

First Insurance Company of Hawaii

Biggert-Waters (BW12)

Understanding

&

Implications for HI Real Estate

January 22, 2014

Wesley Brum, Flood Underwriter



FEMA

National Flood Insurance Program (NFIP)

□ **NFIP Background**

- In 1968 Congress Created the National Flood Insurance Program (NFIP)
- The NFIP was created as a self-supporting entity, where operating expenses and flood insurance claims were to be paid through premiums collected
- Severe losses in 2005 (Hurricane Katrina) and 2012 (Super Storm Sandy) have put the program into debt and into question - \$24B

What Triggers Mandatory Flood Insurance Requirement?

- Home, Building or Condo carrying a federally insured mortgage that is located in one of the two mandatory zones (i.e. A or V zone) is required to purchase flood insurance

- Options other than NFIP
 - Private insurance – no more restrictive than NFIP
 - No mortgage

How Are Flood Premiums Calculated?

- ❑ First, determine the flood zone
 - ❑ B, C, X – flood not likely, low premium
 - ❑ A – shallow flooding is possible, medium premium
 - ❑ V – storm surge is possible, high premium
- ❑ Second, classify the construction type
- ❑ Third, determine the age of construction
 - ❑ Pre-firm – built before codes enacted
 - ❑ Rate based on type of structure X limit (max \$250K for house)
 - ❑ Post-firm – built after codes enacted
 - ❑ Type of structure
 - ❑ Relationship of lowest floor to base flood elevation (BFE)
 - ❑ Ratio of Insurance to replacement cost sometimes a factor

Pre-Firm vs. Post-Firm

- Each county has a Flood Insurance Rate Map date or “FIRM Date”
- What does this mean?
 - Any structure built on or after the date affiliated with the corresponding County code must submit an Elevation Certificate for rating
- Honolulu County
 - September 3, 1980
- Maui County (Includes the Island’s of Molokai & Lanai)
 - June 1, 1981
- Kauai County
 - November 4, 1981
- Hawaii County
 - May 3, 1982

U.S. DEPARTMENT OF HOMELAND SECURITY
FEDERAL EMERGENCY MANAGEMENT AGENCY
National Flood Insurance Program

ELEVATION CERTIFICATE
Important: Read the instructions on pages 1-9.

OMB No. 1665-0008
Expiration Date: July 31, 2015

SECTION A - PROPERTY INFORMATION

A1. Building Owner's Name _____
A2. Building Street Address (including Apt., Unit, Suite, and/or Bldg. No.) or P.O. Route and Box No. _____
City _____ State _____ ZIP Code _____

A3. Property Description (Lot and Block Numbers, Tax Parcel Number, Legal Description, etc.) _____

A4. Building Use (e.g., Residential, Non-Residential, Addition, Accessory, etc.) _____
A5. Latitude/Longitude: Lat. _____ Long. _____ Horizontal Datum: NAD 1983 NAD 1927 NAD 1983
A6. Attach at least 2 photographs of the building if the Certificate is being used to obtain flood insurance.
A7. Building Diagram Number _____
A8. For a building with a crawlspace or enclosure(s):
a) Square footage of crawlspace or enclosure(s) _____ sq ft
b) Number of permanent food openings in the crawlspace or enclosure(s) within 1.0 foot above adjacent grade _____
c) Total net area of food openings in A8.b _____ sq in
d) Engineered food opening? Yes No
A9. For a building with an attached garage:
a) Square footage of attached garage _____ sq ft
b) Number of permanent food openings in the attached garage within 1.0 foot above adjacent grade _____
c) Total net area of food openings in A9.b _____ sq in
d) Engineered food opening? Yes No

SECTION B - FLOOD INSURANCE RATE MAP (FIRM) INFORMATION

B1. NIP Community Name and Community Number _____ B2. County Name _____ B3. State _____
B4. Map/Panel Number _____ B5. Suffix _____ B6. FIRM Index Date _____ B7. FIRM Panel Effective/Revised Date _____ B8. Flood Zone(s) _____ B9. Base Flood Elevation(s) (Zone A0, use base flood depth)

B10. Indicate the source of the Base Flood Elevation (BFE) data or base flood depth entered in item B9:
 FIS Profile FIRM Community Determined Other/Source: _____
B11. Indicate elevation datum used for BFE in item B9: NGVD 1929 NAVD 1983 Other/Source: _____
B12. Is the building located in a Coastal Barrier Resources System (CBRS) area or Oceanwise Protected Area (OPA)?
Designation Date: _____ CBRS OPA

