



NATIONAL FLOOD INSURANCE PROGRAM (NFIP)

Legislative Analysis

Homeowner Flood Insurance Affordability Act of 2014

On March 13, 2014, Congress amended the Biggert-Waters law with the Homeowner Flood Insurance Affordability Act. President Obama signed these affordability amendments into law on March 21, 2014.

- Repeals FEMA's authority to raise flood insurance rates at the property's sale or new policy.
- Restores grandfathering so that properties built and maintained to code in one flood zone will not be forced to pay a higher rate in another flood zone because FEMA made a mistake on the original flood map.
- Caps future increases at 18% annually for newer properties or 25% for the older ones.
- Refunds any premium increase paid by property owners in excess of amended rates.

Originally Biggert-Waters eliminated subsidized rates for 20% of property owners – half paid 25% more per year, while the other half jumped to the full-cost premium upon purchasing one of these properties after July 2012. However, FEMA did not implement the rate changes for 15 months, allowing many to buy properties before they could be warned of the rate increase. Others saw excessive increases that did not stand up to scrutiny when experts reviewed their rate quotes and found that the underlying judgments and calculations were in fact incorrect. These insurance rate discrepancies appeared to be the result of confusion caused by the scattershot implementation of the 2012 law.

As amended, the law will still end the subsidies, except none of the 20% of owners will pay more than 25% each year, even if they buy the property. No more dramatic, upfront increases at the closing table. All increases are capped and occur once a year when the flood insurance is renewed. Also, the accuracy of their flood insurance rates and maps are to be technically reviewed. A new flood insurance advocate is created to assist property owners so they will have confidence that the full-cost rate truly reflects the flood risk to the property.

If property owners cannot afford the 25% increases along the way, they are presented with new options to help them transition and reduce their premiums, including:

- Reestablishing the option to sell the property, because no one could buy the property until they could assume the current policy and rate (subject to 25% increases).
- Grandfathering the property under flood zones when it was built to code and avoid "bait-and-switch" (so e.g., FEMA officials couldn't later tell you to rebuild higher or pay flood insurance when originally they said you wouldn't need insurance if you built to X feet and you listened).
- Flood-proofing or adopting alternative mitigation measures when elevating the property is not an option.
- Selecting a higher deductible up to \$10,000 before flood losses are covered by insurance.
- Appealing the flood map for which successful property owners will be fully reimbursed.

Finally, the amended law provides for FEMA to report to Congress within 18 months on the affordability of 25% increases, especially for lower value homes, non-profits, churches, and small businesses. Should affordability remain an issue, FEMA is to propose targeted solutions, like means-tested vouchers, on top of all the other transition/flexibility options described above.

Section by Section Summary: National Flood Insurance Affordability Act

NAR Issue Brief: Flood Insurance Comparison

NAR Issue Brief: Flood Insurance Premium Rates – At a Glance

NAR Issue Brief: Flood Insurance Premium Rates for Commercial Properties - At a Glance