

## A detailed view of the board game 'The Great Mouse Detective'. The game board is a light blue surface with various colored paths (red, yellow, green, blue) and obstacles. A large red wheel is on the left, a yellow crane is in the center, and a red cage is on the right. A small green mouse figure is on the board. The board is surrounded by a black border with a white grid. The game is set against a dark background.

# The National Flood Insurance Program (NFIP)



## Makes Available:

- flood insurance
- disaster assistance
- grants and loans

## In Exchange For:

- Local adoption of a floodplain ordinance which:
  - Prevent increased damages
  - Protect new buildings
  - Keep flooding from getting worse

# The National Flood Insurance Program

Now covers 5.1 million policies in over 22,000 participating communities.

\$1.27 Trillion in risk exposure



- In floodplains - less than 50% coverage.
- In all risk zones – less than 10% coverage.
- Adverse selection – only those who need it buy it.



# Who Can Buy Flood Insurance?

- Anybody in a community participating in the NFIP.
- Anywhere within that community (all zones)
- Residential and non-residential properties





# NFIP Flood Insurance

Can be purchased for:

- any “building”.
- a building under construction.
- a finished structure.
- contents inside an insurable building.



# Definition of an Eligible Building

- 2 or more outside rigid walls
- A fully secured roof
- Permanently affixed to a site
- At least 51% of ACV above ground
- Could be manufactured home or travel trailer if it meets above criteria



# NFIP Does NOT Cover

- Basement improvements
- Basement personal belongings
- Structures built over water





# When do flood insurance policies become effective?

## 30-Day Waiting Period

- **Exceptions for:**
  - Insurance in connection with a loan
  - Initial purchase map change (1 day)

Good morning...  
I'd like to find out about  
flood insurance.



# Who Writes Flood Insurance?

## ➤ Write-Your-Own

- Over 80 companies write and service flood insurance under their name.
- Captured Agents

## ➤ NFIP Direct

- A contracted servicer that writes and services flood insurance for:
- FEMA
- State Farm Agents
- Independent Agents

# Who MUST buy Flood Insurance?

- Required for buildings in SFHA (floodplain) when:
  - Making
  - Increasing
  - Renewing
  - Extendinga mortgage, home equity, improvement, construction, commercial or farm credit loan

**Remember MIRE**



# Who MUST Buy Flood Insurance?

## Four questions to ask:

### Community Status.

1. Does the community participate in the NFIP?

### Type of Loan

2. Is the lender Federally regulated?

### Type of Property

3. Is it an insurable structure?

### Location of Property

4. Is it located within a floodplain?



# **Lender's Responsibility**

## **Insurance is required when:**

- A lender makes, renews, extends, or increases a loan.
- That loan is from a federally regulated or insured lender
- The loan collateral is insurable under the NFIP's standard policy.
- That collateral is or will be located in a high risk flood area (A or V Zone)
- The community participates in the NFIP.

# How Much Coverage is Required?

- Amount of the loan  
or
- Maximum available through the NFIP  
or
- Replacement Cost Value
- Whichever is less





# Lenders Documentation

*“a lender’s decision made in the exercise of due diligence and good faith as to the location of a property, which is the subject of the loan, on such a map will be final and sufficient to comply with the Act”.*

- Most lenders use Third Party Zone Determination companies.

Do lenders HAVE to depend on the  
Zone Determination Company’s  
floodplain determination?

**NO!**

# Flood “Certification” Vendors

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- Not FEMA endorsed
  - Essentially unregulated industry
  - Approx 150 firms but only 1/3 subscribe to NFDA standards and practices
  - Quality control issues
  - What are they *really* determining ?
- 

# Flood Insurance Requirements For Typical Residential Sitings In FEMA/HUD Designated Special Flood Areas

STRUCTURE [E] IN SFHA ALTHOUGH ON HIGH BLUFF - (THIS SITUATION CAN RESULT FROM INADEQUATE BASE DATA/MAPS):

LENDER **MUST** REQUIRE INSURANCE INITIALLY BUT BUYER (BUILDER) MAY REQUEST "LETTER OF MAP AMENDMENT" UPON APPROVAL BUYER/BUILDER MAY RECEIVE REFUND.

PROPERTY IN FLOOD HAZARD STRUCTURE [A] IS NOT:

INSURANCE IS NOT REQUIRED.

STRUCTURE [B] IN SFHA - BUT SUBSTANTIALLY ELEVATED ON NATURAL KNOLL - TOO SMALL TO BE SHOWN ON MAP.

LENDER **MUST** INITIALLY REQUIRE INSURANCE. BUYER (OR BUILDER) CAN REQUEST "LETTER OF MAP AMENDMENT" - IF REQUEST IS GRANTED, INSURANCE MAY BE REFUNDED.

STRUCTURE [C] PARTIALLY IN SFHA.

INSURANCE IS REQUIRED.

STRUCTURE [F] LOCATED IN SFHA.

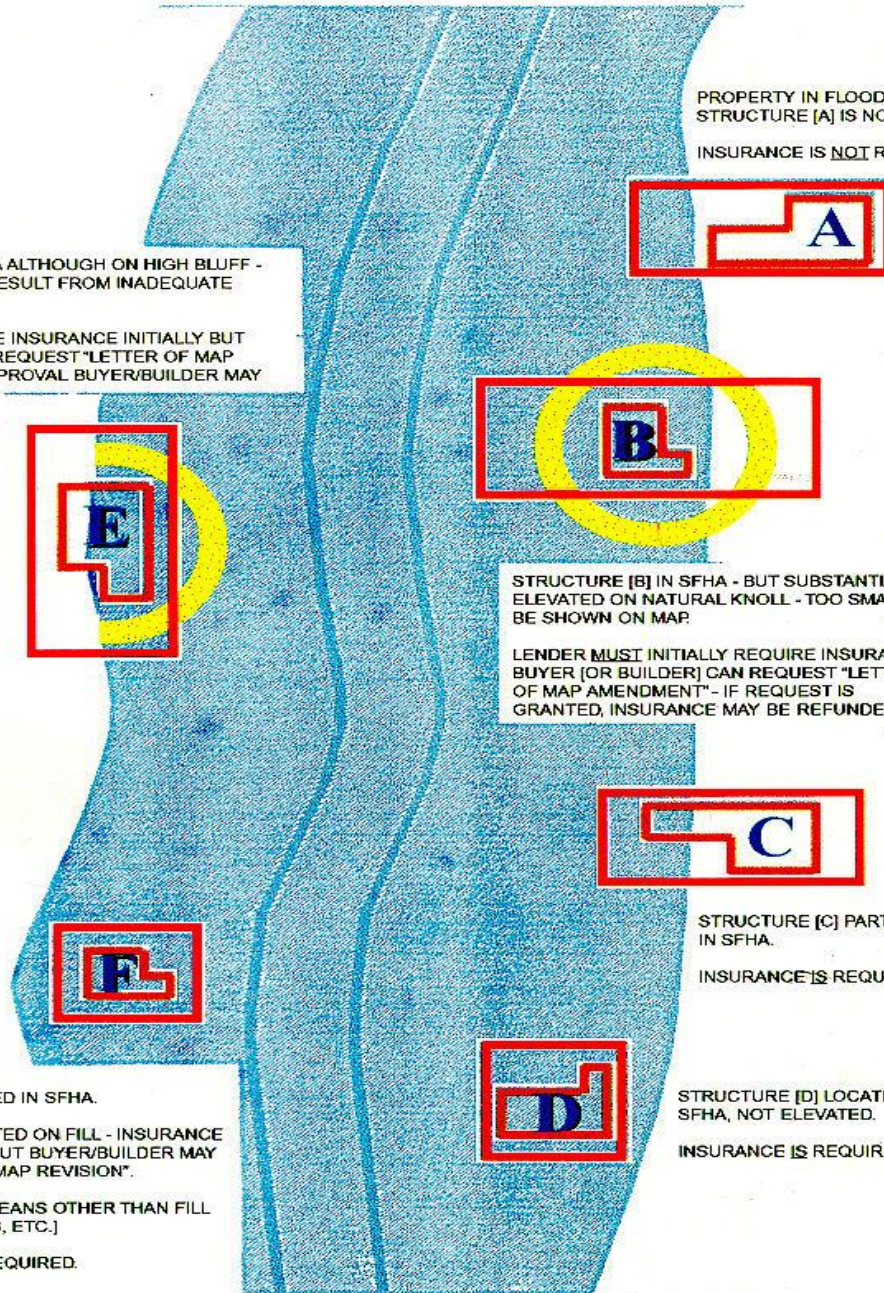
SUBSTANTIALLY ELEVATED ON FILL - INSURANCE INITIALLY REQUIRED - BUT BUYER/BUILDER MAY REQUEST "LETTER OF MAP REVISION".

