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No swift relief from high flood insurance rates

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ST. PETERSBURG — It took more than a year following the passage of the 2012 Biggert-Waters Flood Insurance Reform Act before most policyholders knew about the dramatic premium increases coming their way.

Now that President Obama has signed a bill to repeal many of those rate hikes, the Federal Emergency Management Agency is acting quickly to give anxious homeowners a clear idea of when relief is coming and how they'll get it.

Meanwhile, newly elected Republican U.S. Rep. David Jolly of Pinellas County introduced a bill in Congress this week to extend that help to commercial properties and second homes.

"Just because a relief measure was passed and enacted, we're still not done. That bill only provided a certain amount of relief," Jolly said Thursday in a conference call with Pinellas business leaders and city officials.

Jolly said he has met with FEMA Administrator Craig Fugate to discuss whether there's room in the recently passed bill to include businesses and owner-occupied second homes, which were excluded in the Homeowner Flood Insurance Affordability Act.

FEMA has reached out to major insurance agencies, such as St. Petersburg's Wright Flood, to discuss when policyholders should expect their monthly premiums to go back down.

In short, those who were promised swift relief from unaffordable flood policies will have to keep shelling out those big payments until FEMA works up new rate tables, a process that could take well over a year, according to the provisions in the law.

But the agency is expected to move more quickly for those unable to sell a home because of massive premiums facing potential buyers, and for others who may be forced to abandon their property as their coverage costs escalate.

“They’re moving very rapidly to implement this and get relief to the property owners,” said Patty Templeton-Jones, chief operating officer for Wright Flood.

The new law will undo many of the reforms in the controversial Biggert-Waters Act, which aimed to remove low, subsidized rates on about 20 percent of all policies nationwide backed by the National Flood Insurance Program.

The help is aimed at owners of primary homes, placing lower caps on annual rate hikes for primary homeowners and allowing properties to avoid a major rate change if their community’s flood maps are redrawn.

It does little for second homes or businesses; in fact, another pending bill could deny all refunds for people who overpaid premiums on vacation homes.

While U.S. Reps. Kathy Castor, D-Tampa, and Gus Bilirakis, R-Palm Harbor, have endorsed Jolly’s bill to help these properties, it could take months and more letters to Congress from small business owners before there’s enough support for it to pass, Jolly said.

Here’s a summary of what’s in the new flood insurance law, who it helps and when that help is coming:

The timetable

It could take more than 16 months before all aspects of the law are in effect, including the adjustments to insurance premiums. FEMA has up to eight months to finalize the new rate tables and must give insurance agencies another six to eight months after that to implement the changes.

Rate relief

For primary homeowners, the law slows down the ascent toward higher, risk-based rates, but the relief may not be significant for homes in hazardous flood zones.

Prior to 2013, FEMA could raise rates a maximum of 10 percent each year. Biggert-Waters allowed for an increase up to 20 percent to quickly remove subsidies from older homes that had been paying less than their true risk rate.

The new law caps annual increases at 18 percent, with average premium increases ranging from 5 to 15 percent each year.

In the past, the highest rate increases have been placed on properties with the highest risk, especially those with repeated flood claims.

FEMA also is instructed to minimize policyholders who are paying more than 1 percent of the value of their total policy; for example, a homeowner with $200,000 of coverage would never pay more than $2,000 a year. Critics have said this could prevent some properties from ever reaching true risk-based rates.

A home that previously wasn’t mapped in a hazardous area won’t see rates immediately spike if FEMA reassesses a community’s flood hazards. However, those rates would climb steadily over the years until they reach full risk rates.

As for home sales, buyers will be allowed to keep the seller’s previous, subsidized rate rather than immediately paying the full risk rate at their next policy renewal. It remains unclear whether this provision will go into effect immediately or only after FEMA releases its new rate tables.

The law restores the “substantial improvement threshold” from 30 percent to 50 percent of a building’s fair market value. This means substantial renovations can be done without requiring an expensive series of flood safety improvements.

Second homes, businesses excluded

While the bill shields home buyers from an immediate rate hike, there are no rate caps for second homes, businesses or those that have had repeated flood claims. Rates for these properties will go up about 25 percent each year.

FEMA is instructed to “monitor” affordability for small businesses, nonprofits and houses of worship and report back to Congress semiannually.

Refunds

Policyholders can get a refund directly from FEMA for the excess they would have paid under the new law, but only after the revamped rate tables are finished. That means home buyers who saw their rates soar to $10,000 or $20,000 could be in for a big check from the government, but will have to deal with their current rates for quite a while.

Program debt

All policyholders in the flood program will pay a surcharge to ensure there are sufficient reserves to pay out future claims in a big disaster, $25 a year for primary homes and $250 for all other property types.

While it slows down rate increases and even refunds many policyholders, the Congressional Budget Office has indicated the law will not cost taxpayers additional money. Closing up the program's $24 billion debt, however, could be prolonged substantially.

Future affordability

The biggest question hanging is how FEMA will decide to assess each property in future years based on flood risk. With an average 15 percent annual premium increase, it may not take long for a $1,500 policy to snowball.

There's nothing specific in the law to change how FEMA sets rates, so they likely will creep back up over time, but there are some provisions to ensure more transparency about how the long-term coverage costs will be calculated.

Funding for FEMA's affordability study — being conducted by the National Academy of Sciences — is being upped from $750,000 to $2.5 million. Within 18 months of that study, the agency must submit a detailed plan to help people who can't afford their policies. Recommendations include targeted financial assistance for low-income homeowners and a list of approved flood mitigation improvements and how much they would reduce annual rates.

A flood insurance advocate will be appointed to represent homeowners and communities with disputes about FEMA's flood maps and other issues.

Future changes to flood maps will be subject to a series of public hearings and FEMA will be required to share its model for assessing risk and setting premiums.

New options will be included in government flood policies to reduce annual rates such as higher deductibles and excluding coverage for detached structures like garages that aren't occupied. Lenders, though, would still decide whether to accept these alternative coverage options when offering mortgages, Templeton-Jones said.