SECTION C - BUILDING ELEVATION INFORMATION (SURVEY REQUIRED)

C1. Building elevations are based on: Construction Drawings Building Under Construction Finished Construction
A Real Elevation Certificate will be required when construction of the building is complete.
C2. Elevations - Zones A1-A30, AE, AH, A (with BFE), VE, V1-V30, V (with BFE), AR, ARA, ARAE, ARI/A1-A30, ARI/AH, ARI/A0. Complete items C2.a-h below according to the building diagram specified in item A7. In Puerto Rico only, enter meters.
Benchmark Utilized: _____ Vertical Datum: _____
Indicate elevation datum used for the elevations in items a) through h) below: NGVD 1929 NAVD 1983 Other/Source: _____
Datum used for building elevations must be the same as that used for the BFE.
Check the measurement used:
a) Top of bottom floor (including basement, crawlspace, or enclosure floor) _____ feet meters
b) Top of the next higher floor _____ feet meters
c) Bottom of the lowest horizontal structural member (V Zones only) _____ feet meters
d) Attached garage (top of slab) _____ feet meters
e) Lowest elevation of machinery or equipment servicing the building (Describe type of equipment and location in Comments) _____ feet meters
f) Lowest adjacent (finished) grade next to building (LAG) _____ feet meters
g) Highest adjacent (finished) grade next to building (HAG) _____ feet meters
h) Lowest adjacent grade at lowest elevation of deck or stairs, including structural support _____ feet meters

SECTION D - SURVEYOR, ENGINEER, OR ARCHITECT CERTIFICATION

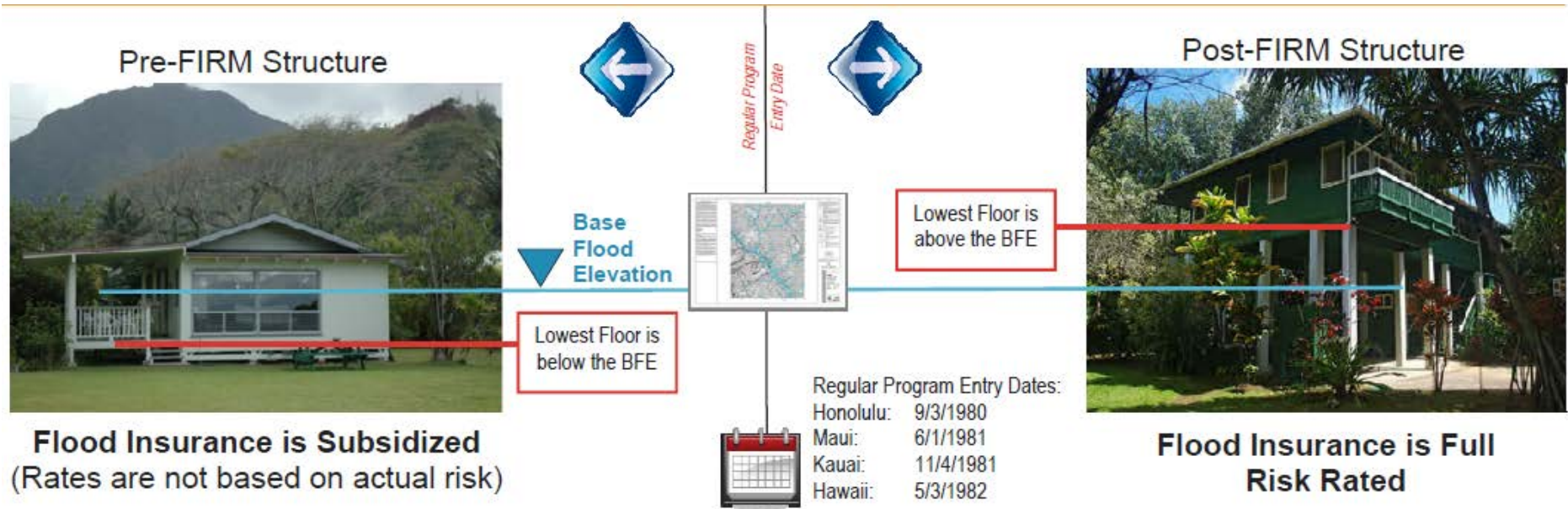
This certification is to be signed and sealed by a land surveyor, engineer, or architect authorized by law to certify elevation information. I certify that the information on this Certificate represents my best efforts to interpret the data available. I understand that any false statement may be punishable by fine or imprisonment under 18 U.S. Code, Section 1001.
 Check here if comments are provided on back of form. Check here if attachments. Check here if licensed land surveyor? Yes No