ELEVATED THROUGH MEANS OTHER THAN FILL (POSTS, PIERS, PILINGS, ETC.)

INSURANCE ALWAYS REQUIRED.

STRUCTURE [D] LOCATED IN SFHA, NOT ELEVATED.

INSURANCE IS REQUIRED.





# Coverage Amounts

## Buildings

- Up to \$250,000 Residential
- Up to \$500,000 Other and Non-Residential

## Contents

- Up to \$100,000 Residential
- Up to \$500,000 Non-Residential

Less if community is in the Emergency phase of the program

# Deductibles

## Standard

< 100,000 >

- \$1,000-\$1,250 Post FIRM
- \$1500-\$2,000 Pre FIRM

Higher deductibles available for lower premiums

Up to: \$10,000 Residential

\$50,000 Other/Non-Residential

Separate deductible for building and contents

# How a Policy is Rated

## ➤ Subsidized

- Only for homes built before the Community's first Flood Insurance Rate Map
- Does not reflect true risk
- Pre-FIRM structures only

## ➤ True Risk (Actuarial)

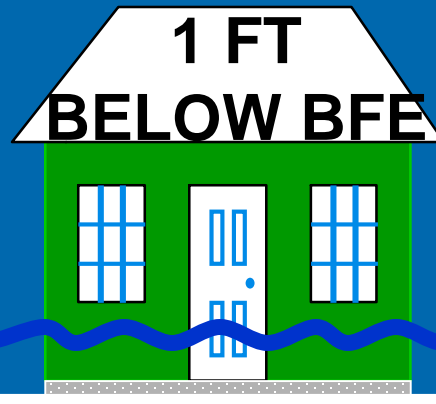
- Uses elevation certificate to show where lowest floor is in relation to BFE
- For both Pre-FIRM and Post-FIRM

# Comparison Cost of Flood Insurance

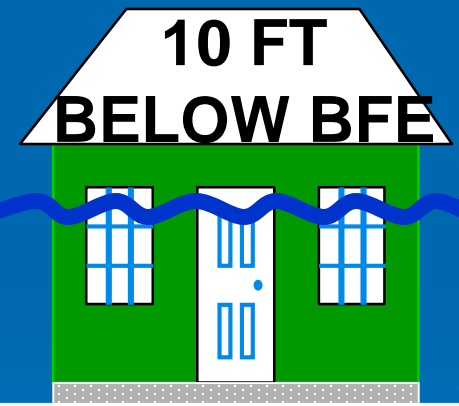
## *Existing Pre-FIRM House*



\$1,200 /year VS  
\$36,000 /loan



\$1,200/year VS  
\$36,000/loan

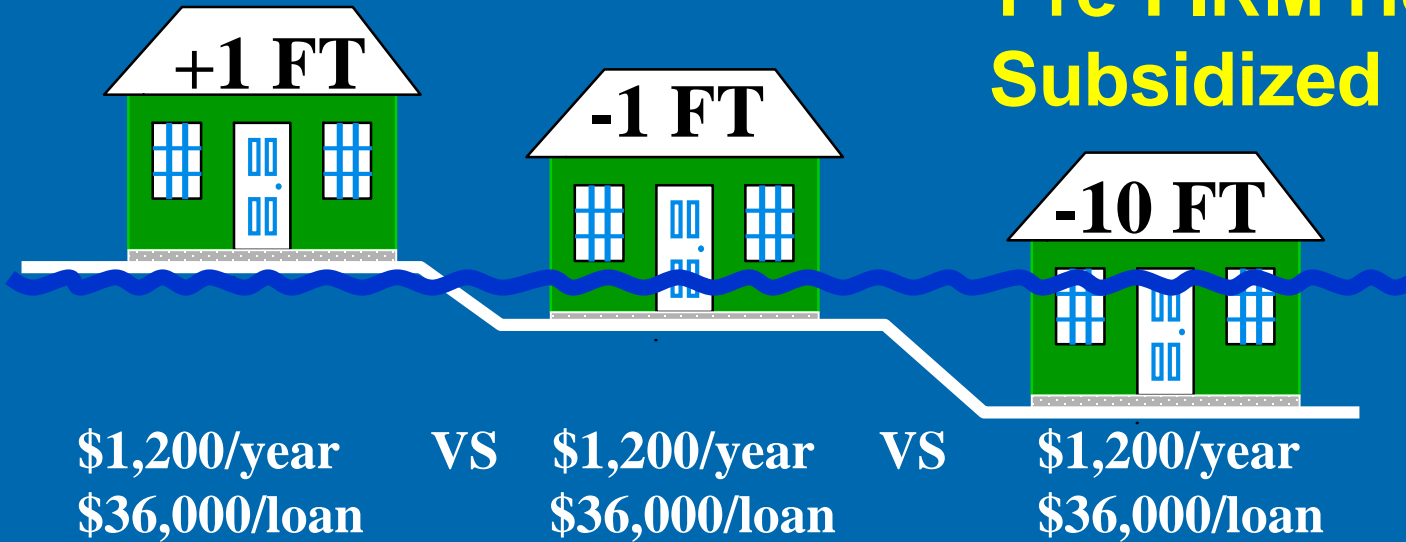


\$1,200/year  
\$36,000/loan

Based on \$75,000 bldg. & \$20,000 contents coverage. Single family, no basement, standard deductible

