Ten Misconceptions About the NFIP and Repetitive Loss Properties

Abstract: Prior to 1950, flood damage coverage was part of a standard homeowner's insurance policy in the United States. With the building boom of the 1950's and 1960's, flood damage claims escalated until it became unprofitable for private companies to offer flood coverage in their insurance policies. In 1968, the National Flood Insurance Program (NFIP) was established by an act of Congress, aimed at lessening the financial impact of flood disasters on individuals, business and government, by enabling property owners and buyers to obtain flood insurance at affordable rates (1).

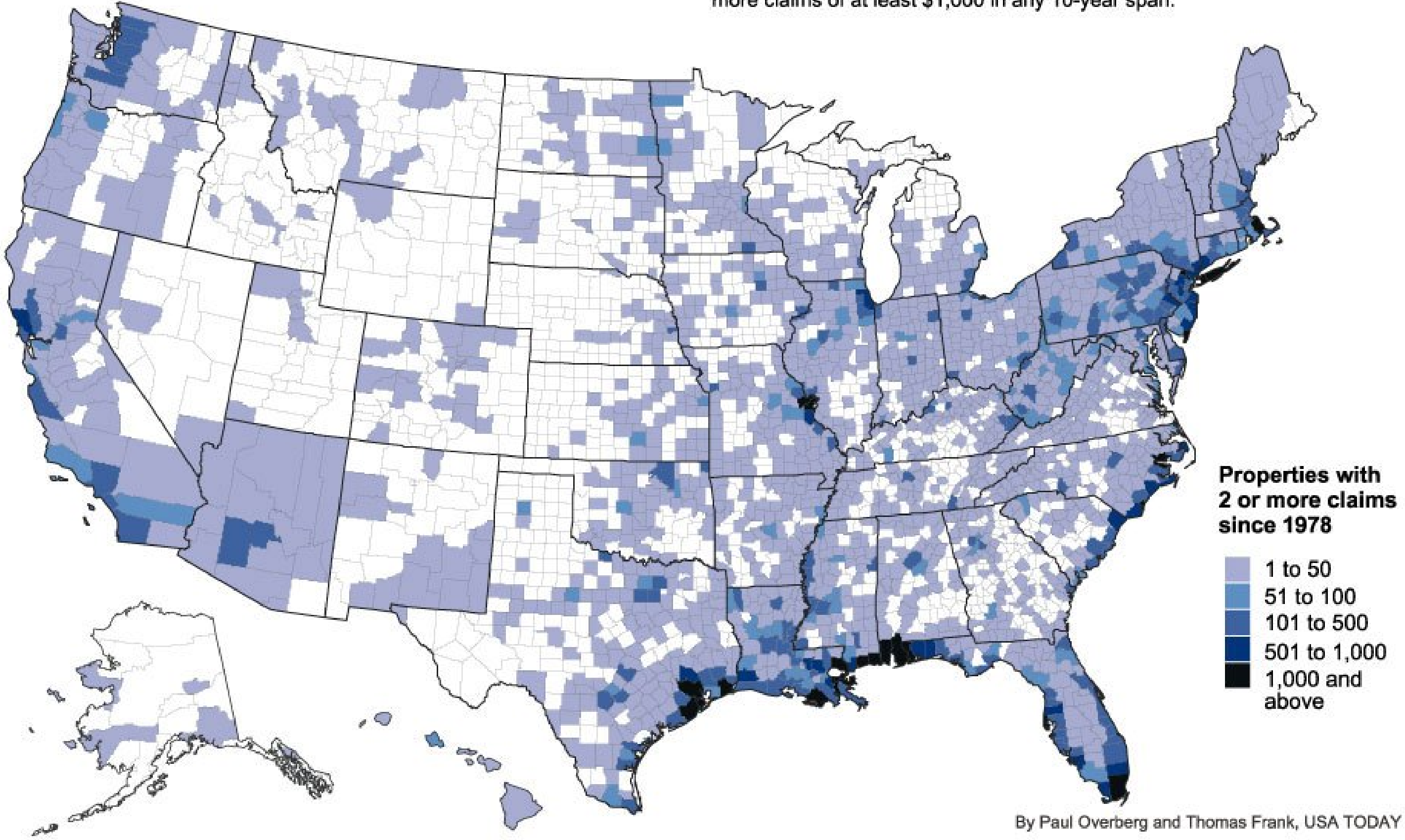
The National Flood Insurance Act of 1968 was authorized to provide funding to reduce or eliminate the impacts of flooding. That said, there are a number of misconceptions regarding repetitive losses in the NFIP. The purpose of this white paper is to identify ten of the key misconceptions and to provide information to enable the reader to better understand the current status of each.

