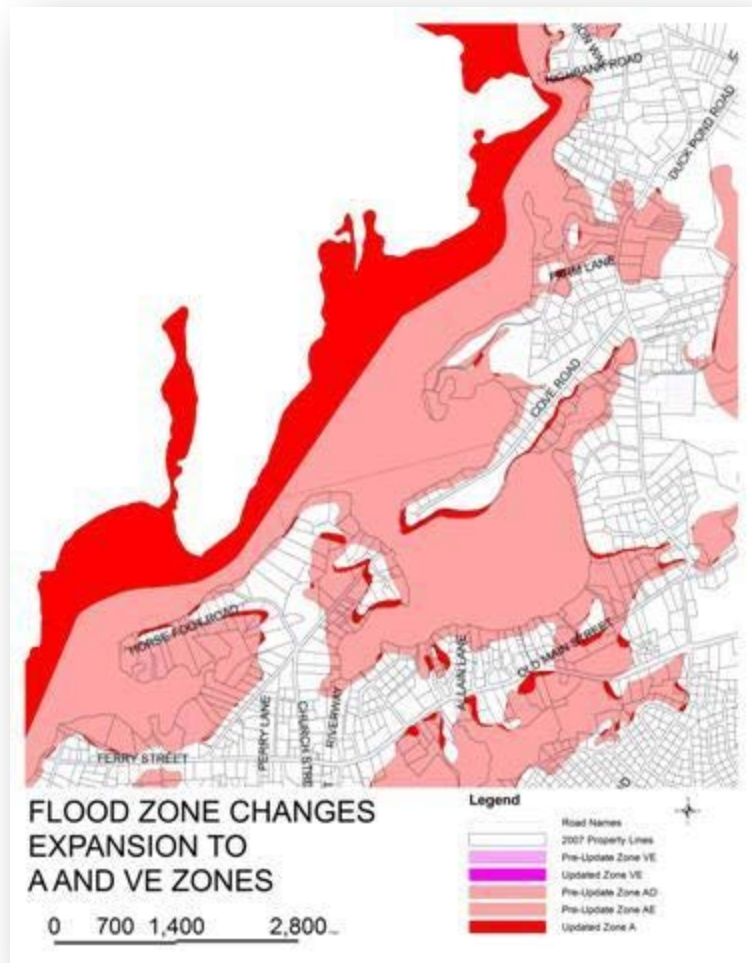
New Deductible Option

- HFIAA includes a new high deductible option created by Congress that will begin on April 1, 2015.
- A \$10,000 deductible is available for residential policies. The same deductible option must apply to both building and contents coverage.
- The maximum deductible may result in up to a 40 percent discount from the base premium for single-family homes.
- Lenders will have to determine if the high deductible option will be accepted for the mandatory purchase requirements.

Refunds, Rates, and Surcharges

Grandfathering (Sec 4)

- HFIAA restores FEMA's ability to grandfather properties into lower risk classes.
- For properties newly mapped into high risk areas, the law sets first year premiums at the same rate offered to properties located outside the SFHA (Preferred Risk Policy Eligibility Extension).
- With limited exceptions, flood insurance premiums cannot increase more than 18 percent annually.



Mapping

Enhanced Communication and Outreach

- FEMA continues Mapping activities.
- BW-12 requires FEMA to enhance coordination with communities before and during mapping activities and requires FEMA to report certain information to members of Congress for each State and congressional district affected by preliminary maps.
- Sec. 30 of HFIAA requires additional layers of enhanced notification and outreach to congress and other stakeholders.

Technical Mapping Advisory Council

- The Technical Mapping Advisory Council (TMAC) has been established and will convene in-person Sept 30 and Oct. 1.
 - The TMAC will review the new national flood mapping program activities authorized under the 2012 and 2014 flood insurance reform laws.
 - FEMA will seek the TMAC 's recommendations on meeting new requirements for the flood mapping program including the identification of residual risk areas, coastal flooding information, land subsidence, erosion, expected changes in flood hazards with time, and others.
 - Sect. 17 of HFIAA requires the Administrator to certify in writing to Congress that FEMA is utilizing “technically credible” data and mapping approaches.

Technical Mapping Advisory Council (TMAC)

- **Appointments are complete and an informational call has been completed with members**
 - This administrative call took place September 10, 2014 and settled many logistical requirements in advance of this week's in person meeting.
- **The first in-person public meeting has been scheduled**
 - The first in-person public meeting of the TMAC is currently scheduled for September 30-October 1 at the United States Geological Survey (USGS) Auditorium in Reston, Virginia
 - A Federal Register Notice was published on Sept. 15 with agenda and public comment information
 - The TMAC is anticipated to hold 3 virtual and 3 in-person public meetings within its first year (October 2014-October 2015)