Certifier's Name _____ License Number _____
Title _____ Company Name _____
Address _____ City _____ State _____ ZIP Code _____
Signature _____ Date _____ Telephone _____

PLACE SEAL HERE

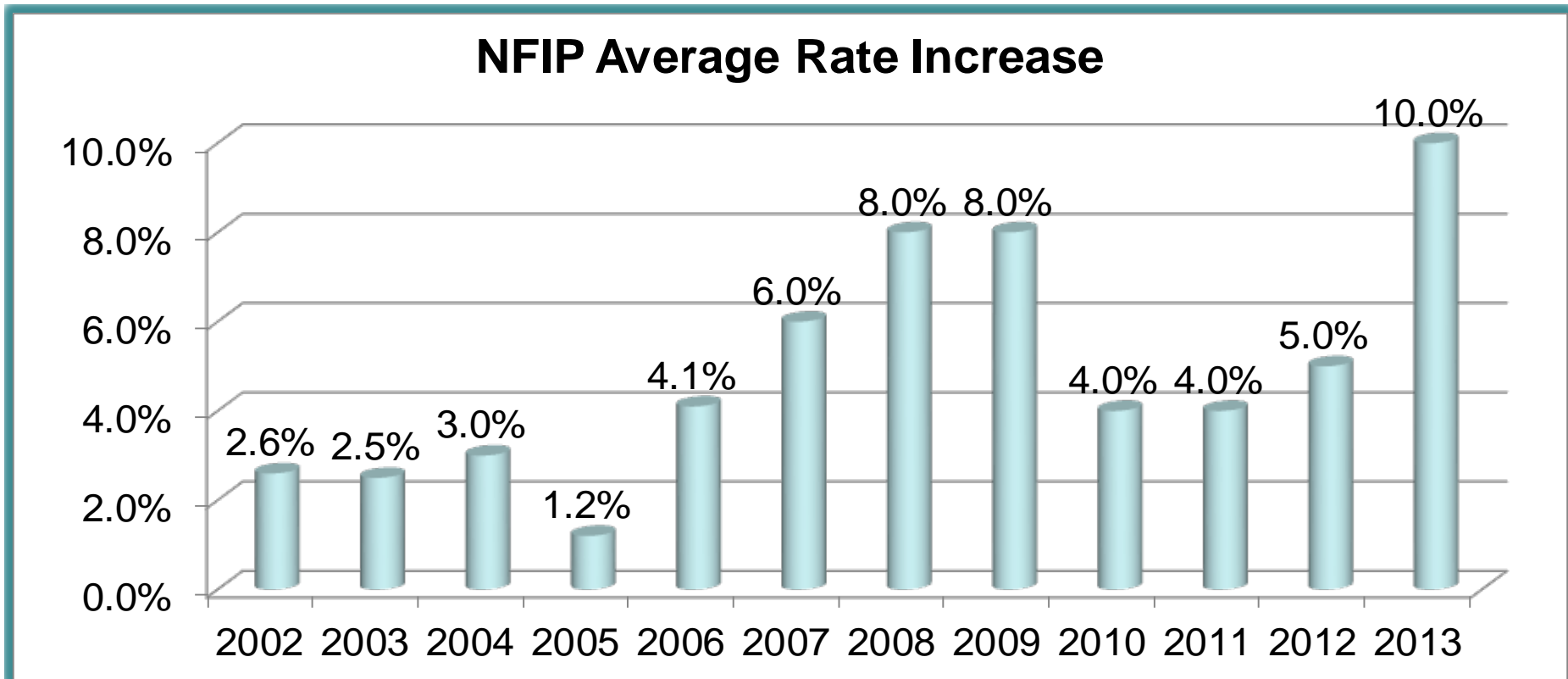
FEMA Form 086-0-33 (7/12) See reverse side for continuation. Replaces all previous editions.

