Homeowner Flood Insurance Affordability Act (HFIAA) Facts for WYOs Introduction

HFIAA Section 28 Clear Communications

January 2017

FEMA provides this document to WYO companies to assist them in better understanding the requirements of HFIAA Section 28, Clear Communications and the FEMA letters received by NFIP policyholders resulting from this legislation. It includes Key Messages, Talking Points, and Frequently Asked Questions. To obtain information that is more detailed and to access other helpful resources, click on the links found throughout this document.

Key

HFIAA Section 28 Clear Communications

January 2017

- Section 28, *Clear Communication of Risk*, within the *Homeowner Flood Affordability Insurance Act of 2014* (HFIAA), requires FEMA to clearly communicate full flood risk determinations to individual property owners.

- To meet this requirement, the National Flood Insurance Program (NFIP) is reviewing the flood risk and underwriting information for every policyholder. The letter that FEMA sends to policyholders will communicate their known flood risk and how it relates to the premium being charged.

- Starting in January 2017, policyholders will receive this letter within about two months after their policy renews, or they purchase a new policy. Policyholders who renewed their policies in October 2016 through December 2016 will also receive their first mailing. FEMA will continue to mail the letter at each subsequent renewal.

- The letter will inform policyholders if an Elevation Certificate was used for rating and if not, whether the Elevation Certificate would provide useful information for better understanding the flood risk.

- Because flood risk and circumstances differ from one property to the next, there are different categories of letters. Each letter encourages policyholders to contact their insurance agent or company to discuss their policy, or visit FEMA.gov/cost-of-flood to learn about their specific options.

- Information for insurance agents, copies of each category of letter, details about what each letter means, and tips for how individual policyholders can lower their flood risk (and potentially their flood insurance premiums) can be found at FEMA.gov/cost-of-flood.

Talking

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- As a result of the review, the NFIP identified seven categories of policyholders to receive unique information based on their flood risk and current premium rates. The letters for each category are as follows:
  - Letter A: (Buildings Newly Mapped into a High-Risk Flood Area)
  - Letter B: (Buildings Standard Rated and Outside of the High-Risk Flood Area)
  - Letter C: (Buildings Grandfather Rated and in a High-Risk Flood Area)
  - Letter D: (Primary Residential Pre-FIRM Buildings in a High-Risk Flood Area paying a Discounted Rate)
  - Letter E: (Non-Primary Pre-FIRM Buildings in a High-Risk Flood Area paying a Discounted Rate)
  - Letter F: (Buildings Mapped Outside of a High-Risk Flood Area and insured with a Preferred Risk Policy (PRP)
  - Letter G: (Buildings That Are post-FIRM, In A High-Risk Flood Area, And Paying A Rate Based On True Flood Risk)

- The *Homeowner Flood Insurance Affordability Act of 2014* (HFIAA) requires gradual insurance rate increases to properties that currently receive artificially low (or subsidized) rates, rather than immediate increases to reflect the property's full flood risk.

- HFIAA requires increases to premiums for most subsidized properties of no less than 5 to 15 percent annually, but no more than 18 percent annually for an individual policyholder until the premium reaches its full-risk insurance rate (with limited exceptions).

- Approximately 80 percent of NFIP policyholders currently pay full-risk rates and are minimally impacted by these increases.

- Floods continue to be the most common and costly natural disaster in the United States.

- Floods have the greatest damage potential of all natural disasters worldwide and affect the greatest number of people. Approximately 73 percent of major U.S. disaster declarations from 2006-2015 relate to events that included flooding.

- Congress established the NFIP in 1968 to reduce the impact of flooding through three interrelated activities – mapping flood hazards, encouraging communities to adopt and enforce floodplain management regulations, and providing affordable insurance to property owners.

Frequently Asked

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Q: Why is FEMA sending out these letters?

A: Section 28, *Clear Communication of Risk,* within the *Homeowner Flood Affordability Insurance Act of 2014* (HFIAA), requires FEMA to clearly communicate full flood risk determinations to individual property owners. To meet this requirement, FEMA is reviewing the flood risk for every policyholder insured under the National Flood Insurance Program (NFIP). The letters will communicate known flood risk and how it relates to the premium being charged.

Q: Who is getting these letters?

A: NFIP policyholders will begin receiving the letters in January 2017. Policyholders will receive a letter from FEMA about two months after their policy renews, or a new policy is purchased, and will continue to receive one each time it renews. Policyholders who renewed after October 2016 will receive their first letter with the January mailing.

Q: Which policyholders will be receiving a letter in January?