TMAC Appointees

- **FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA) DESIGNEE**
 - Doug Bellomo, P.E. – Director, Risk Analysis Division (RAD), FEMA.
- **NATIONAL OCEANIC AND AIR ATMOSPHERIC (NOAA) / COMMERCE FOR OCEANS AND ATMOSPHERE DESIGNEE**
 - Juliana Blackwell – Director, National Geodetic Survey (NGS), National Oceanic and Atmospheric Administration (NOAA)
- **U.S. ARMY CORPS OF ENGINEERS DESIGNEE**
 - Nancy Blyler, Geospatial Coordinator
- **STATE GEOGRAPHIC INFORMATION SYSTEM (GIS) REPRESENTATIVE**
 - Richard Butgereit, GISP - GIS Administrator, Florida Division of Emergency Management
- **U.S. GEOLOGICAL SURVEY REPRESENTATIVE**
 - Mark DeMulder – Director, National Geospatial Program, U.S. Geological Survey (USGS)

TMAC Appointees (continued)

- **STATE COOPERATING TECHNICAL PARTNERS (CTP) REPRESENTATIVES (2)**
 - John Dorman - Director, Emergency Management Division, Geospatial and Technology Management Office, North Carolina State Government
 - Leslie Durham, P.E. - Director, Floodplain Management Unit, Alabama Department of Economic and Community Affairs/Office of Water Resources
- **MAPPING MEMBER**
 - Scott Edelman, P.E. - Division Director for North America, AECOM Water Resources
- **STATE MITIGATION OFFICER**
 - Steve Ferryman, CFM - Mitigation and Recovery Administrator, Emergency Management Agency, State Government of Ohio
- **REGIONAL FLOOD AND STORMWATER MEMBER**
 - Gale Wm. Fraser, II - General Manager and Chief Engineer, Clark County Regional Flood Control District

TMAC Appointees (continued)

- **LOCAL COOPERATING TECHNICAL PARTNER (CTP) REPRESENTATIVES (2)**
 - David Mallory, P.E. - Manager, Urban Drainage & Flood Control District's Floodplain Management Program
 - Carrie Grassi, Senior Policy Advisor, Mayor's Office of Long-Term Planning and Sustainability, New York City
- **ENGINEERING MEMBER**
 - Christopher P. Jones, P.E. - Registered Professional Engineer
- **RISK MANAGEMENT MEMBER**
 - Howard Kunreuther, Professor of Decision Sciences and Public Policy, The Wharton School, University of Pennsylvania
- **SURVEYING MEMBER**
 - Wendy Lathrop, PLS, CFM - President and owner, Cadastral Consulting, LLC
- **CATEGORY: DEPARTMENT OF INTERIOR (DOI) DESIGNEE**
 - Robert Mason - Deputy Chief, Office of Surface Water, Department of Interior (DOI)

TMAC Appointees (continued)

▪ STATE FLOODPLAIN MANAGEMENT MEMBER

- Sally Ann McConkey, P.E., CFM, Diplomat, Water Resources Engineer (D.WRE)
- Illinois State Water Survey (ISWS), Prairie Research Institute, University of Illinois

▪ U.S. DEPARTMENT OF AGRICULTURE (USDA) DESIGNEE

- To be confirmed.

▪ NATIONAL FLOOD INSURANCE COORDINATION OFFICE REPRESENTATIVE

- Christine Shirley – Oregon State NFIP Coordinator, Natural Hazards Program Group Leader

▪ FLOOD HAZARD DETERMINATION FIRM MEMBER

- Cheryl Small - Vice President of Operations, CoreLogic Flood Services

Flood Insurance Advocate

- FIMA Leadership requested a compilation of options that FEMA could evaluate to determine how best to comply with Section 24 of the HFIAA
- FEMA has identified a broad initial approach for implementing these requirements that involves three main elements:
 - Analysis and Evaluation.
 - Advocacy.
 - Policy.
- Activities to date:
 - Federal Agency interviews and feedback collection
 - Staff perspective and understanding of education and outreach currently happening
 - Data Analytics



Flood Insurance Advocate Overview

Investigative Methodology and Activities

Federal Agency Benchmarks

- Conducted interviews and information meetings with the Federal Office of Insurance and the Small Business Administration's Office of Ombudsman and Office of the Advocate
- Additional meetings planned with the IRS Office of Taxpayer Advocate's office, Fannie Mae/Freddie Mac, Consumer Financial Protection Bureau, and USDA's Federal Crop Insurance Corporation

Internal and External Stakeholder Engagement

- Met with FEMA- wide leadership and staff through meetings and listening sessions to gather programmatic perspectives on the law and organization expectations
- Meeting private sector stakeholders to understand the wide range of perspectives, expectations and needs relating to Flood Insurance Advocate

Data Analysis

- Collecting and evaluating leadership, public and partnership data to identify trends, indicators, challenges and best practices to best prepare the advocate for success

Preliminary Findings

- Over the existing three call centers today, FIMA currently handles more than 800,000 inquiries (calls, emails, online chats) per year assisting policyholders and homeowners, as well as communities and partner organizations.
- Advocacy is currently taking place in FIMA in the form of education and outreach.
- Stakeholders have expectations of the role of the Flood Insurance Advocate. These expectations extend beyond the roles and responsibilities outlined in Section 24.