Pre-FIRM vs. Post-FIRM



Flood Rates On The Rise

- Premiums will increase an average of 10% for policies written or renewed on or after October 1, 2013



A Zones (Non-Velocity Zones)

- Post-FIRM A1-A30, AO, AH, AE Zones (shallow flooding):
 - Premiums will increase 6%
- Post-FIRM Unnumbered A Zones (where elevations have not been determined):
 - Premiums will increase 8%
- Pre-FIRM AE Zones:
 - Premiums will increase 16%

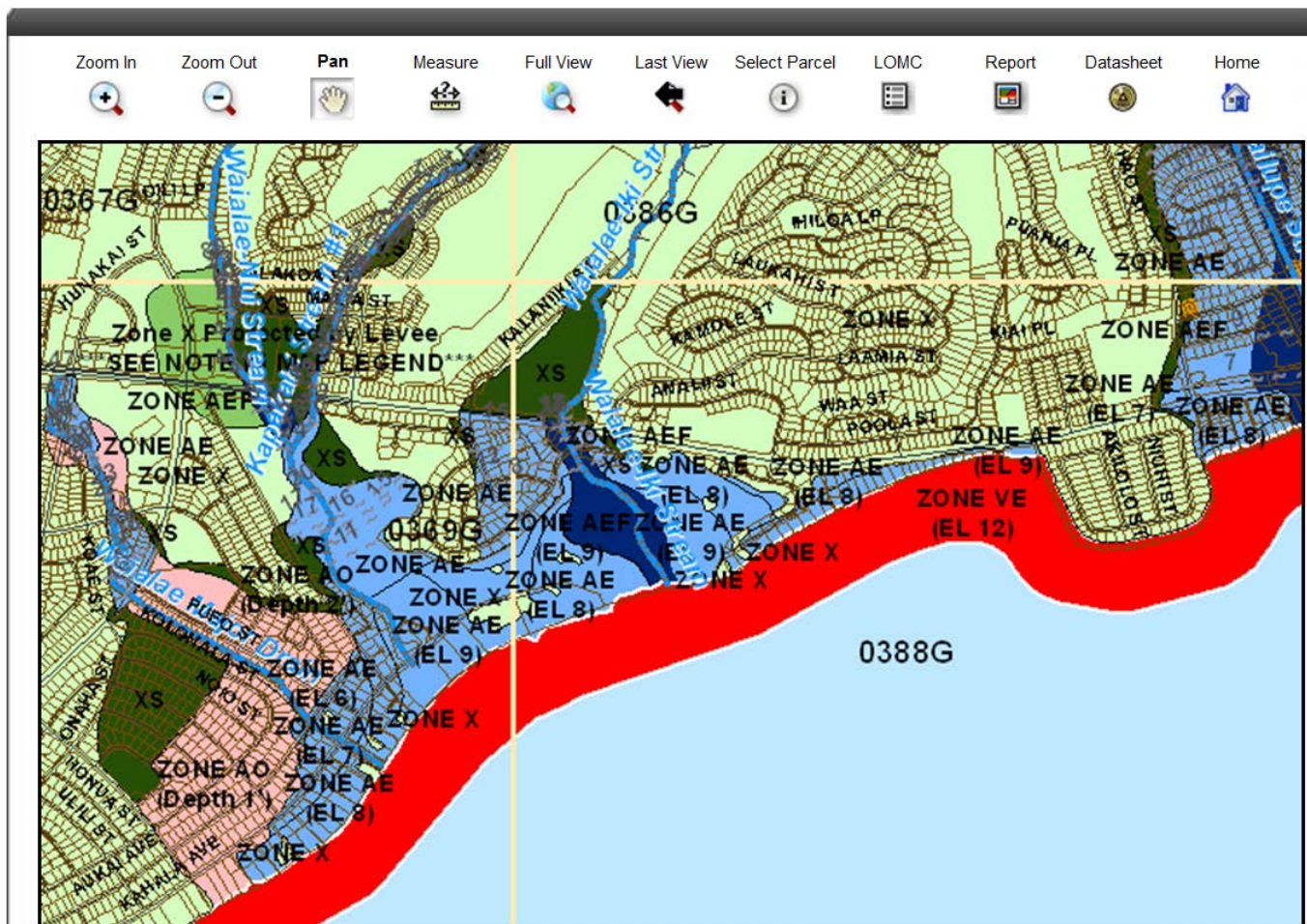
V Zones (Velocity)

- Post-FIRM V Zones:
 - Premiums will increase 11%
- Pre-FIRM V Zones:
 - Premiums will increase 17%