# Comparison cost of Flood Insurance

## Pre-FIRM House: Subsidized Rates



## Elevation Based Rates: Post FIRM and Pre FIRM



\* Approximate rates with fees and surcharges

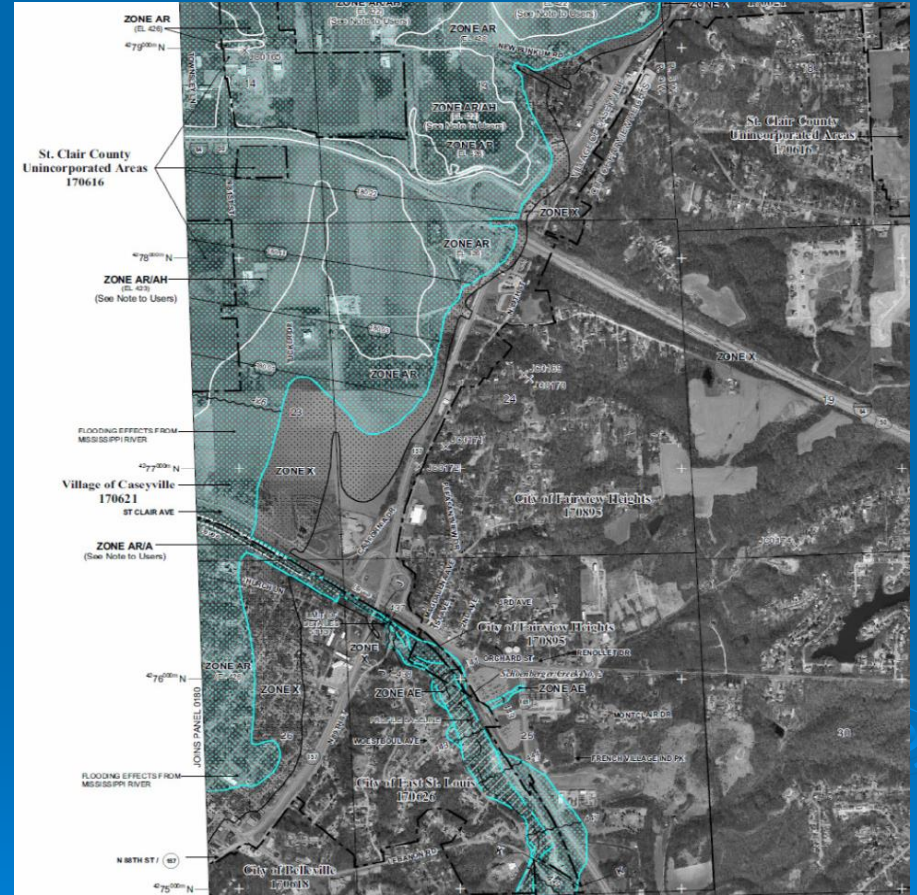
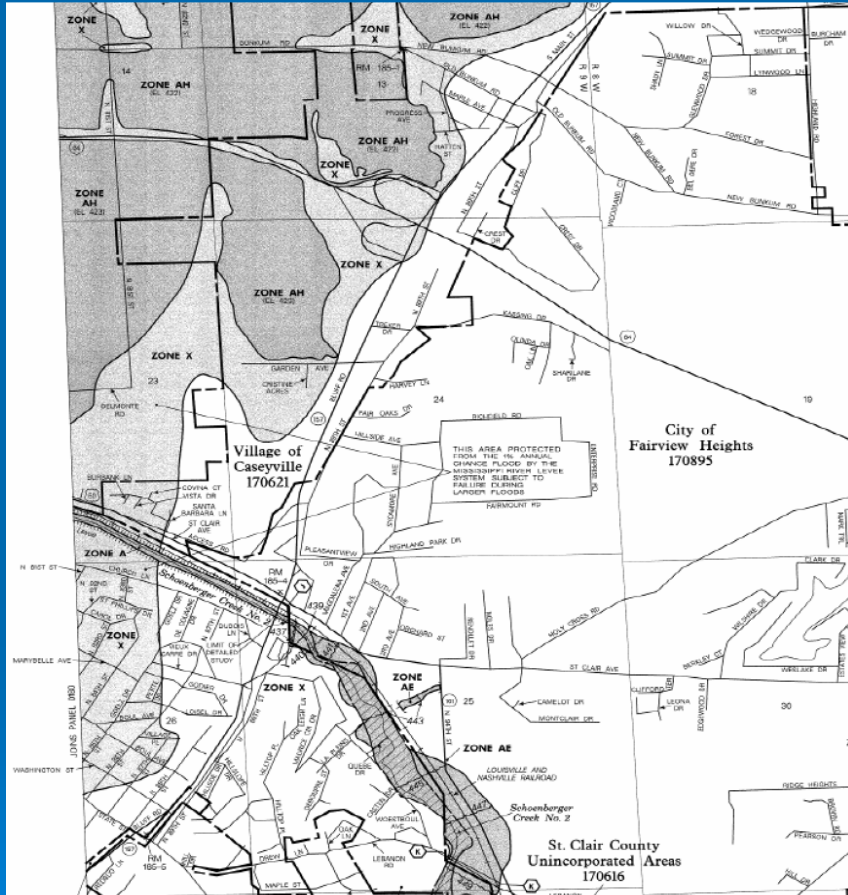


# The Preferred Risk Policy (PRP)

- Written only for areas located outside of the mapped floodplain (B,C and X Zones).
- A structure Cannot have 2 or more losses.
- Sold in “packaged” coverage amounts. Very cheap!

Building Type	Building Coverage	Contents Coverage	Annual Premium
Residential w/o basement	\$30,000	\$12,000	\$133*
Residential with basement	\$30,000	\$12,000	\$160*
Non-Residential w/o basement	\$50,000	\$50,000	\$918*

# PRP Newly Mapped



# PRP Newly Mapped

- Effective April 1, 2015 buildings that are newly designated within a Special Flood Hazard Area due to a map revision are eligible for coverage under PRP.
- The policy will gradually move to standard rates with a multiplier every year.
  - First year Multiplier: 1.00
  - Second year: 1.15

# Grandfathering

- Standard Rated Policy
- When a structure is not PRP eligible
- Insurance can be rated using previous map zone if it provides the more favorable rate

## Pre-FIRM

- maintains continuous coverage

## Post-FIRM

- maintains continuous coverage

or

- was built in compliance with an old FIRM



# “Old Maps” Rule

**Keep old maps!!!**

If old maps aren't available, check for historical maps at:

[www.msc.fema.gov](http://www.msc.fema.gov)



Many, but not all, old maps are there.



**NATIONAL  
FLOOD  
INSURANCE  
PROGRAM**

**“We Can’t Replace  
Your Memories ...  
But We Can Help  
You Build New  
Ones”**

**EXPLODING THE MYTHS:**

- Flood Insurance does not cover basements.
- You can only buy flood insurance in the floodplain.
- Federal disaster assistance will cover your damages.
- You can’t buy flood insurance during a flood.
- Flood Insurance is only available from the government.

# FLOODPLAIN MANAGEMENT & ITS EFFECTS ON FLOOD INSURANCE



- Building Construction:
- Get it right and insurance premiums will be affordable
- Get it wrong and premiums will be very expensive
- Exceed minimum standards and insurance will be relatively cheap

# What is Increase Cost of Compliance (ICC)??

- Part of the standard Flood Insurance Policy.
- Not a grant.
- Up to \$30,000 to assist with code compliance:
  - **F**loodproof
  - **R**elocate
  - **E**levate
  - **D**emolish



# ICC Details

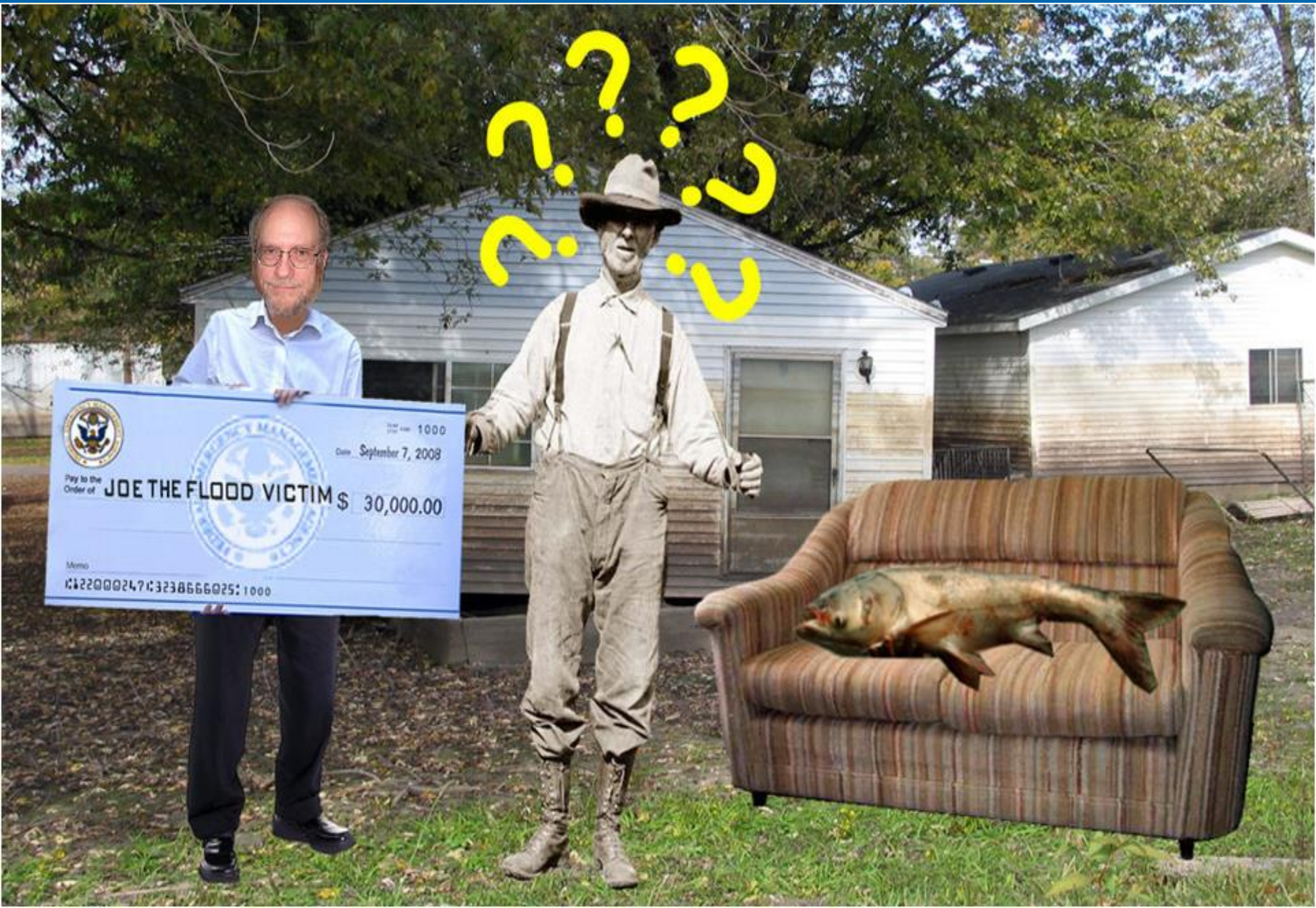
ICC Claim Filed if  
Structure was:

- Damaged by flood.
- Substantially or repetitively damaged





# ICC opens the Window of





# How to Qualify for ICC??

Three conditions must be met for an ICC claim to be paid:

- ❑ Building must be covered by an NFIP Flood Insurance Policy.
- ❑ Structure must be substantially damaged or cumulatively substantially damaged by a flood.
- ❑ The building has a history of NFIP claim payments that satisfy the definition of “target group repetitive loss structure”.



# When ICC is Approved

- Insurance company may release  $\frac{1}{2}$  of the estimated amount to begin construction.
- WYO will release the other  $\frac{1}{2}$  when an elevation certificate and local building permit showing compliance is provided.





# QUICK Mitigation is the Key



One month  
after the  
flood!!!!







# ICC Before and After



# Community Rating System (CRS)



- Another way to reduce the cost of a flood policy!
- Community is above-and-beyond NFIP minimums.
- Must pass a “clean” CAV first.

# Incentive

- CRS provides an incentive for communities to initiate new flood protection activities.





# CRS Premium Discounts

<u>Class</u>	<u>Points</u>	<u>Discount</u>
□ 9	□ 500-999	□ 5%
□ 8	□ 1000-1499	□ 10%
□ 7	□ 1500-1999	□ 15%
□ 6	□ 2000-2499	□ 20%
□ 5	□ 2500-2999	□ 25%
□ 4	□ 3000-3499	□ 30%
□ 3	□ 3500-3999	□ 35%
□ 2	□ 4000-4499	□ 40%
□ 1	□ 4500+	□ 45%

# CRS Activity Examples

**Activity 300** - Elevation certs, Outreach projects

**Activity 400** - Higher standards, Open space preservation, Stormwater management

**Activity 500** - Acquisition and relocation, Drainage system maintenance

**Activity 600** - Flood warning program, levee safety, dam safety

# Community Rating System in Illinois (70 Communities)

• Adams County	8	Lisle	7
• Addison	6	Mount Prospect	7
• Bartlett	7	North Utica	9
• Calumet City	6	Northbrook	7
• Carbondale	9	Oak Brook	7
• Country Club Hills	8	Orland Hills	5
• Deerfield	8	Palatine	7
• DeKalb City	8	Peoria County	5
• Des Plaines	7	Prospect Heights	8
• Downers Grove	7	Sangamon County	8
• DuPage County	6	Swansea	7
• Flossmoor	8	South Holland	5
• Glendale Heights	7	St. Charles	5
• Hoffman Estates	7	Wheeling	7
• LaSalle County	9	Willowbrook	6
• Lansing	7	Wood Dale	5
• Lincolnshire	5	Riverwoods	8
• Jersey County	5	Whiteside County	8
• Rock Island Co	7	Lake County	6
• Lake in the Hills	6	Gurnee	8
• Glenview	6	River Forest	7
• Crystal Lake	6	Sycamore	7

# CRS in Illinois

- Ranked #6 in the nation for participation
- Six communities are class 5 or better
- Only four communities in the nation with higher CRS ratings.
- 40% of all flood insurance policies in Illinois are subject to CRS discounts.

# CRS Representative for Illinois

**Lou Ann Patellaro, CFM**

**ISO / CRS Specialist**

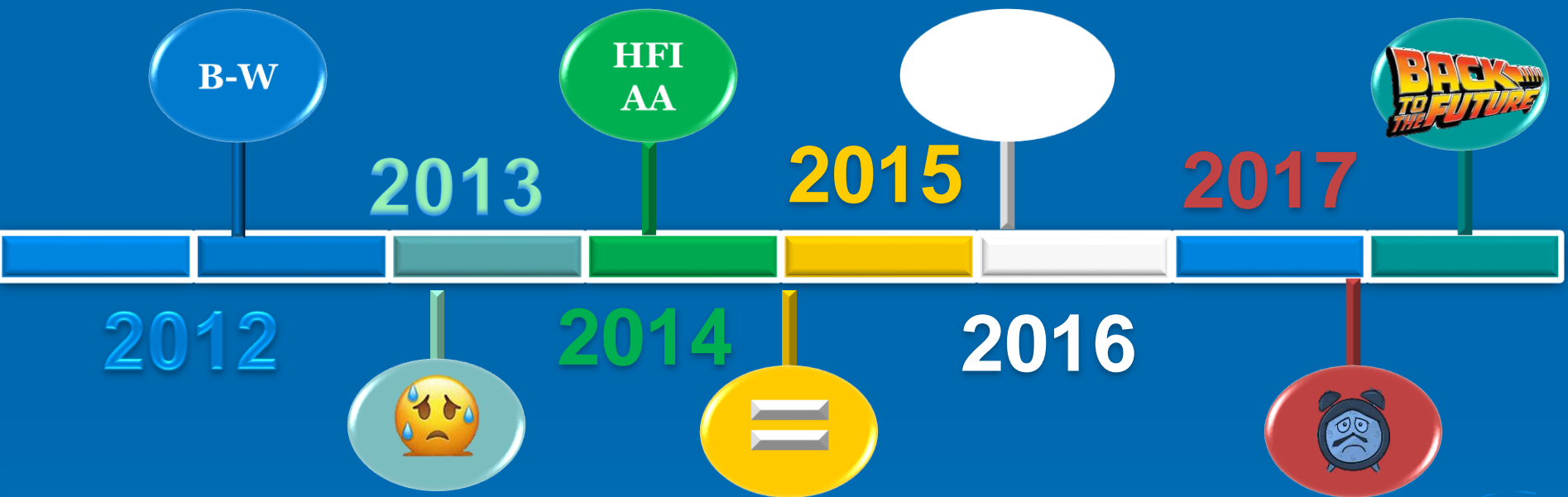
**ISO - Commercial Property**

**Cell – (954) 651-5021**

**Office/Fax – (708) 634-3040**







# Högertrafikomläggningen (H-Day)



Traffic reconfiguration day  
3 September 1967





B-W

# 2012

## Biggert-Waters Flood Insurance Reform Act

- Passed on July 6, 2012.
- Extended the National Flood Insurance Program 5 years, until September 30, 2017.
- Its purpose:
  - Make the NFIP more financially stable by raising rates on certain classes of property to reflect true flood risk. Eliminate subsidies.
  - Create a funding pool for large disasters. (Reserve Fund)
  - Triggered rate changes for certain properties, when bought, sold, or policy lapse.
  - Communities must make smart decisions.

