National Flood Insurance Program

April 1, 2015, Program Changes: A Summary

This bulletin implements more of the required changes to the rate structure and some of the business practices with the NFIP as a result of the Homeowner Flood Insurance Affordability Act (HFIAA) and Biggert-Waters 12 (Biggert-Waters). Key changes in the bulletin include:

- Implementation of the first annual rate change that sets rates using rate increase limitations set by HFIAA, for individual premiums and rate classes:
  - Limiting premium increases for individual premiums to 18 percent premium;
  - Limiting increases for average rate classes to 15 percent; and
  - Mandatory increases for certain subsidized policyholders under Biggert-Waters and HFIAA.
- Increasing the Reserve Fund assessments required by Biggert-Waters.
- Implementation of the annual surcharges required by HFIAA.
- Guidance on substantially damaged and substantially improved structures and additional rating guidance on Pre-Flood Insurance Rate Map (FIRM) structures.
- Implementation of a new procedure for Properties Newly Mapped into the Special Flood Hazard Area and existing Preferred Risk Policy Eligibility Extension (PRP EE) policies. The premiums will be the same as the Preferred Risk Policy for the first year (calculated before fees and assessments) to comply with provisions of HFIAA.
- Reformulation of expense loading on premiums, reducing the expense load on the highest risk policies as an interim step while investigating expenses on policies as required by Biggert-Waters.

The changes outlined in this bulletin will take effect on April 1, 2015, for new business and renewals beginning April 1, 2015.

1. Premium Increases and Surcharges (Biggert-Waters Section 100205 and HFIAA Section 5)

Premium increases effective April 1, 2015 will comply with HFIAA, which limits average annual increases in flood insurance premiums to 15 percent for each risk class, while also requiring the average increase for all Pre-FIRM subsidized policies be at least 5 percent. In addition, 18 percent is the most any individual premium may increase, with some limited exceptions that include, but are not limited to, misratings and increases in the amount of insurance coverage. When premium increases are evaluated for compliance with these caps, the Reserve Fund Assessment is included.

Another important exception to the 18 percent limitation on premium increases is those groups of subsidized policies for which Biggert-Waters mandates annual premium increases of 25 percent. Premiums on subsidized policies are being increased 25 percent for policies covering non-primary residences, Severe Repetitive Loss properties, and substantially-damaged / substantially-improved properties. The 25 percent premium increase on business properties will be implemented next year.

HFIAA also introduces a new mandatory surcharge on all new and renewed policies of either \$25 for policies on primary residences or \$250 for all other policies. The Congressionally-mandated surcharge, the probation surcharge, and the Federal Policy Fee (FPF) are not considered premiums and, therefore, are not subject to the limitations described in the previous paragraph. As a result, the increase in the total amount charged a policyholder may exceed 18 percent in some cases.

Premiums, including the Reserve Fund Assessment but excluding the FPF and the new HFIAA-mandated surcharge, will increase an average of 9.9 percent for policies written or renewed on or after April 1, 2015 (see Attachment B for rate and premium tables). When the FPF and the new HFIAA-mandated surcharge are included, the total amount charged to the policyholder will increase an average of 19.8 percent. The average premium change by zone varies as described below, showing both the average premium increase—including the Reserve Fund Assessment—and the total increase—including the FPF, the HFIAA surcharge, and any applicable probation surcharge—charged to the policyholder.

- **Pre-FIRM Subsidized Policies** (AE Zones and VE Zones)
  - Primary Residences: The combined premium increase for all primary residence policies in these zones is 14 percent, with a total increase of 15 percent.
  - Non-Primary Residences: The combined premium increase for non-primary residence policies in these zones is 24 percent, with a total increase of 37 percent.

- **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 9 percent, with a total increase of 13 percent.

- **A Zones** (non-velocity zones, which are primarily riverine zones)
  - Post-FIRM A1-A30 and AE Zones: Premiums will increase 9 percent, with a total increase of 23 percent.
  - AO, AH, AOB, and AHB Zones (shallow flooding zones): Premiums will increase 10 percent, with a total increase of 23 percent.
  - Unnumbered A Zones (remote A Zones where elevations have not been determined): Premiums will increase 12 percent, with a total increase of 21 percent.
  - A99 Zones (i.e., flood protection systems still in the process of being constructed) and AR Zones: Premiums will increase 12 percent, with a total increase of 19 percent.

- **X Zones** (zones outside the Special Flood Hazard Area)
  - Standard-Rated Policies: Premiums will increase 11 percent, with a total increase of 20 percent.
  - Preferred Risk Policies (PRPs) (policies on buildings that are currently mapped outside the SFHA): Premiums will decrease an average of 2 percent, but overall the average amount charged these policyholders will increase 14 percent.
  - Policies for Properties Newly Mapped into the SFHA (includes the former PRP Eligibility Extension (PRP EE) policies): Premiums will decrease an average of 13

percent, but overall the average amount charged these policyholders will increase 7 percent.