Preliminary Opportunities

- The Flood Insurance Advocate has the opportunity to work with existing FEMA/FIMA operations to coordinate advocacy in place and establish centralized knowledge bases.
- Further evaluation of inquiries not related to general policy questions may identify areas where the Flood Insurance Advocate is able to act as a catalyst for strengthening the public's understanding of the NFIP.
- The Flood Insurance Advocate may leverage existing partnerships with internal and external stakeholders to provide policy holders and homeowners additional necessary education and outreach related to mapping, mitigation and insurance information.

Next Steps and Considerations

- The range of views and expectations on advocacy require further discussion to comply with Section 24.
- Meetings with private sector stakeholders and federal agencies will continue through the end of October.
- Initial options for the Flood Insurance Advocate will be delivered to FIMA leadership in Fall 2014, with stand up of the Advocate in 2015.
- Stand up of the Flood Insurance Advocate is subject to allocation of funds, as well as the impact of financial authorizations and disaster activity.

Refunds, Rates, and Surcharges

Affordability Study (BW12 and HFIAA)

- The new Act requires FEMA to draft an affordability framework, which is due to Congress 18 months after completion of the affordability study required by BW-12.
 - Affordability Study required by BW-12 is being conducted by the National Academies of Sciences, as specified in the BW-12 law.
- The Affordability Study required by BW-12 will inform FEMA's Affordability framework required by HFIAA.

Refunds, Rates, and Surcharges

Draft Affordability Framework (Sec. 9 & 16)

- In developing the affordability framework, FEMA must consider:
 - accurate communication to customers of flood risk,
 - targeted assistance based on financial ability to pay,
 - individual and community actions to mitigate flood risk or lower cost of flood insurance,
 - impact of increases in premium rates on participation in NFIP,
 - impact of mapping update on affordability of flood insurance.
- Framework will include proposals and proposed regulations for ensuring flood insurance affordability among low-income populations.

More Information & Updates

- For more information and updates as they become available, visit: <http://www.fema.gov/flood-insurance-reform>.

Refunds, Rates, and Surcharges

Small Business (Sec. 29)

- Sec. 29 requires FEMA to report to Congress on the effects the Pre-FIRM subsidy phase-outs and surcharge on small businesses, non-profits, houses of worship and certain residences.
 - If FEMA determines the rate increases and surcharges are having a detrimental effect on affordability, FEMA must submit appropriate affordability recommendations to Congress.

HFIAA Impacts to Businesses

- Business properties are included within the “non-residential” policy class. FEMA is actively working to determine how best to identify and classify businesses within the category.
- Older Business properties paying pre-FIRM subsidized rates will continue to see up to a 25 percent annual increases as required by BW-12 until they reach their full-risk rate. This requirement was not changed as a result of the HFIAA.

Rates, Refunds and Surcharges

- **New Manual expected to be released in October 2014 and will include implementation of other important provisions including:**
- **Gradual Rate Increases**
 - Section 3 and Section 5 of the HFIAA return premium subsidies to some pre-FIRM policies, but also prohibit increasing premiums by more than **5 to 15 percent for any risk class** and **18 percent for an individual policy** with some exceptions
 - Future rates will be issued in compliance with these gradual increases.
- **Surcharges**
 - A new surcharge will be added to all policies to offset the subsidized policies and increase the solvency of the NFIP program. A policy for a primary residence will include a \$25 surcharge. All other policies will include a \$250 surcharge. These fees will be included on all policies, including full-risk rated policies until all Pre-FIRM subsidies are eliminated

Background

Background

Why This Is So Complicated

- Development in flood-prone areas (like most of the lower Mississippi Valley) = risky.
- Development = \$\$, jobs, elections
- Risk = expense
- Someone has to pay to cover that risk

- Risk is to multiple stakeholders
 - Actual people
 - Banks and lenders which finance development
 - Federal Government which underwrites many mortgages



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White Cap
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Souvenirs
Swimwear - Etc.



Why This Is So Complicated

- **Option 1: Government bears risk**

- Model for the last 40+ years
- Worked fairly well until Hurricane Katrina (and Rita and Wilma) set us back \$17 billion
- Unpopular with members of Congress/public from less-risky areas
- Cash-strapped government can no longer sustain

- **Option 2: Policyholder bears risk**

- Biggert-Waters Plan
- Unpopular with policyholders at most risk (in politically hot areas)

- **Option 3: Hybrid model (sort of)**

- HFIAA
- Slowed transfer of risk to higher-risk property owners
- Surcharge on every other policyholder
- Popular with nobody

Why This Is So Complicated

- **Option 4: Mitigate, Mitigate, Mitigate**
 - Send valuable development \$\$, jobs, tax base elsewhere
 - Added cost for new development
 - Politically popular for everyone – except the community doing it
- **Option 5?**