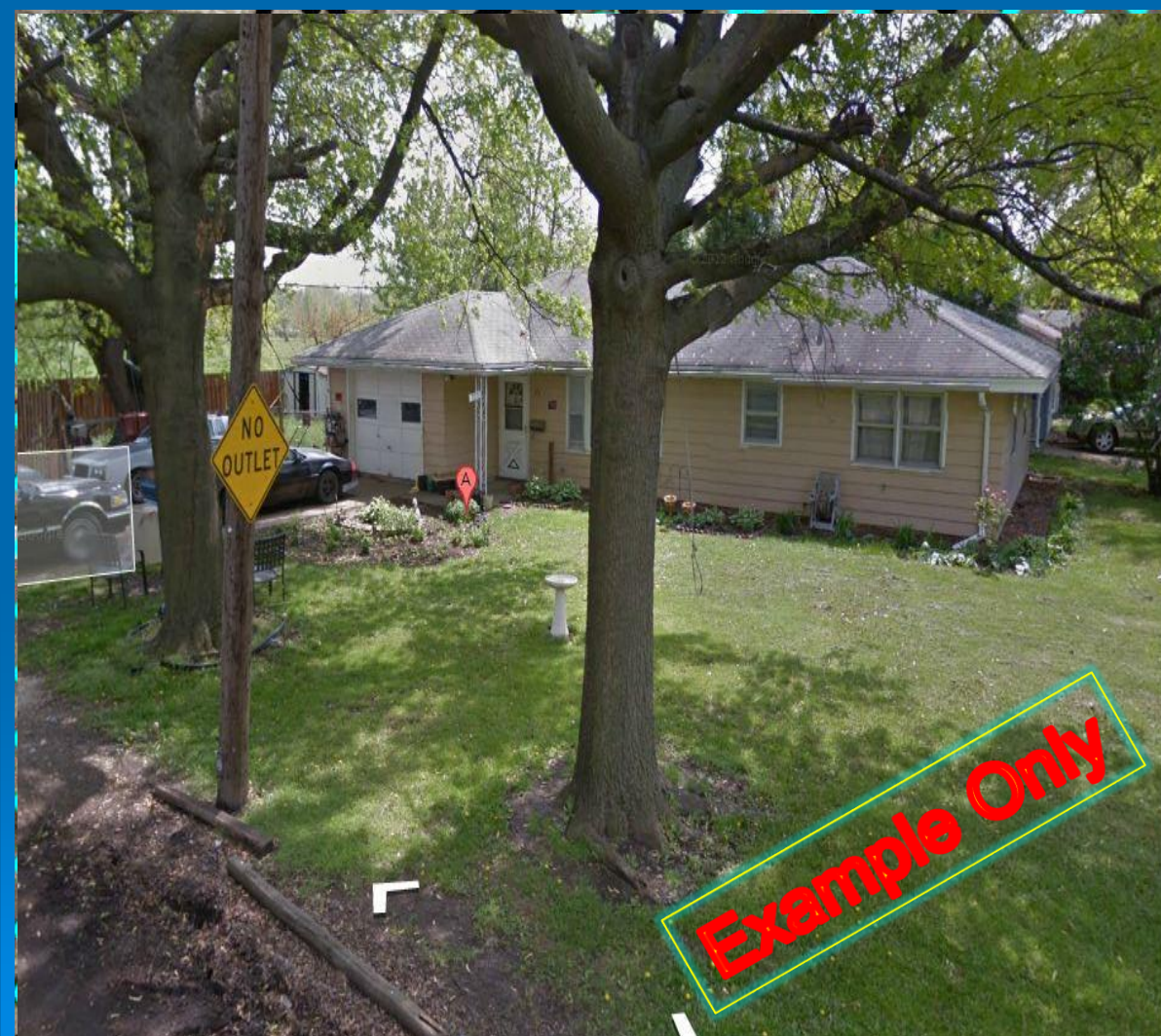
# Biggert-Waters Implementation



- **Began in January 2013**
- **Newly purchased policies required to go to full-risk rates**
  - Elevation Certificates required for full-risk rating
  - Pre-FIRM structures wrote at full-risk rates
- **Annual Percentage Increase Policies**
  - Most rate classes had a jump in rates
  - Some had 25%+ rate increases
- **Policies jumped in cases by \$1,000s**
- **Grandfathered policies phase-out**
- **We all started to feel the pressure**

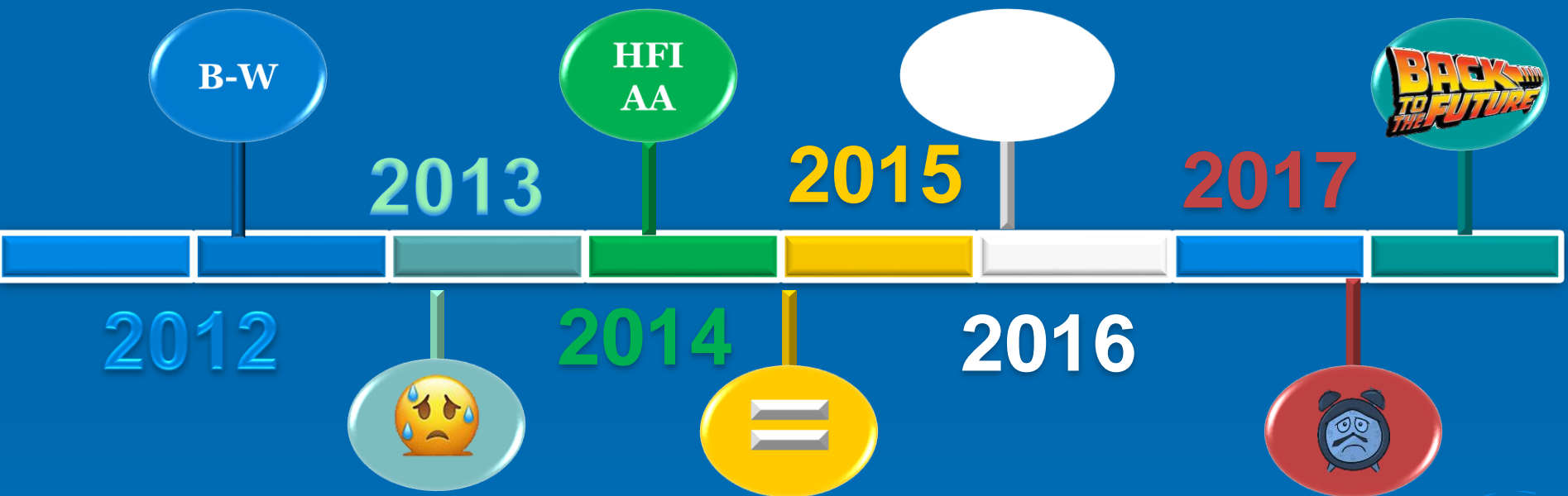
# BW12 Impacts Case Study

## City of Aurora Typical Residential Home



- Pre-FIRM Residential Building in the Floodplain.
- 1,100 Sq. Ft., Wood-Sided, Slab on grade, 2 Ft below BFE
- \$100,000 coverage.
- Pre- FIRM premium = \$800
- Post-FIRM premium = \$4,900







# 2014

## **Homeowners Flood Insurance Affordability Act.**

**Passed in March 2014, started implementation in April 2014.**

- Stop policy increases for certain subsidized policyholders
- Set a cap on how high policies can go in a given year (18%)
- Created refunds for policies under BW12
- Halts the elimination of Grandfathering (for now)
- Implements a surcharge on all policyholders
- \*Note - Some properties (business, non-primary, etc.) are not subject to HFIAA changes so their premiums continue to go up 25% per year until full risk rates



