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To Our Valued Clients: August 2013

Flood Insurance Rate Changes Announced for October 1, 2013

Some policyholders soon will receive letters announcing rate increases that will phase out or eliminate subsidized Flood Insurance rates effective October 1, 2013. These Federally mandated changes will affect certain older buildings constructed before the community joined the National Flood Insurance Program. These include properties in most high-risk A and V zones, as well as undetermined-risk D zones where flooding is possible.

In the past, many properties built below that base flood elevation, and before Flood Insurance Rate Maps (FIRM) were adopted by communities, received subsidized premium rates which were artificially lower than true risk. Many of those subsidies were eliminated in the 2012 Biggert-Waters legislation and therefore some of the higher risk policies previously receiving subsidies will be required to be rated according to the current 2013 *Rate Guidelines.* The legislation requires the National Flood Insurance Program (NFIP) to raise rates in order to make the Federal Flood program more financially stable.

The letters explain that the Biggert-Waters Flood Insurance Reform Act of 2012 (BW-12) requires the phase-out and removal of subsidized rates. Two types of rate changes will be announced:

- A 25 percent rate increase will be applied at renewal for business and other non-residential properties, properties that have experienced severe or repeated losses, and **non-primary residences** (this increase began in January 2013).
  - Note Subsidized premiums for **primary residences** in Special Flood Hazard Area's will be able to keep their subsidized rates unless or until:
    - The property is sold;
    - The policy lapses;
    - The insured property suffers severe, repeated, flood losses where the owner refuses an offer to mitigate; or
    - A new policy is purchased

- A direct move to full-risk rates will be applied at renewal for a building purchased — or a newly purchased policy with an effective date—on or after July 6, 2012, the date the law was signed. Lapsed policies reinstated on or after October 4, 2012, also will move directly to full-risk rates. The policyholder will be asked to submit a renewal application with additional information, including an Elevation Certificate, so that the building can be elevation rated.

In general, the subsidized rates were rated without using elevation data – knowing how high the lowest floor of the building sits above the base flood elevation. The Act requires that policy ratings more accurately reflect the risk of each property's true risk rate by eliminating the subsidies. An Elevation Certificate contains the information needed to assist the carrier with determining the true flood risk premium for a property.

The Act also phases-out grandfathered rates and moves to current risk-based rates for most properties when the community adopts a new FIRM.

It is important to note that a small number of flood insurance policies protecting properties in very high risk coastal areas (VE Zones) -- where wave action combined with high water causes increased damage -- will see significantly higher premiums.

Not all policyholders will have their subsidy eliminated, but only the insurance carrier will be able to determine the specific premium for an individual's specific situation.

Very Truly Yours,
DeSanctis Insurance Agency. Inc.