



# Flood Insurance: Your Home May Be Underwater in More Ways than One

In July of 2012, Congress enacted the Biggert-Waters Flood Insurance Reform Act of 2012 (BW-12). The law effects major changes to the National Flood Insurance Program (NFIP). The changes primarily affect subsidized flood insurance policies, which are policies that are priced below what is deemed to be the risk-based cost of the flood insurance. Florida has approximately one-fourth of the nation's 1.2 million subsidized flood insurance policies. So, the law has the potential to affect approximately 300,000 properties across the state.

Subsidies will no longer be offered for newly purchased properties, lapsed policies, or new policies covering properties for the first time.

As of January 1, 2013, subsidized policy-holders with policies on non-primary residences will see 25% annual increases until the premium reaches a "full-risk premium." Beginning October 1, 2013, subsidized policy-holders on commercial property and severe repetitive loss properties will experience the same increase. Effective October 1, 2013, there will be no subsidies given for policies on newly purchased properties, lapsed policies, or new policies. Existing subsidies on primary residences will disappear upon the sale of the property and all new and lapsed policies. Essentially, subsidies and discounts on flood insurance premiums are being phased out pursuant to BW-12.

Non-subsidized policies will see a charge on their premium to cover the Reserve Fund assessment that is mandated by the Act. Initially, there will be a 5% assessment to all policies except Preferred Risk Policies (PRPs). The Reserve Fund will increase over time and will also be assessed on PRP's at some, as of yet undetermined point in the future.

In addition, sometime in 2014, policy-holders that own property that was affected by a map change, which occurred most recently in Charlotte County in 2003, will see the implementation of full-risk rates phased in over five years with 20% increases each year.



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The most dramatic changes will affect properties located within a Special Flood Hazard Area (SFHA) that were constructed before the community adopted its first Flood Insurance Rate Map (FIRM), which in Charlotte County would be 1975. The elevation of the lowest finished floor (living space) is the most important aspect of the flood insurance rating. Properties constructed before the adoption of the FIRM were likely not constructed in accordance with the Base Flood Elevation (BFE) adopted under the FIRM. Generally speaking, the higher the elevation of the lowest finish floor, the better the rate. The actual rate will depend on the replacement cost of the property, the loss history, coverage, choice of deductible and other characteristics unique to the property.

When considering buying a home or in assisting buyers in purchasing a new home, careful consideration must be given to the elevation of the home and the BFE for the property. A contingency can be inserted in the contract to limit a buyer's risk associated with exorbitant insurance premiums. There are currently bills being introduced to alter the effects of this law, but unless and until new laws are passed, properties located in a flood zone will see substantial increases in the cost of flood insurance.

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