## Gradual Rate Increases

- **Slowed Down Phase-Out of Subsidized Rates**
- Requires at least a 5% increase in subsidized rates a year
- Prohibits increasing rates by more than 15 percent for any risk class and 18 percent for an individual policy
- With some exceptions:
  - Pre-FIRM non-primary, Pre-FIRM
  - Severe Repetitive Loss, Pre-FIRM business properties. 25%

## Residential Deductible Option

- \$10,000 deductible option is available for residential properties with a Standard Rated Policy
- The deductible is \$10,000 on each contents and building (\$20,000 combined)



## Reserve Fund (B-W)

- A 15% fee added on to the end of every policy
- The Reserve Fund is aimed at assisting with the costs of NFIP claims that exceed the annual premiums collected and supporting the program's sustainability

## Surcharge

- HFIAA Surcharge
- April 1, 2015:
  - For primary residences: \$25
  - All other policies: \$250
    - Multi-Family residential, Other residential, Non-Residential Structures



# Newly Mapped PRP

- **Properties newly mapped into the SFHA (Started April 1, 2015)**
  - New maps published after April 1, 2015 homeowner must obtain coverage within 12 months of the map revision date.
- **Eligible properties begin with a Preferred Risk Policy premium for a year (before fees and surcharges)**
  - Must meet loss history requirements of PRP
  - After initial policy year will get a multiplier added until it reaches full risk rates
  - May be able to have a standard X zone rated policy after **(Grandfathering)**

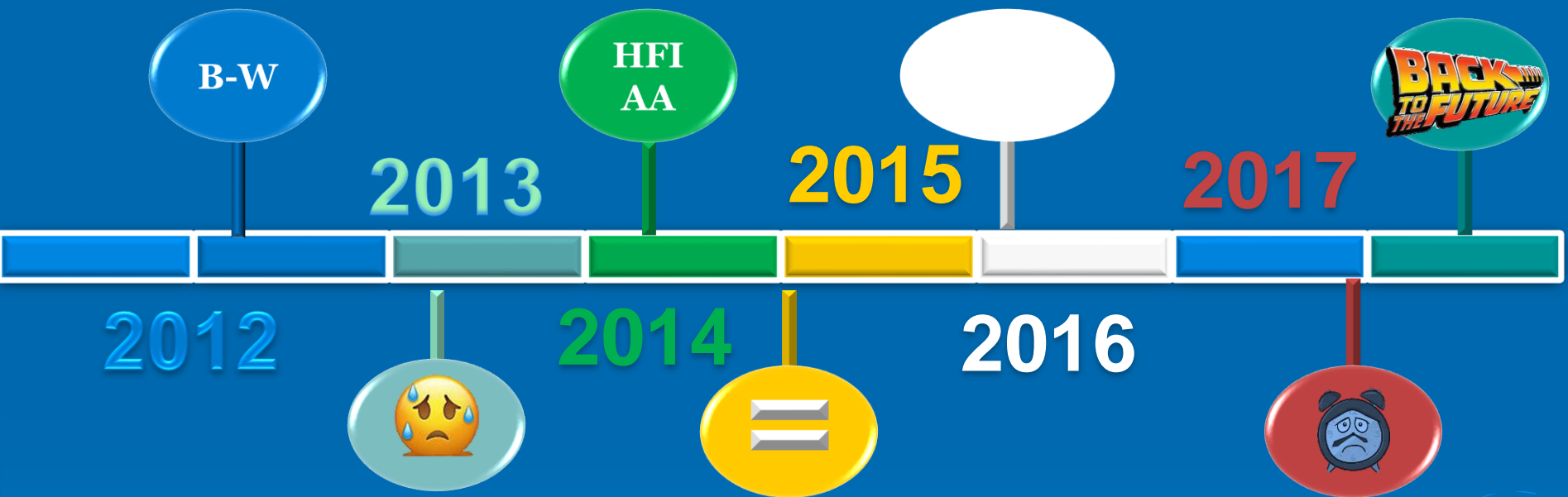




# Grandfathering



- HFIAA restored ability to grandfather properties into lower risk classes
- Allows for a lower Rate ZONE or lower BFE to be used on a Standard Rated Policy if mapping changes
- This is not the same as a PRP Newly Mapped.
- Post-FIRM
  - Two Ways to Grandfather
    - Built in Compliance with map at time
    - Continuous Coverage through a map change
- Pre-FIRM
  - One Way
    - Continuous Coverage through a map change





# Underwriting initiatives

- Collection of additional data began November 1, 2015
  - Identify Primary Residential or Non-Primary Structures
  - If no information provided went to non-primary status
- Subsidy Elimination for Lapsed /Canceled Policies April 2016
  - Previously covered by NFIP
  - Under same ownership
  - Lapsed more than 90 days then reinstated
  - Legally Required to carry a policy (Mandatory Purchase)
- Review of sound underwriting began October 2016
  - All policies were to be reviewed at renewal to make ensure correct zone, photos of building descriptors

# “Clear Communication Letters”

Updates

- Section 28, *Clear Communication of Risk*, within the *Homeowner Flood Insurance Affordability Act of 2014*
  - Letters started being sent out January 2017.
  - Communicate Flood Risk and Policy Rating based on that risk.

	<b>FEMA</b>		
Month DD, YYYY			
John Smith Jones 123 Main Street Anywhere, US 12345			
RE: FLOOD INSURANCE POLICY FOR [Property Address]			
<b>Dear Mr./Ms. Jones:</b>			
Thank you for being a valued policyholder of the National Flood Insurance Program. This letter discusses your flood risk and some important changes and options for your flood insurance policy.			
<b>Your property is at high risk for flooding.</b> The current flood map shows your property is located in a high-risk flood area, but what you are paying for flood insurance is discounted based on a prior flood map that showed a lower flood risk. Federal law requires FEMA to provide discounted rates to property owners like you who have been newly mapped into high-risk areas, but also requires your flood insurance costs to eventually reflect the higher flood risk shown on the current map. This means you can expect rate increases of approximately 15 percent per year, not to			
INSURANCE COMPANY:			[NAME]
POLICY NUMBER:			1234567890
EFFECTIVE DATES:			MM/DD/YYYY to MM/DD/YYYY
BUILDING COVERAGE:			\$XXX,XXX
BUILDING DEDUCTIBLE:			\$X,XXX
CONTENTS COVERAGE:			\$XXX,XXX
CONTENTS			\$X,XXX
DEDUCTIBLE: CURRENT			XX
FLOOD ZONE: RATED			XX
FLOOD ZONE:			\$X,XXX
PREMIUM:			