Misconception Number One: Repetitive loss properties are not included in the NFIP.

A repetitive loss (RL) property can be included in the NFIP. A RL property is defined as any insurable building for which two or more claims of than $1,000 were paid by the NFIP within any rolling ten-year period since 1978. A RL property may or may not be currently insured by the NFIP. As of July 2019 the NFIP recognizes approximately 160,000 RL properties in the United States. Of this number, approximately 70,000 (44 %) are currently insured. Historically, RL properties represent less than 1.5% of all NFIP policies, however they represent 15-20% of the claims. As a point of reference there are approximately 5 million flood insurance policies currently in force in the nation. The map below depicts repetitive loss communities that meet the RL definition.

Frequent flooding drains insurance fund

Repeatedly flooded properties have cost a federal insurance program $11 billion in claims since 1978 and are a huge drain on the taxpayer-supported insurance fund. This map shows counties with the most "repetitive-loss properties," a FEMA term for a home or commercial building with two or more claims of at least $1,000 in any 10-year span.



By Paul Overberg and Thomas Frank, USA TODAY

Misconception Number Two: Severe repetitive loss properties are not included in the NFIP.

Of the insured properties approximately 9,000 (6%) are defined as severe repetitive loss (SRL) properties. A SRL property can be included in the NFIP. A SRL property is defined as one to have met one or both of the following definitions; four or more separate claim payments of more than $5,000 each (including building and contents payments), or two or more separate claim payments (building payments only) where the total of the payments exceeds the current value of the property (2)(3). The SRL grant program was authorized by the Bunning-Bereuter-Blumenauer Flood Insurance Reform Act of 2004. The Biggert-Waters Flood Insurance Reform Act of 2012 eliminated the SRL program, however provisions were repealed and/or modified in the Flood Insurance Affordability Act of 2014 as summarized in the following graphic (4).

PRE-FIRM PRIMARY RESIDENCE POLICIES IN HIGH-RISK AREAS

For Most Pre-FIRM Primary Residences in High-Risk Areas, Subsidized Rates Remain in Effect, but with Newly Required Minimum Increases—and an 18 Percent Increase Limit for Any Individual Policy—Until Premiums Reach Their Full-Risk Rates.[1]

Policy Type	Impact On Rate
Existing policies	Policies can be renewed at subsidized rates.[2]
Newly written policies	Policies can be issued and renewed at subsidized rates.
Policies on newly purchased buildings	Policies can be issued and renewed at subsidized rates.
Policies re-issued after a lapse[3]	Policies for pre-FIRM buildings in high-risk areas that lapsed due to a late renewal payment (received after the 30-day grace period but less than 90 days after expiration) can be re-issued and renewed at subsidized rates.

PRE-FIRM BUILDING POLICES IN HIGH-RISK AREAS

For Other Pre-FIRM Buildings in High-Risk Areas, Subsidized Rates Continue, but Will Increase More Quickly to Reach Full-Risk Rates.

Policy Type	Impact On Rate
Policies for non-primary residences (secondary or vacation homes or rental properties)	25% annual increases at policy renewal until premiums reach their full-risk rates.
Policies for business buildings	Future 25% annual increases at policy renewal.
Policies for Severe Repetitive Loss properties	25% annual increases at policy renewal for severely or repetitively flooded properties that include 1 to 4 residences.

[1] Full-risk rates are determined using data from an Elevation Certificate.
[2] Full-risk rates could be lower than subsidized rates.
[3] Buildings with lapsed policies are not eligible for the subsidy unless the lapse was the result of the policy no longer being required to retain flood insurance coverage.

OTHER POLICIES

For Most Other Policy Types, Rates Will Increase by No More than 18 Percent for Any Individual Policy.

Policy Type	Impact On Rate
Policies for newer ("post-FIRM") buildings in high-risk areas	Not affected by subsidies; already paying full-risk rates.
Policies for buildings in moderate- to low-risk areas	Not affected by subsidies; properties in these areas (shown as B, C, or X zones on flood maps) do not pay subsidized rates.
Policies for buildings "grandfathered in" when map changes show higher flood risk	Grandfathering remains in effect at this time. Buildings constructed in compliance with earlier maps or continuously covered by flood insurance stay in their original rate class when maps change or properties are sold.
Policies for buildings covered by Preferred Risk Policy Eligibility Extension (PRP EE)	Properties continue to be eligible for lower, preferred-risk rates for the first year after a map change. Starting the following year, rates will increase by no more than 18% for any individual policy until premiums reach their full-risk rate.

