FEMA Insurance Information Update

ATTACHMENT A: SUMMARY OF THE NFIP OCTOBER 2013 PREMIUM RATE AND RULE CHANGES

National Flood Insurance Program
October 1, 2013, Premium Rate and Rule Changes: A Summary

1. Premium Increases
Premiums will increase an average of 10% for policies written or renewed on or after October 1, 2013. The average premium change by zone varies as described below. The premium for a particular policy may change more or less than the average change.

• BW 12 Changes
- Reserve Fund: The changes below include the increase due to a 5% reserve fund assessment for all policies other than PRP policies.
- 25% increases for certain Pre-FIRM policies: Pre-FIRM increases (including the reserve fund assessment) include a 25% increase above the rates in effect when BW 12 was enacted for policies issued on:

• Non-primary (non-principal) residences (The first 25% increase was effective January 1, 2013. The next increase is effective January 1, 2014.), o Severe Repetitive Loss (SRL) properties, o Properties that have incurred flood-related damages in which the cumulative amount of NFIP claim payments exceeded the fair market value of the property (as a subset of SRL properties), and Business properties.

• Federal Policy Fee: The Federal Policy Fee is increasing from $20 to $22 for PRP policies and from $40 to $44 (or equivalent multiple for Residential Condominium Building Association Policies) for all other policies.

• V Zones (coastal high-velocity zones)
Rate increases are being implemented again this year as a result of the Heinz Center's Erosion Zone Study, which clearly indicates that current rates significantly underestimate the increasing hazard from steadily eroding coastlines.
- Post-FIRM V Zones: Premiums will increase 11%.
- Pre-FIRM V Zones: Premiums will increase 17%.

• A Zones (non-velocity zones, which are primarily riverine zones)
- Post-FIRM A1-A30 and AE Zones: Premiums will increase 6%.
- Pre-FIRM AE Zones: Premiums will increase 16% to reduce the amount of subsidy in our Pre-FIRM rates.
- AO, AH, AOB, and AHB Zones (shallow flooding zones): Premiums will increase 6%.
- Unnumbered A Zones (remote A Zones where elevations have not been determined): Premiums will increase 8%.
- A99 Zones (approved flood mitigation projects, e.g., levees still in the course of construction) and AR Zones: Premiums will increase 9%.

• X Zones (zones outside the Special Flood Hazard Area)
- Standard-Rated Policy: Premiums will increase 8%.
- Preferred Risk Policy (PRP): Premiums will increase an average of 1%. This increase consists of:

o A 19% premium increase for policies written under the PRP Eligibility Extension.
o Less than 1% for all other PRP policies (i.e., for PRPs on buildings that are currently mapped outside the SFHA) due to the increase in the Federal Policy Fee. Premiums will remain unchanged.

• Other: Other than updates to Mortgage Portfolio Protection Program, Provisional, and Tentative rates, there are no additional changes (to ICC premiums, deductibles, etc.) that would affect the premium for an individual policy.

2. Exclusion of Certain Properties from Receiving Subsidized Premium Rates (Renewals)
Effective October 1, 2013, the NFIP will no longer allow renewals for certain Pre-FIRM buildings in a Special Flood Hazard Area (SFHA) or Zone D to receive subsidized premium rates (Table 2A). These properties previously received subsidized premium rates because they were built on or before December 31, 1974, or before the effective date of the initial Flood Insurance Rate Map (FIRM) published for the community. Effective October 1, 2013, renewals for the properties noted below will experience a premium rate increase up to 25 percent annually until such time as elevation data supplied on an Elevation Certificate (EC) indicates that the fullrisk premium rate is lower than the subsidized rates reflecting a 25-percent increase over the previous year. This change will affect the property types listed below:

• Severe Repetitive Loss (SRL) properties consisting of 1-4 family residences.
The Rating section of the Flood Insurance Manual (FIM) contains a new rate table (Table 2C) for all new properties transferred to the NFIP Special Direct Facility (SDF) and renewal Pre-FIRM SRL properties in an SFHA and Zone D with an effective date on or after October 1, 2013. This table reflects a 25% increase over the premium rates previously applied to Pre-FIRM SRL properties.

• Properties that have incurred flood-related damage in which the cumulative amounts of NFIP flood insurance claim payments equaled or exceeded the fair market value of the property.

This category of Pre-FIRM properties is considered a subset of all SRL properties. Therefore, SRL renewals for Pre-FIRM buildings in an SFHA and Zone D for all 1-4 family residences will be rated using the new rate table (Table 2C), as will other SRL properties. This new table will apply to all SRL renewal policies meeting the above criteria that are effective on or after October 1, 2013. This table reflects a 25% increase over the premium rates previously applied to Pre-FIRM properties.

• Business properties as described below.
Business properties are part of the larger category of non-residential occupancy as defined by the NFIP. The NFIP defines rate classes by flood zone. The non-residential occupancy is a subset of policies in all existing rate classes. By increasing the non-residential occupancy category 25% in Table 2A, FEMA will ensure that all business properties are rated as required by the law. Until business properties have been defined by the rulemaking process, business properties will continue to be rated using non-residential premium rates from Table 2A.

Effective October 1, 2013, the Application form will include a new data element to capture whether the building is a business property or not. For the purpose of completing the Application, a business property is any non-residential building that produces income, or a building designed for use as office or retail space, or for wholesale, hospitality, or similar uses. Buildings that are permitted for residential use such as apartments, rental dwelling units, or churches are not considered business properties for the purpose of completing the Application.