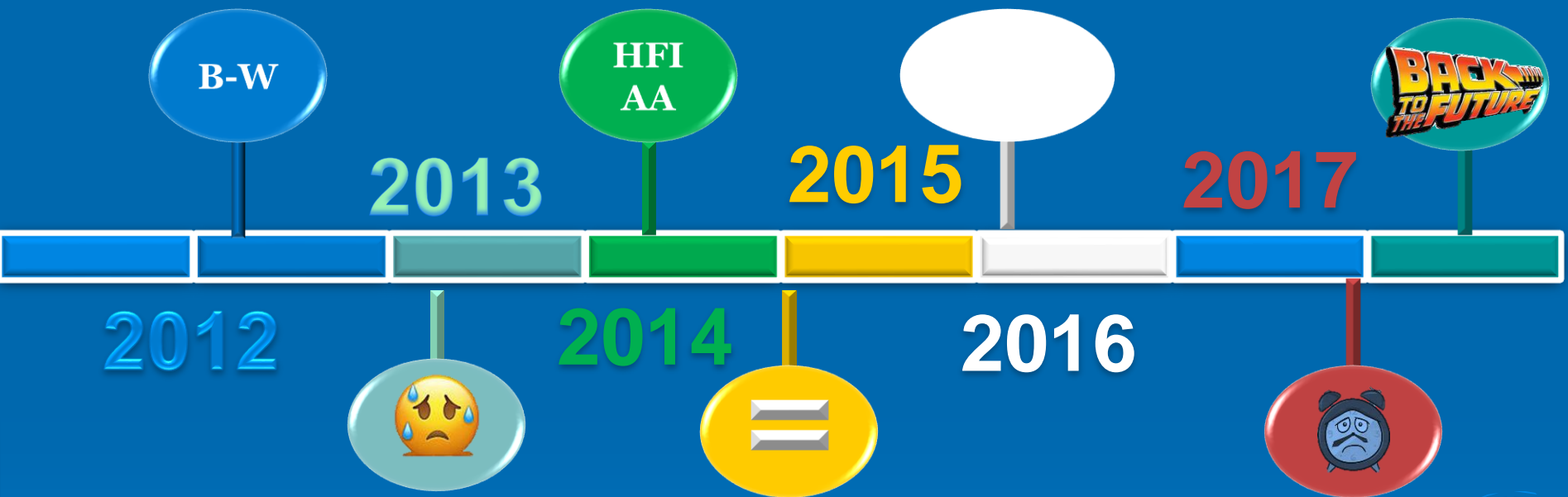
# April 2017

Updates

- **Policy Rates will continue to go up in all rate classes on average by 5.24%**
- **Subsidized (Pre-FIRM, no elevation)**
  - Primary Residence: **5%**
  - Non-Primary Residences Pre-FIRM A and V zones: **24%**
  - Business Class, SRL: **23%**
- **Other Subsidized Policies**
  - A99 and AR zones- Eligible for PRP
    - **Will have decrease on average of 64%**
  - PRP Newly Mapped (with Multiplier): **14%**
- **Elevation based rates**
  - V Zones **7%**
  - Unnumbered A: **5%**
  - AE: **1%**
  - AO, AH, AR, A99 : **0%**
- **X zone, outside SFHA**
  - Standard: **2%**
  - PRP: **0%**







# NFIP Reauthorization



- The current NFIP reauthorization expires on November 30, 2018
- Three Senate NFIP Reform Bills (all 3 endorsed by ASFPM. Once sponsored by Cassidy-Gillbrant.
- One House Bill...Not endorsed.
- Private Insurance Bills have been introduced with past and current Congress.
- Nothing will happen until next year.