- **Non-Primary and Severe Repetitive Loss Properties (Biggert-Waters Section 100205)**: These properties will continue to receive annual 25 percent premium increases on a rate class basis, not an individual basis, until full-risk rates are achieved. A renewal of a policy on a Pre-FIRM, primary residence that is not an SRL property that changes to an SRL or a non-primary residence status would see an increase greater than 25 percent. (Note that this would be characterized as a misrating if the classification were not changed.)

- **Substantial Damage/Substantial Improvement (Biggert-Waters Section 100205)**: New rate tables are provided in the Rating and Condominium sections for Pre-FIRM structures that have been declared substantially damaged/substantially improved. Policies for these structures will receive a 25 percent annual premium rate increase until they reach full-risk rating.

- **Reserve Fund (Biggert-Waters Section 100212)**: The Reserve Fund Assessment will increase to 15 percent for all policies except PRPs. The Reserve Fund Assessment for PRPs will be 10 percent. In order to comply with the 15 percent limitation on average annual increases, increases to the Reserve Fund Assessment must be phased in over time.

- **Properties Newly Mapped into the SFHA (HFIAA Section 6)**: This category includes properties that were previously rated under the PRP EE. New premium tables for Properties Newly Mapped into the SFHA include a 15 percent Reserve Fund Assessment. The appropriate HFIAA Surcharge must be added for each policy.

- **HFIAA Surcharges (HFIAA Section 8)**: Beginning April 1, 2015, a new annual premium surcharge must be collected for each policy as shown below:
  - $25 for Dwelling Form policies covering single-family primary residences or individual condominium units or apartments in non-condominium buildings used as a primary residence by the named insured.
  - $250 for policies covering non-residential properties or non-primary residences.
  - $250 for policies covering entire condominium buildings or non-condominium multi-family buildings.

The insurer must validate primary residence eligibility before applying the $25 HFIAA surcharge (see Attachment C). Below are some specific guidelines for application of the surcharge:

- 2-4 Family and Multi-Family Buildings: A 2-4-family building or a multi-family (other-residential) building classified as residential should be treated as the business of the owner, and policies covering the entire building should receive the $250 annual surcharge.
- Residential Condominium Building Association Policies (RCBAPs): The surcharge amount for RCBAPs will be $250.
- Contents-only and Condominium Unit Policies: The surcharge amount will be $25 for contents-only policies for primary residences and for policies covering primary residence residential condominium units or primary residence apartments in non-

condominium buildings under the Dwelling Form. The surcharge amount will be $250 for non-residential condominium units.

- PRP: The insurer should add the appropriate surcharge to the PRP premium.
- Properties Newly Mapped into the SFHA: The insurer should add the appropriate surcharge to the premium.
- Other SFIP Products: The Group Flood Insurance Policy (GFIP) is the only SFIP product excluded from the surcharge, as the GFIP premium is a flat fee regulated by Title 44 of the CFR Part 61.17(b). The surcharge does apply to all other SFIPs, including those for buildings rated under the Emergency Program, Mortgage Portfolio Protection Program (MPPP), Provisional Rating, and Tentative Rating.
- Premium Caps: The surcharge is not included in the premium when determining compliance with the premium increase caps of HFIAA Section 5 or Biggert-Waters Section 100205.
- Refund Procedures: The HFIAA surcharge will not be eligible for refunds due to cancellation or reduction of coverage.

The Application Form has been revised to add the HFIAA surcharge into the calculation for the Total Amount Due (see Attachment C).

- **Increased Optional Deductible (HFIAA Section 12)**: A new Congressionally created $10,000 deductible is available for residential properties. When selecting this new option, the same deductible option must apply to both building and contents coverage.

- **Deductible Factors:** Existing tables were modified to include the new $10,000 deductible for residential properties mandated by HFIAA to help make some policies more affordable.

- **Federal Policy Fee**: The FPF will remain $22 for PRPs and will increase to $45 for all other policies except RCBAPs. This $45 FPF also applies to those policies previously rated under the PRP EE (now rated under Properties Newly Mapped into the SFHA), as well as policies effective on or after April 1, 2015, covering properties that were newly mapped into the SFHA by a map revision that became effective on or after March 21, 2014.

The FPFs for the RCBAP are provided below.

- 1 unit	$45 per policy
- 2-4 units	$135 per policy
- 5-10 units	$360 per policy
- 11-20 units	$720 per policy
- 21or more units	$1,800 per policy

2. <u>Minimum Deductibles (Biggert-Waters Section 100210)</u>

Effective April 1, 2015, as required by Biggert-Waters, new minimum deductibles for PRP and MPPP policies will be $1,000 for both building and contents if the building coverage is less than or equal to $100,000 and $1,250 if building coverage is over $100,000, regardless of the insured building's construction date compared to the initial FIRM date. PRP and MPPP contents-only policies will have a $1,000 minimum deductible.