3. No Extension of Subsidy to New Policies or Lapsed Policies for Pre-FIRM Properties in SFHAs and Zone D (New Business)

Effective October 1, 2013, the NFIP will no longer provide any extension of premium rate subsidy to new or lapsed Pre-FIRM properties/policies, which will be subject to full-risk rating. These properties will require an Elevation Certificate (EC) including photos in order to determine full-risk rating using the current FIRM. Tentative or provisional rates may be used for 1 year only until an EC is provided.

New business Pre-FIRM application submissions will use Post-FIRM rating procedures from the Rating section of the Flood Insurance Manual or the Specific Rating Guidelines depending on the elevation difference. Because there are no coverage limitations in an enclosure below the elevated floor of a Pre-FIRM building, such buildings must be rated as non-elevated buildings. New risk rating methods have been developed for these policies, and no variance documentation or Elevated Building Determination Form will be required. See Attachments B and E for details.

The implementation of Section 100205(B) of BW 12, codified at 42 U.S.C. § 4014(g), eliminates the NFIP grandfather rules for all new business Pre-FIRM structures receiving subsidized rates, except for Pre-FIRM structures that were built in compliance and have a construction date that is on or after the community's initial FIRM date and before January 1, 1975.

In addition, this provision does not impact policies issued under the existing PRP Eligibility Extension, as these policies are not subsidized.

The following Pre-FIRM properties/policies in SFHAs and Zone D are impacted:
• Properties not insured by the NFIP as of the date of enactment of BW 12 (with a possible exception created by Section 100207 of BW 12).

- Any application for a policy that is not a rollover, transfer, or rewrite and is effective on or after October 1, 2013, will be subject to full-risk rating.
- Renewals of policies resulting from applications that were not rollovers, transfers, or rewrites that initially became effective on or after July 6, 2012, are subject to full-risk rating on the first renewal effective on or after October 1, 2013.

• Policies under the NFIP that have lapsed in coverage as a result of the deliberate choice of the policyholder.

- A lapsed policy is any policy for which premium payment is received by the insurer after the 30-day grace period following the policy's expiration date. This provision will apply to Pre-FIRM subsidized policies that experience a lapse on or after October 1, 2013.
- Lapsed policies with reinstated coverage that became effective on or after October 4, 2012, and

before October 1, 2013, are subject to full-risk rating on the first renewal effective on or after October 1, 2013.
- A lapsed Pre-FIRM subsidized policy cannot be reinstated on or after October 1, 2013, and loses eligibility for grandfather rules under "continuous coverage."
- A new application and an EC will be required. An exception will be made if a Pre-FIRM subsidized policy lapses due to community suspension. In that case, the policy may be written using subsidized rates if the application and premium are received by the insurer within 180 days of the community reinstatement date.

• Properties purchased after the date of enactment of BW 12.

- The Application form will include a new data element to record the property purchase date. This provision will not apply to gifts, transfers of ownership, or assignments to an estate or trust in which a purchase did not take place.
- The General Change Endorsement form will include a new data element to record an assignment due to purchase. Mid-term assignments due to purchase of Pre-FIRM properties in SFHAs and Zone D that were rated using subsidized rates will be subject to full-risk rating (pro rata) effective the date of purchase, using the current map information.
- Renewals of policies receiving subsidized rates and covering a property purchased on or after July 6, 2012, are subject to full-risk rating on the first renewal effective on or after October 1, 2013.

4. Policies under the PRP Eligibility Extension

PRPs issued under the Eligibility Extension, where a map revision date newly mapping the property as being located in an SFHA was effective on or after October 1, 2008, will see annual increases averaging 20% beginning with new business and renewals effective on or after October 1, 2013. A new set of PRP rate tables will be provided for properties receiving the PRP Eligibility Extension. These policies must be issued or renewed using Risk Rating Method "Q". Properties that are currently mapped in a B, C, or X Zone on the current FIRM and meet the loss eligibility requirements will continue to be issued or renewed using Risk Rating Method "7" and will be rated using the regular PRP rate tables.

5. Introduction of Reserve Fund

In accordance with Section 100212 of BW 12, a Reserve Fund ratio will be applied to each NFIP policy, except PRPs and GFIPs, effective on or after October 1, 2013. Reserve Fund amounts will be part of the premium calculation for each policy; however, they will not be subject to WYO Company expense allowances, Unallocated Loss Adjustment Expenses, or NFIP Direct Servicing Agents' commissions. The Reserve Fund for policies effective on or after October 1, 2013, is 5% of the total premium.

6. Federal Policy Fee

Effective October 1, 2013, the Federal Policy Fee will increase to $44 for non-PRPs and to $22 for PRPs.

7. Elimination of No Waiting Period Due to Lender Requirement

The 30-day waiting period applies to a new application when the lender determines that a loan on a building in an SFHA that requires flood insurance does not have it.

8. NFIP Form Changes

Changes have been made to the NFIP Flood Insurance Application, General Change Endorsement, Preferred Risk Policy, and Cancellation Forms. The previous versions of these forms will expire on August 31, 2013. The revised forms now incorporate certain data elements required for the effective implementation of the provisions of BW 12. Further guidance on these new requirements will be provided in the relevant sections of the Flood Insurance Manual. See Attachment D for more details.

9. January 1, 2014, Program Change

Effective January 1, 2014, the premium for non-principal/non-primary residences increases 25% per BW 12; this includes an increase in the Reserve Fund load to 5%.