



ABA FLOOD INSURANCE PROGRAM CHANGES

The information below pertains to rebuilding and the escalating premium expense for flood insurance.

Flood Insurance Program Changes

On July 6, 2012, President Obama signed into law the Biggert-Waters Flood Insurance Reform and Modernization Act of 2012 ("BWA"). In an [ABA Staff Analysis](#), American Bankers Association ("ABA") based in Washington D.C. has identified flood compliance changes and issues presented by certain provisions of BWA, and banks have begun working with interested member banks and the banking agencies on implementation.

In addition to these compliance challenges, BWA has the potential to raise safety and soundness concerns. The law provides for the elimination at the rate of 20 or 25% per year (depending on property type) of a variety of existing flood insurance subsidies and the phase in of flood insurance premium rates that reflect the full flood risk for buildings located in special flood hazard areas. The increased rates and the loss of existing subsidies – which will add hundreds, even thousands of dollars to flood insurance bills – will present significant financial challenges for many borrowers. Borrowers with properties who will experience significant premium increases may not be able to pay the higher premiums, and may very well end-up in foreclosure. Non-conforming construction will be subject to such substantial insurance increases that doubtless it will adversely impact property values. This could create asset problems for financial institutions with significant lending in special flood hazard areas.

In addition, the extensive flooding, and resulting losses, brought about by Hurricane Sandy, means that for those banks with loans secured by buildings in the affected regions of New York and New Jersey, this process may be accelerated. The storm damage has sped up BWA implementation by the Federal Emergency Management Agency ("FEMA"). The Agency is working quickly to complete the flood risk mapping process currently underway in Coastal New Jersey and New York. Once adopted, the new Flood Insurance Rate Maps (FIRMs) are likely to result in higher base flood elevations (BFE) or new, higher risk flood zone designations for many areas; both will effect minimum building requirements and the flood insurance premium rates. (The official adoption by local communities of these maps may not occur for a year, but as soon as they are completed they will be available as "advisories.") Simultaneously, affected residents and businesses are working to clean up and re-build. Unfortunately, well-meaning contractors, insurance agents, bankers, and consumers may not be aware of the re-mapping initiative and may be in the process of securing financing, building permits, and flood insurance that reflects current BFEs and flood zone designations.

FEMA has contacted ABA to enlist help in raising awareness of the impending changes and the impact they will have on flood insurance premiums. Ultimately, the goal is to help property owners in NY and NJ make fully informed decisions about re-building, decisions that take into consideration the new maps – and new minimum building requirements intended to help mitigate future flood risk – and resulting flood insurance premium increases and subsidy eliminations. The concern is that unknowing property owners may rebuild to current BFEs and flood zone requirements only to be informed sometime next year [2013] when the new maps are adopted that because their building fails to satisfy current requirements, their flood insurance premiums will increase by hundreds, and ultimately thousands, of dollars when full risk-rated premiums have been phased in. For many, these increases may render their flood policy, and therefore their mortgage, unaffordable, and will likely impact property values negatively.

Similarly, for those property owners in affected NY and NJ coastal areas who "only" need to clean-up from flood damage, but do not have to rebuild, the new maps will also mean significant increases in flood insurance premiums. As noted previously, BWA phases out subsidies at a rate of 20% per year; so-called "grandfathered" properties will lose that status and within 5 years will be charged flood insurance rates that reflect full flood risk. ABA urges banks to help raise awareness of this so that their borrowers can plan accordingly.

For additional information, see FEMA publication: [Changes in Flood Insurance Program, Preliminary Considerations for Rebuilding](#). The FEMA brochure, [If Your Home or Business Has Been Flooded Build Back Safer and Stronger: What You Need to Know](#), includes an illustration of the levels of insurance rate increases property owners may experience.

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