FEMA

Understanding Flood Insurance and the Grandfathering Rule

Risk MAP

The Department of Homeland Security's Federal Emergency Management Agency (FEMA) is responsible for administering the National Flood Insurance Program (NFIP). FEMA and its partners provide flood hazard data and maps in support of the NFIP. Up-to-date flood hazard information and maps are needed to support the rating and purchase of flood insurance, enable community-based floodplain management, and increase the Nation's flood hazard awareness.

FLOOD

INSURANCE

HAZUS

HURRICANE

DAMS/LEVEES

PLANNING

New Flood Maps: New Insurance Requirements

The Federal Emergency Management Agency's (FEMA's) nationwide Flood Map Modernization (Map Mod) effort to update the current flood hazard maps is resulting in more reliable, easier-to-use, readily available Digital Flood Insurance Rate Maps (DFIRMs). Consequently, residents and business owners are able to obtain updated information about their current flood risks. In some cases, a property may be mapped into a lower risk zone; for others, a property's risk may change from a low- or moderate-risk area to a high risk area. Other changes could include a change in high-risk area designation (e.g., from a zone beginning with the letter "A" to a zone beginning with the letter "V") or a change in the Base Flood Elevation (BFE).[1]

Being mapped into a higher risk zone or a change in BFE can result in an increase in flood insurance premium. It is important that property owners understand their options following changes to their community's DFIRMs. To recognize property owners who owned a policy before the maps became effective, or who built to the correct standards relative to the flood map in effect at the time of construction, the National Flood Insurance Program (NFIP) has "Grandfather" rules to allow these property owners to benefit in the flood insurance rating of their building. This rating results in a cost savings to policy holders compared to a potential higher premium rate that results from a map revision.

Pre-FIRM Buildings Have One Opportunity

A pre-Flood Insurance Rate Map (pre-FIRM) building is one that was constructed prior to the date of the community's first FIRM. In most cases, owners of pre-FIRM buildings have just one opportunity to use the Grandfathering rule, which is before the new DFIRMs become effective. If a policy is obtained prior to the effective date of a map change, the policyholder is eligible to maintain the prior zone and BFE, as long as continuous coverage is maintained going forward. Continuity of coverage can be maintained even if the building is sold, as the policy can be assigned to a new owner at the option of the policyholder. There is a 30-day waiting period for a policy to become effective when purchasing a policy that is not required by a lender. The benefits of grandfathering by this method apply as long as the policy is purchased before the DFIRM effective date.

A further way for owners to reduce flood insurance costs on buildings located in low- or moderate-risk areas (identified on the current FIRM with the letters "B", "C", or "X") is to purchase a lower-cost Preferred Risk Policy[2] (PRP) prior to the DFIRM's effective date. This will lock in the zone to be used for future rating. When the PRP renews after the DFIRM is effective, it

1 The height to which flood waters have a 1-percent chance of reaching in any given year.

2 The property must meet the PRP eligibility requirements; an insurance agent can provide more details.

can no longer be written as a PRP but must be written using standard policy rates. However, because the low-risk zone was locked in, the policy can be rewritten on a standard rated policy still using its low-risk zone rates (e.g., "X").

If a policy was not obtained for a pre-FIRM structure prior to the effective date of a DFIRM, the applicant cannot use the Grandfathering rules for rating; however, the building is still eligible to receive the pre-FIRM rates based on the new zone rather than the actuarial (elevation-based) rates.

Post-FIRM Buildings Get Two Opportunities

Buildings constructed after the effective date of the initial FIRM (known as post-FIRM structures) have two opportunities to apply the Grandfathering rules:

- Purchase a policy before the DFIRMs become effective and lock in the zone or BFE (as described above for pre-FIRM structures); or
- Provide evidence that the building was originally built in compliance.

If a post-FIRM building was constructed in compliance with the FIRM in effect at the time of construction, the owner is eligible to obtain a policy using the zone and the BFE from that FIRM, if it will result in a better insurance rate. To do so, the building cannot have been altered in away that resulted in a floor being lower than the BFE on that FIRM (e.g., enclosing the area below an elevated building) and the building cannot have been substantially improved or damaged. The property owner must also provide proper documentation to the insurance company or agent that shows:

- The date of the FIRM;
- The flood zone on that FIRM in which the property is located;
- The BFE, if any, for that zone;
- A copy of the map panel showing the location of the building; and
- The rating element that is to be grandfathered.

A letter from a community official verifying this information, or an Elevation Certificate, is also acceptable. Note that continuous coverage is not required to maintain this rate. This method of grandfathering can be used at any time after the new DFIRM becomes effective. If used within 13 months of the new DFIRM's effective date, there is a one-day waiting period for the policy to become effective.

Use the Best Rate

Sometimes using the data based on the new DFIRMs will actually provide better rates than grandfathering. Both options should always be explored; always use the new map if it will provide a more favorable premium (lower rate).

Staying Informed

Knowing when and where map changes are occurring will help you know what insurance options are available. FEMA provides updated monthly listings of all communities that have received a Letter of Final Determination (LFD), a document that states that a flood map will become effective in six months.[3]

- LFD listings: http://www.fema.gov/plan/prevent/fhm/st_hot.shtm#2
- Flood Map Modernization: http://www.fema.gov/plan/prevent/fhm/mm_main.shtm
- Rating using the Grandfather rule: http://www.fema.gov/business/nfip/manual.shtm
- Flood Insurance: http://www.floodsmart.gov

3 Assuming that the community passes an ordinance that adopts the new flood maps before the proposed effective date of the map.