A: All policyholders will eventually receive a letter upon the renewal of their policy, or purchase of a new policy. The letters fall into one of seven categories:

- Letter A: (Buildings Newly Mapped into a High-Risk Flood Area)
- Letter B: (Buildings Standard Rated and Outside of the High-Risk Flood Area)
- Letter C: (Buildings Grandfather Rated and in a High-Risk Flood Area)
- Letter D: (Primary Residential Pre-FIRM Buildings in a High-Risk Flood Area paying a Discounted Rate)
- Letter E: (Non-Primary Pre-FIRM Buildings in a High-Risk Flood Area paying a Discounted Rate)
- Letter F: (Buildings Mapped Outside of a High-Risk Flood Area and insured with a Preferred Risk Policy (PRP)
- Letter G: (Buildings That Are post-FIRM, In A High-Risk Flood Area, And Paying A Rate Based On True Flood Risk)

FEMA will mail Letter G to applicable policyholders whose policies renew beginning October 2017.

Q: When should policyholders expect to receive their letter?

A: Policyholders should expect to receive their letters from FEMA within about two months each time their policy renews or they purchase a new policy.

Q: Why are discounted/subsidized flood insurance rates going away?

A: The *Homeowner Flood Insurance Affordability Act of 2014* (HFIAA) requires gradual insurance rate increases to properties that currently receive artificially low (or discounted) rates, rather than immediate increases to reflect the property's full flood risk. HFIAA requires increases to discounted premiums for most properties by 5-15 percent annually, but no more than 18 percent for an individual policyholder until the premium reaches its full-risk insurance rate, with limited exceptions. Approximately 80 percent of National Flood Insurance Program policyholders paid a full-risk rate in 2014 and are minimally impacted by the law.

Q: What if a flood policy lapses?

A: To continue to receive the discounted rate, policyholders must maintain flood insurance coverage. After a policy lapse, those paying subsidized rates, grandfathered rates, or discounted rates available through the Newly Mapped procedure could lose out on the premium savings they now enjoy. Learn more at: https://edit.fema.gov/media-library/assets/documents/126395.

Q: If policyholders sell their property, can they transfer their policy with the discounted rate to the new owners?

A: Yes, if the flood insurance policy is continuous and has not lapsed. Learn more by speaking with an insurance agent, or online at: https://edit.fema.gov/media-library/assets/documents/126395.

Q: How are flood insurance premiums calculated?

A: Premium rates are developed to account for the anticipated covered damage and loss expenses during varies kinds of floods. The higher the water is expected to rise, the more damage is expected to occur, and the more costly the flood policy could be.

Q: Should the insured get an Elevation Certificate and if so, when?

A: There is a cost to purchasing a new Elevation Certificate. Until a policyholder gets one, there is no way to determine when, or if, having it will lower flood insurance premiums. FEMA has created some graphics illustrating the phase-out of discounts/subsidies compared to various full risk premiums for different types of buildings. These can be found at www.fema.gov/cost-of-flood.

Q: Does an Elevation Certificate save policyholders money?

A: For many policyholders it will save them money, either immediately or eventually. The Elevation Certificate provides the information needed to determine a full risk premium. For many policyholders, there will come a time—either immediately, or at some point in the future—when full risk rates will be more beneficial than discounted/subsidized rates.

Q: Can policyholders keep paying the lower rate even if they get an Elevation Certificate?

A: Yes. Once policyholders get an Elevation Certificate, they can pay either the amount that reflects the property's full flood risk, or the discounted/subsidized rate, whichever is less.

Q: Will policyholders need another Elevation Certificate in the future?

A: As long as the elevation of the lowest floor of the building does not change, policyholders can continue to use the same Elevation Certificate. It can also be transferred to a new property owner.

Q: Will an Elevation Certificate be beneficial when selling a property?

A: Yes. An Elevation Certificate may be helpful because the buyer will know the property's full flood risk, and will have a better idea of how much they may be charged for flood insurance in the future. Learn more by speaking with your insurance agent or company, or online at: https://edit.fema.gov/media-library/assets/documents/126395.

Q: What happens after a policyholder gets an Elevation Certificate?

A: Policyholders can work with their insurance agent to determine when it will be financially beneficial to switch to a rate based on the property's full flood risk. As long as the subsidized rate is lower than the rate based on the Elevation Certificate, policyholders can continue to pay the lower rate.

Key

HFIAA Section 28 Specifics on Mailings

January 2017

Summary information from FEMA on Phase One mailing is as follows:

Phase One - scheduled to begin mid-January 2017 includes Letters A through F.

Phase One rating types:

- Preferred Risk Policy
- Newly Mapped
- Pre-FIRM - Subsidized
- Standard X Zone

In terms of the timing for the Section 28 mailings, for January they occurred from January 16 through January 20. Going forward, the February mailings are planned to take place between February 13 through February 17. For March, the mailings will occur between March 13 and March 17. For April, the mailings will take place between April 17 through April 21. Each mailing is scheduled to be mailed mid-month, typically between the 13th and 21st of each month.

Phase Two times will be released at a later date.

NOTE: For copies of the Section 28 letters, infographics and additional resources, visit FEMA.gov/cost-of-flood.