FEMA’s National Flood Insurance Program (NFIP) “Grandfathering In"

A question regarding the “Grandfathering In” of properties previously located outside of a Special Flood Hazard Area and flood insurance policies with the NFIP arose in one of the Hermine Applicant Briefings.

In 2012 Congress passed the Biggert-Waters Flood Insurance Reform Act which required the NFIP to bring their insurance rates/premiums into an actuarial soundness by increasing rates/premiums annually. In 2014 a new law was passed which reduces some rate increases already implemented and prevents some future increases and puts a surcharge on all policyholders.

The NFIP is in the process of mapping the entire United States utilizing Flood Insurance Rate Map (FIRM) methodology. Flood maps are referred to as Pre-Firm and Post-Firm. Often when the lines on flood maps were redrawn, some properties ended up in higher risk zones/areas (high risk zones/area are all of the A and V zones) than before, but they continued to pay lower rates. The Biggert-Waters Act required 20 percent annual rate increases until these “grandfathered in” properties were assessed full-risk rates. Under the 2014 act, homes and businesses that were built to code, then remapped into a higher risk area will not receive a rate increase. Properties moving into Special Flood Hazard Areas would pay the subsidized premium in the first year, then the rate increases assessed on all such properties would be between 5 percent and 15 percent annually, with no single property receiving more than an 18 percent increase. This is what is referred to as “grandfathering in”.

“Grandfathering In” deals with the rate/premium charged only by the NFIP on their flood insurance policies. It doesn't apply to the rate/premium for flood insurance policies issued by other insurance companies. It is important to understand that “Grandfathering In” doesn’t apply to the property’s location in a flood zone whether it is in a Non-Special Flood Hazard Area (Non-SFHAs) or a Special Flood Hazard Area (SFHA).

Applicants which are covered by the State of Florida’s Risk Management Program have coverage identical to the coverage provided by the NFIP but it is issued by the State of Florida, therefore, the “Grandfathering In” of the premiums doesn’t apply to their coverage.

Some Applicants were advised that their insurable property/facility was “Grandfathered In”. This lead to the belief that they didn’t have to worry about it being in a Special Flood Hazard Area, and, because of the “Grandfathered In” status, they were not subject to insurance reductions on Public Assistance eligible costs. This is a misunderstanding, again, the “Grandfathering In” only applies to premiums charged by the NFIP, and properties in a SFHA are subject to insurance reductions on Public Assistance eligible costs.