Get FloodSmart
FloodSmart.gov

Flood Insurance: How It Works

The National Flood Insurance Program (NFIP)

Historically, flooding has brought damage and destruction to communities across the United States. In order to help alleviate the financial devastation caused by flooding, Congress created the NFIP in 1968. The NFIP, overseen by the Federal Emergency Management Agency (FEMA), enables homeowners, business owners, and renters in participating communities to purchase federally backed flood insurance. This insurance is designed to provide an alternative to disaster assistance to meet the escalating costs of repairing flood damage to buildings and their contents. You can get flood insurance:

- If you live or own a business in a high-risk area (or Special Flood Hazard Area, known as SFHA)
- If you live or own a business in a moderate-to low-risk area—and possibly at a lower cost (as little as $129 a year)
- If your home or business has been flooded before
- If your mortgage company doesn't require it

Flood Insurance Basics

All properties are at some risk for flooding. The NFIP is dedicated to making property owners and renters aware of the need for flood insurance—not only among those who live and work in high-risk areas, but those also considered at moderate-to-low flood risk. Properties located outside of the mapped high-risk areas are not exempt from flooding. Their risk, while reduced, is not removed.

Consumers need to know that most homeowner's policies do not cover flooding. Only a flood insurance policy will financially protect them from flood damage costs. Flood insurance is available to homeowners, business owners, and renters for both a building and its contents.

Homeowners can insure their home for up to $250,000 and their contents for up to $100,000. Renters can cover their belongings for up to $100,000. Non-residential property owners can insure a building and its contents for up to $500,000 each. The average premium for a yearly flood insurance policy is about $650 per year.

Flood Insurance Requirements

Residents and business owners who live or work in a SFHA are required to purchase flood insurance if they have acquired a loan from a federally regulated and insured lender, and they must carry the insurance for the life of the loan. Those outside of mapped SFHAs can also purchase flood insurance, and they may be eligible for a lower cost policy (called a Preferred Risk Policy). The NFIP encourages all residents to learn about their flood risk and to protect themselves with flood insurance.

How to Purchase Flood Insurance

Flood insurance is sold and serviced by insurance agents in more than 21,800 communities nationwide. To purchase a policy, call your insurance agent or call **1-800-427-2419** to find an agent in your area, they can also visit **FloodSmart.gov/purchasefloodinsurance**.

Reserve Fund Assessment Increasing

- Biggert-Waters required the establishment of a Reserve Fund to help cover costs when claims exceed the annual premium collected by the NFIP. FEMA began collecting an assessment in 2013 to add money to the Reserve Fund.
- The Reserve Fund assessment initially applied to all policies other than PRPs in 2013. The assessment on those policies will increase in 2015.
- Starting in 2015, PRPs will begin contributing to the Reserve Fund.

Policy	2014 Fee (as a percent of premium)	2015 Fee (as a percent of premium)
Preferred Risk Policies (PRPs)	0%	10%
Property Newly Mapped into the SFHA (Previous Preferred Risk Policies Eligibility Extension [PRP EE])	0%	15%
All Other Policies	5%	15%

HFIAA Surcharge Begins

- HFIAA slowed the elimination of subsidies provided for in Biggert-Waters and amended most of the provisions mandating that certain policies transition immediately to full-risk rates.
- To compensate for the decrease in revenue, the new law calls for the addition of a surcharge on all policies that will be collected until, with limited exceptions, all subsidies are eliminated.
- The surcharge is a flat fee applied to all policies based on the occupancy type of the insured building and is *not* associated with the flood zone in which the building is located or the construction date of the building (e.g., pre- or post-FIRM).
- The surcharge also applies to a renter's contents-only policy based on the policyholder's occupancy of the building or unit.

Occupancy Type	Annual Surcharge
Primary Residential: single-family and individual condominium units	$25
Non-Primary Residential: single-family and individual condominium units	$250
Multifamily Residential: condominium and other buildings	$250
Non-Residential	$250

When a Map Change Occurs

- Current PRP EE policies and policies for insured buildings that are newly mapped into high-risk areas from moderate- to low-risk areas will be eligible to receive PRP rates for 1 year after the maps become effective. The Federal Policy Fee for these and existing PRP EE policies will increase to $45 to ensure the solvency and sustainability of the program.
- For these policies, the rates at renewal will increase no more than 18 percent each year.
- Grandfathering remains a cost-saving option for policyholders when new maps show their buildings in a higher-risk area (e.g., Zone A to Zone V; increase in Base Flood Elevation).

What Is Grandfathering?

When FIRM changes occur, the NFIP provides a lower-cost flood insurance rating option known as "grandfathering," which is available for property owners who:

- Have flood insurance policies in effect when the new flood maps become effective and then maintain continuous coverage; or
- Have built in compliance with the FIRM in effect at the time of construction.

To learn more, visit the NFIP's Grandfathering Fact Sheet at **floodsmart.gov/floodsmart/pdfs/Grandfathering+Fact+Sheet+for+Agents-2010.pdf.**

Other Changes Coming in April

- As required by HFIAA, the maximum deductible for a flood insurance policy will increase to $10,000 for single-family and two- to four-family dwellings. If used, the deductible must apply to both building and contents. For single-family homes, choosing the maximum deductible will result in up to a 40 percent discount from the base premium. It is important to remember that using the maximum deductible may not be appropriate in every financial circumstance and may not be allowed by lenders to meet mandatory purchase requirements.
- The Federal Policy Fee will increase by $1 for most policies other than the PRP, which remains $22. The exception is policies rated using the map change table, which will increase to $45 to ensure the solvency and sustainability of the program.
- A new rate table showing annual rate increases of 25 percent will be created for pre-FIRM buildings that have been substantially damaged or improved. However, repairs made to these structures typically must meet current building codes and, therefore, will usually receive a better rate using post-FIRM rate tables.
- In most cases, average rate increases for each rating class are capped at 15 percent; the annual surcharge and Federal Policy Fee are not included in the rate calculation and could result in the total amount charged a policyholder increasing by more than 18 percent.

For full explanations and guidance, see WYO Bulletin (W-14053) and the Flood Insurance Manual.

Read the latest WYO Bulletins for complete rate-change information at **NFIPiService.com**