Misconception Number Three: A community may not participate in the Community Rating System (CRS) Program if it contains any RL property or SRL property.

To participate in the CRS, a community with one or more RL/SRL properties must take certain actions that address those properties:

- Prepare a map of the repetitive loss area(s).
- Review and describe their RL problems.
- Prepare a list of the addressees of all properties with insurable buildings in these areas.
- Undertake an annual outreach project to those addressees.

Misconception Number Four: RL/SRL properties only exist along rivers.

RL/RSL properties existing along rivers AND along the coasts of the United States. Please see the map above shown under misconception number one.

Misconception Number Five: There is no waiting period for a RL/SRL policy to become effective.

Typically, there is a 30-day waiting period from date of purchase before the policy goes into effect. Here are the only exceptions:

- If a building is located in a newly-designated Special Flood Hazard Area and flood insurance is being purchased within the 13-month period following a map revision.
- If the policy holder purchased flood insurance in connection with making, increasing, extending or renewing their mortgage loan.
- If an additional amount of insurance is selected as an option on the renewal bill.
- If a property is affected by flooding on burned federal land that is a result of, or is exacerbated by, post-wildfire conditions when the policy is purchased within 60 days of the fire containment date.

Misconception Number Six: Flooding is covered by my homeowners insurance policy.

Most homeowners insurance does NOT cover damage or losses from flooding. Also, some damage to your property may have been caused by something other than flooding. Look at your policy and see your homeowners insurance agent for more information about what types of damage are covered by your policy.

Misconception Number Seven: Damage to any structure (and its contents) is covered by my policy.

Only one building and its contents can be insured by each policy. In addition, separate deductibles apply to building and contents coverages. This means that if your building and contents are both damaged due to a flood event, both deductibles are applied.

Misconception Number Eight: Mitigation is not offered as a means to reduce exposure to future flood damages.

Eligible flood mitigation activities include, but are not limited to:

- Structural elevation of the home above Base Flood Elevation.
- Relocation of the home to a non-flood prone site.
- Dry floodproofing (e.g., make structure water-tight).
- Relocating utilities and systems out of a basement.
- Wet floodproofing (e.g., installing flood vents).
- Structural alterations and reconstruction.
- Adding or replacing roofing, gutters and downspouts.

Misconception Number Nine: After the NFIP pays my flood loss claim I must move from my home or business to another location.

There are four options you can choose, or any combination thereof (subject to the RL/SRL discussed above), to help you reduce future flood damage. You should consult with your local floodplain administrator to help determine which option is best for your property.

- Elevation. This option raises your home or business to or above the flood elevation adopted by your community.
- Relocation. This option moves your home or business out of harm's way.
- Demolition. This option tears down and removes flood-damaged buildings.
- Floodproofing. This option is available primarily for non-residential buildings. It involves making a building watertight through a combination of adjustments or additions of features to the building that reduces the potential for flood damage,

Misconception Number Ten: Flood insurance data is not subject to the Privacy Act of 1974.

Flood insurance data about private property, including RL/SRL properties, is subject to the Privacy Act of 1974. Personally identifiable data, such as the names or addresses of specific properties, whether they are covered by flood insurance, or whether they have sustained flood claims, and/or the amounts of such claims may not be released outside of local government agencies or to the public or used for solicitation or other purposes.

Summary: The information provided above is intended for use by those who have questions about the NFIP CRS, including RL and SRL properties. It is deemed current and is sourced accordingly. If you have questions or need assistance with the NFIP CRS program, please contact Mark Mansfield at Shore Consulting Group LLC, 757-685-9864 or mark.mansfield@shoreconsultinggroup.com

Footnotes/Data Sources:

(1) Ed Hill, Flood Protection, USA March 13, 2014.

(2) In either case , two of the claim payments must have occurred within 10 years of each other (multiple losses at the same location within 10 days of each other are counted as one loss), with the payment amounts added together.

(3) Participation in the severe repetitive loss program is voluntary, however policyholders who refuse an offer of mitigation will be subject to an increase in their flood insurance premium rate equal to 150% of the chargeable rate for the property at the time the offer was made.

(4) https://www.fema.gov/media-library-data/1402589850648-b39ea7ae38c86378e4c3e977d25cf942/HFIAA-Fact_Sheet_061114.pdf