3. Property Newly Mapped into the SFHA (HFIAA Sections 4 and 6)

Section 4 of HFIAA repeals Section 207 of Biggert-Waters and restores grandfathering. Section 6 of HFIAA mandates that following a map revision, a property newly mapped into the SFHA will receive a "preferred risk premium" the year following the map revision, after which the policy will transition to a full-risk rate in accordance with annual premium caps discussed above (assuming no change in coverage or Community Rating System status).

For new policies effective on or after April 1, 2015, properties newly mapped into an SFHA by a revision to the FIRM that became effective on or after March 21, 2014, will be eligible for a preferred risk premium for the first year, after which they will transition to full-risk rates through average premium increases of 15 percent but not exceeding 18 percent per policy (excluding the HFIAA surcharge). The full-risk rates may be based on the grandfathered zone or BFE. Beginning at the first renewal, the policies must be rated using the tables established for Property Newly Mapped into the SFHA.

FEMA will introduce a new Risk Rating Method of 'R' in the Transaction Record Reporting and Processing (TRRP) Plan (see Attachment D) to identify these policies.

4. Increased Optional Deductibles (HFIAA Section 12)

In accordance with HFIAA, FEMA is introducing a $10,000 deductible option for all residential property owners. If the property owner selects this option, the $10,000 deductible will apply to both building and contents coverage. Revised deductible factors tables (Table 8B in the Rating section and Table 7 in the Condominiums section) are provided in Attachment B. Insurers are required to inform applicants of the availability of this coverage option either on the Application Form or on a separate form, segregated from all unrelated information and other required disclosures. A statement must be included to explain the effect of a loss-deductible and that, in the event of an insured loss, the insured is responsible out-of-pocket for losses to the extent of the deductible selected.

5. Substantially Damaged/Substantially Improved Structures (HFIAA Section 15)

Beginning April 1, 2015, policies for Pre-FIRM properties with substantially damaged/ substantially improved structures will be subject to annual 25-percent premium rate increases until they reach full-risk premiums. This represents a change from the previous policy of reclassifying a substantially damaged/substantially improved building as Post-FIRM and immediately requiring full-risk rates. If the full-risk premium is lower than the subsidized premium, the full-risk rating should be used. New rate tables (Table 2D in the Rating section and Tables 3B and 4C in the Condominiums section) are provided for Substantially Damaged/Substantially Improved buildings.

The "Construction Date" field in the TRRP Plan will be changed to "Original Construction Date." For rating purposes, if the building is Pre-FIRM, the Original Construction Date will always be used even if the building has been substantially improved. However, Post-FIRM buildings that have been substantially improved must use the substantial improvement date as the Original Construction Date.

6. Additional Rating Guidance for Pre-FIRM Buildings

Full-risk rates should always be used for Pre-FIRM buildings with elevation information when the full-risk rate is lower than the appropriate Pre-FIRM subsidized rates. Pre-FIRM subsidized rates should be utilized for Pre-FIRM buildings when more favorable than a full-risk rate or when insufficient information is submitted to determine a full-risk rate.

The guidance below can be used to determine which Pre-FIRM subsidized rate table to use when rating a building using Pre-FIRM subsidized rates.

- Table 2A – Pre-FIRM Primary Residence: Use for primary residences, non-SRL properties, and buildings that have not been substantially damaged or improved. (For RCBAPs, Table 3A or 4A in the Condominiums section should be used.)
- Table 2B – Pre-FIRM Non-Primary Residence: Use for all non-primary residences unless they are SRL properties. If SRL, Table 2C should be used.
- Table 2C – Pre-FIRM SRL: Table 2C should be used for all Pre-FIRM SRL properties. (For RCBAPs, Table 4B in the Condominiums section should be used.)
- Table 2D – Pre-FIRM Substantially Damaged/Improved Buildings: Use for substantially damaged/improved buildings and primary residences. (For RCBAPs, use Table 3B or 4C in the Condominiums section.) If a non-primary residence has a substantially damaged/improved building and it is not an SRL property, Table 2B should be used. If a non-primary residence has a substantially damaged/improved building and it is an SRL property, Table 2C should be used.

7. Clarifications Regarding Property Addresses

FEMA is adding a field in the TRRP Plan to identify legal addresses for a property location (e.g., lot, block, plat), as mapping information is difficult to validate for legal addresses. The value of "L" should be used to capture an address using this format for the "Name or Descriptive Information Indicator." Insurers must identify such addresses and restrict their use to buildings under construction or rural buildings where a standard street address is unavailable.