The Big Problem With BW12

- Buyers of pre-firm structures which are located in A or V flood zones will no longer be eligible for pre-firm rates
- If purchased since July 6, 2012, pre-firm structures will now be treated as a post-firm structures
 - Elevation Certificate (EC) must be obtained
 - \$500-\$2,000 and count on two or more weeks for the licensed surveyor to complete
 - Impossible to ballpark the new premium

Hawaii Inverse of Mainland: 75% vs 25%



Pre-FiRM AE Zone Rates, 1 floor, no basement

| AE Zone Rates pre-FiRM full-risk rate \$1,000 deductible (1 floor, no basement) | Elevation Difference | Est. Annual Premium (\$250K Building / \$100K Contents) | Est. Annual Premium (\$250K Building ONLY) |
|--|-------------------------|---|---|
| Source: Table 3B (October 2013 Flood Insurance Manual) | 4 | \$ 553.25 | \$ 359.00 |
| | 3 | \$ 591.05 | \$ 396.80 |
| | 2 | \$ 666.65 | \$ 472.40 |
| | 1 | \$ 931.25 | \$ 695.00 |
| | 0 | \$ 1,814.83 | \$ 1,428.95 |
| | -1 | \$ 5,642.08 | \$ 4,515.95 |
| Source: Table 3B Extension (October 2013 Specific Rating Guidelines) | -2 | \$ 6,424.33 | \$ 5,088.20 |
| | -3 | \$ 8,570.53 | \$ 6,709.40 |
| | -4 | \$ 10,703.60 | \$ 8,325.35 |
| | -5 | \$ 13,062.43 | \$ 9,909.80 |
| | -6 | \$ 15,165.58 | \$ 11,655.95 |
| | -7 | \$ 17,195.75 | \$ 13,389.50 |
| | -8 | \$ 19,362.95 | \$ 15,115.70 |
| | -9 | \$ 21,448.25 | \$ 16,781.00 |
| | -10 | \$ 23,476.85 | \$ 18,410.60 |
| | -11 | \$ 25,410.43 | \$ 19,963.55 |
| | -12 | \$ 27,260.00 | \$ 21,458.75 |
| | -13 | \$ 28,996.18 | \$ 22,861.55 |
| | -14 | \$ 30,580.10 | \$ 24,138.35 |
| | -15 | \$ 32,043.28 | \$ 25,320.65 |

Pre-FiRM V Zone Rates, 1 floor, no basement

| VE Zone Rates pre-FIRM full-risk rate \$1K deduct. 1 floor no basement | Elevation Difference | Estimated Annual Premium (\$250K Building/\$100K Content) | | |
|---|-------------------------|--|---------------------------|----------------------------|
| | | I/RC Ratio (0.75 or more) | I/RC Ratio (0.50-0.74) | I/RC Ratio (under 0.50) |
| Source: Table 3E (October 2013 Flood Insurance Manual) | 4 or more | \$ 2,987.15 | \$ 3,748.40 | \$ 5,428.40 |
| | 3 | \$ 3,359.90 | \$ 4,357.40 | \$ 6,194.90 |
| | 2 | \$ 4,677.65 | \$ 5,911.40 | \$ 8,457.65 |
| | 1 | \$ 6,714.65 | \$ 8,420.90 | \$ 11,255.90 |
| | 0 | \$ 8,846.15 | \$ 10,893.65 | \$ 14,411.15 |
| | -1 | \$ 11,891.15 | \$ 14,621.15 | \$ 19,214.90 |
| | -2 | \$ 16,143.65 | \$ 19,792.40 | \$ 25,567.40 |
| | -3 | \$ 19,262.15 | \$ 23,225.90 | \$ 28,948.40 |
| Source: Table 3E Extension (October 2013 Specific Rating Guidelines) | -4 | \$ 25,032.95 | \$ 29,652.95 | \$ 35,637.95 |
| | -5 | \$ 30,177.95 | \$ 35,480.45 | \$ 41,964.20 |
| | -6 | \$ 35,091.95 | \$ 40,945.70 | \$ 47,744.45 |
| | -7 | \$ 39,701.45 | \$ 45,948.95 | \$ 52,878.95 |
| | -8 | \$ 43,817.45 | \$ 50,327.45 | \$ 57,231.20 |
| | -9 | \$ 47,366.45 | \$ 53,955.20 | \$ 60,675.20 |
| | -10 | \$ 50,143.70 | \$ 56,627.45 | \$ 63,084.95 |

Uh Oh, Now What?