# Illinois

## 2012 Policies In Force

- 49,158

## 2012 Average Premium

- \$849

## 2012 Total Coverage

- 8.7Billion

## 2017 Policies In Force

- 43,820
- -5338

## 2017 Average Premium

- \$991
- +\$142

## 2017 Total Coverage

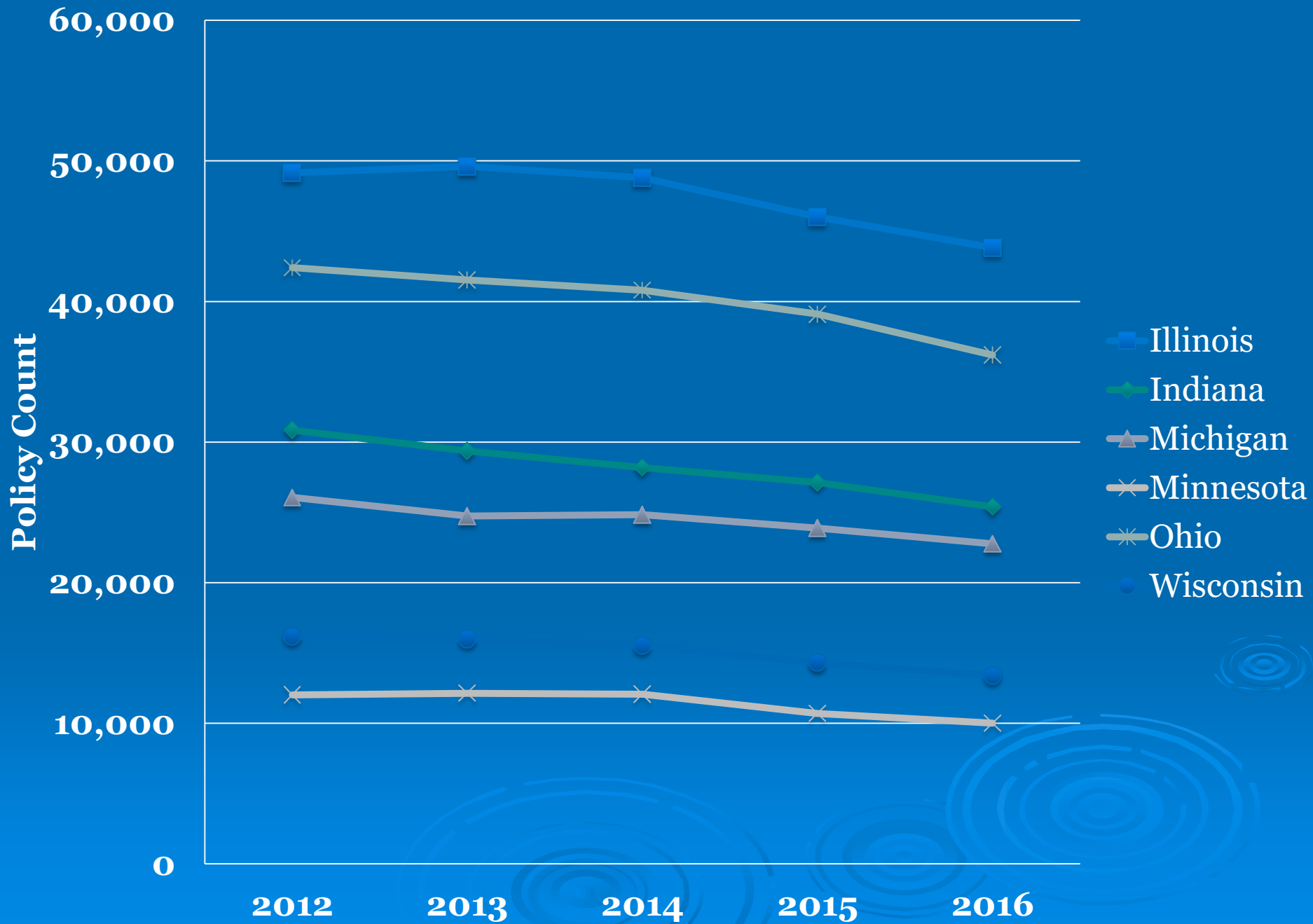
- 8.45 Billion
- -\$230 Million

-11%

17%

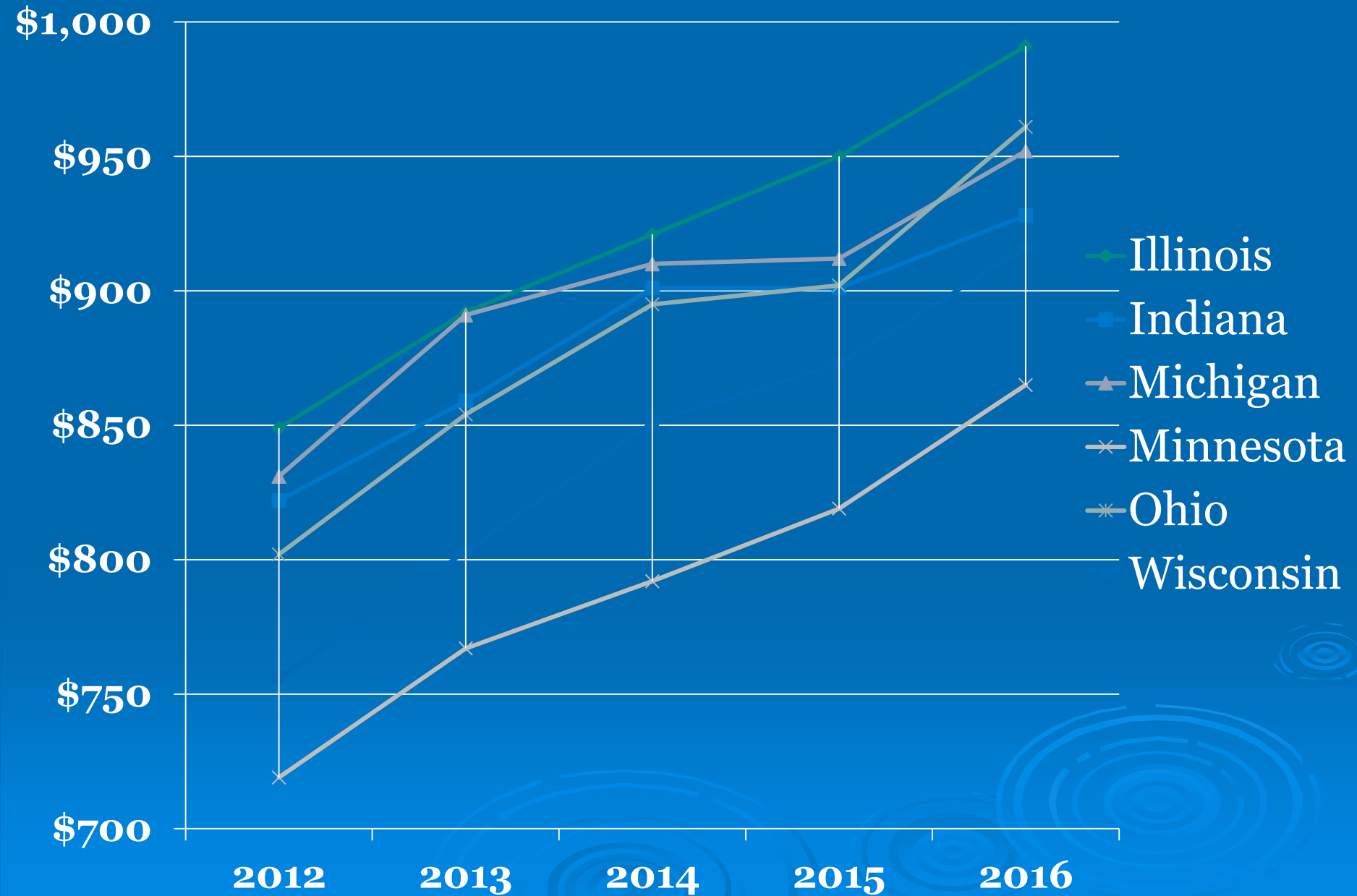
-7%

# Policies in Force





# Average Policy Premium



# FEMA Region V



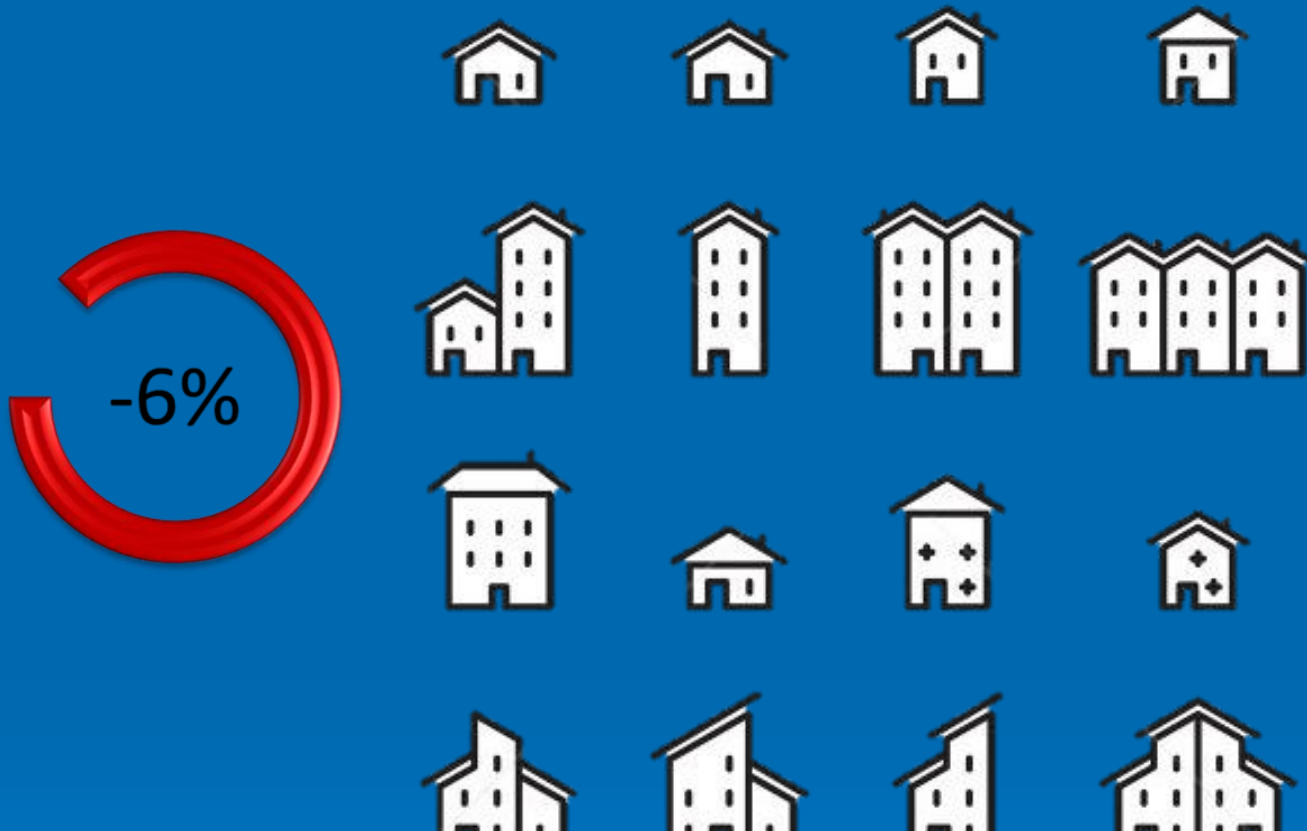
Over the last 5 years, in Region V, the NFIP no longer covers almost \$2 Billion in improved real estate

# FEMA Region V



Either the property owner has, lowered coverage,  
dropped insurance altogether or moved on to  
another source

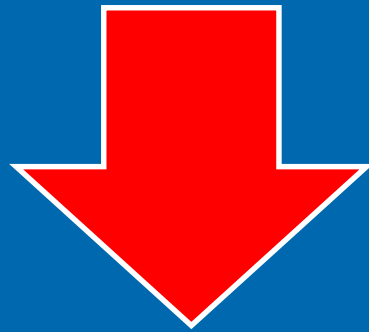
# FEMA Region V



However there has been one interesting trend....



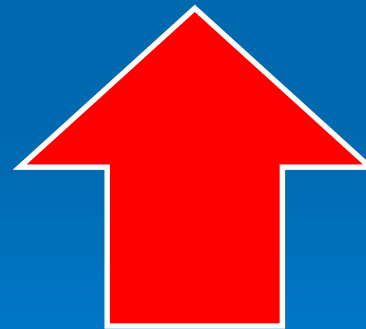
# FEMA Region V



**While  
Property  
exposure  
went down**



**Revenue by  
premiums  
went up**



# Options & Actions

- Property Owners (and insurance agents)
  - Identify what full-risk rate is; get an Elevation Cert.
  - Look into map change (LOMA or LOMR)
  - Look into effect of higher deductibles
  - Look into rate-reducing mitigation actions



# Options & Actions

## ➤ Communities

- Join CRS/Increase CRS Rating
- Be aware of mitigation grants
- Work together!
- Provide technical advice
  - Elevation Certificates
  - Building/Rebuilding to reduce flood risk
  - Implement Higher Standards





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