Real Estate and Changing Flood Insurance Rates

What to Know about Subsidies

Every location comes with some risk of flooding, and some locations are at greater risk than others. Changes affecting the National Flood Insurance Program (NFIP) make it more important than ever to understand a property's flood risk and flood insurance requirements. The Biggert-Waters Flood Insurance Reform Act of 2012 (BW-12) mandates changes to make the NFIP more financially stable, including eliminating subsidies and requiring policyholders to pay for their real risk.

Helping buyers and sellers understand their flood risk and flood insurance implications will help you complete a sale with fewer unwelcome surprises.

What to Know

- For years, many policyholders paid subsidized rates that often were much lower than what the full-risk rates would be.
- Subsidized rates for certain policies are being phased out and eliminated.
- About 20 percent of all policies are subsidized and could be affected by the rate increases.
- The first increases apply to some older buildings constructed before the community adopted its first Flood Insurance Rate Map (FIRM) and related standards for new construction. You'll hear these buildings called "pre-FIRM."
- **Buyers of pre-FIRM properties will pay full-risk rates even if the previous owner paid a subsidized rate.**
- Pre-FIRM buildings already rated with elevation data are not subsidized.
- **Some pre-FIRM property owners will move directly to full-risk rates** at policy purchase/renewal on or after October 1, 2013:
  - Pre-FIRM properties purchased on or after July 6, 2012
  - Pre-FIRM subsidized policies first in effect on or after July 6, 2012
  - Lapsed pre-FIRM subsidized policies reinstated on or after October 4, 2012
- **Some pre-FIRM property owners insured before July 6, 2012, who currently pay subsidized rates will see increases over time.** Annual increase of 25 percent at renewal until reaching full-risk rates:
  - Pre-FIRM non-primary residences (starting January 1, 2013)
  - Pre-FIRM business/non-residential properties (starting October 1, 2013)
  - Pre-FIRM properties that were severely or repeatedly flooded (starting October 1, 2013)
- A homeowner needs to provide an Elevation Certificate to an insurance agent to determine the full-risk rate.
- Homes elevated above the Base Flood Elevation (BFE), or the height of a flood with a 1 percent annual chance of occurring, have lower risk and generally will pay lower rates.
- Homes below the BFE have a higher risk and generally will pay higher rates.
- Mitigating flood risk by elevating, installing flood vents, using breakaway walls, etc., can reduce risk and lower premiums.

Tips for Helping Buyers

> Check the Flood Insurance Rate Map (FIRM) to determine if a building is in a high-risk area. Most lenders require flood insurance in high-risk areas.

> Find out when the community adopted its first FIRM to determine if a building is pre-FIRM and might have qualified for a subsidy in the past. Look for elevated homes in high-risk areas.

> Request an Elevation Certificate from the seller. This form is needed to determine full-risk rates for flood insurance in high-risk areas.

> List a flood insurance quote as a contingency for purchase of a pre-FIRM building to ensure the buyer can afford the true cost of ownership.

Tips for Helping Sellers

> Provide an Elevation Certificate to a buyer.

> Consider elevation among pre-sale improvement projects.

> Include any positive flood insurance/flood risk features in the home listing.

Resources for More Information

Locate local FIRMs at the FEMA Map Service Center: **MSC.FEMA.gov**

Learn more about BW-12 and download a Homeowner's Guide to Elevation Certificates: **FEMA.gov/BW12**

NATIONAL FLOOD INSURANCE PROGRAM

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