PREMIUM CALCULATION --

| | <u>COVERAGE</u> | <u>DEDUCTIBLE</u> | <u>BASIC COVERAGE</u> | <u>BASIC RATE</u> | <u>ADD'L COVERAGE</u> | <u>ADD'L RATE</u> | <u>DED. DISCOUNT/SURCHARGE</u> | <i>Standard</i> <u>PREMIUM</u> |
|-------------------------|-----------------|-------------------|-----------------------|-------------------|-----------------------|-------------------|--------------------------------|-----------------------------------|
| BUILDING | \$250,000 | \$5,000 | \$60,000 | 0.99 | \$190,000 | 1.94 | (\$813.00) | \$3,467.00 |
| CONTENTS | \$50,000 | \$5,000 | \$25,000 | 1.23 | \$25,000 | 3.32 | (\$216.00) | \$922.00 |
| ANNUAL SUBTOTAL: | | | | | | | | \$4,389.00 |

ENDORSEMENT PREMIUM: \$0.00

| | |
|--------------------------------------|------------|
| INCREASED COST OF COMPLIANCE: | \$55.00 |
| COMMUNITY RATING DISCOUNT: 0% | \$0.00 |
| PROBATION SURCHARGE: | \$0.00 |
| FULL ANNUAL PREMIUM: | \$4,444.00 |
| FEDERAL POLICY SERVICE FEE: | \$40.00 |
| TOTAL: | \$4,484.00 |
| PRORATA PREMIUM ADJUSTMENT: | |
| ADJUSTED ANNUAL PREMIUM: | |

Elevation Certificate Information (Not Applicable for FPL Policies)

| | | | | |
|--|------|---------------------|---|---|
| Diagram Number: | 1A | | | |
| Base Flood Elevation: | 24.0 | Lowest Floor | - | Base Flood = Elevation Difference |
| Top of Bottom Floor: | 11.2 | 10.1 | | 24.0 = -14.0 |
| Top of Next Higher Floor: | 20.4 | | | |
| Mid-Level Foyer: | 20.4 | | | |
| Bottom of Lowest Horizontal Structural Member: | 18.1 | | | |
| Garage Elevation: | 11.1 | | | |
| M & E Elevation: | N/A | | | |
| Lowest Adjacent Grade (LAG): | 10.1 | | | |
| Highest Adjacent Grade (HAG): | 11.2 | | | |

Premium Calculations -- *Submit for Rate*

| | <u>Coverage</u> | <u>Deductible</u> | <u>Basic Coverage</u> | <u>Basic Rate</u> | <u>Add'l Coverage</u> | <u>Add'l Rate</u> | <u>Ded. Discount/Surcharge</u> | <u>Premium</u> |
|------------------------------------|-----------------|-------------------|-----------------------|-------------------|-----------------------|-------------------|--------------------------------|----------------|
| Building | \$250,000 | \$5,000 | \$60,000 | 24.51 | \$190,000 | 24.51 | (\$15,319.00) | \$45,956.00 |
| Contents | \$50,000 | \$5,000 | \$25,000 | 17.34 | \$25,000 | 17.34 | (\$2,167.00) | \$6,503.00 |
| Annual Subtotal: | | | | | | | | \$52,459.00 |
| ICC Premium: | | | | | | | | \$59.00 |
| Community Discount: (0%) | | | | | | | | \$0.00 |
| Reserve Fund Assessment: 5% | | | | | | | | \$2,626.00 |
| Probation Surcharge Amount: | | | | | | | | \$0.00 |
| Total Written Premium: | | | | | | | | \$55,144.00 |
| Federal Policy Service Fee: | | | | | | | | \$44.00 |
| Total: | | | | | | | | \$55,188.00 |

Please be aware that these quotes are subject to a full underwriting review of all documentation and rates may change based on that review.

Implications For Real Estate & Realtors

- Never tell the buyers they can “assume” the current owner(s) flood insurance policy
- Track down/order/obtain the elevation certificate to calculate the new flood premium, full transparency
- As flood premium increases, the value of the home decreases
- Real estate deals will fall through if the buyer is surprised at the last minute by an unreasonable flood premium
- Bottom line— both seller and buyer of a pre-firm home in an A or V zone must be educated regarding flood insurance, BW-12, elevation certificate requirements and implications.

Is \$250K Enough???

Importance Of An Excess Flood Policy

