

Appendix M

**Benefits of Participation in the NFIP
Community Rating System
and
Effects of Suspension From the NFIP**

Benefits of Participation in the National Flood Insurance Program (NFIP)

In order to better understand the benefits of participation in the National Flood Insurance Program (NFIP), it is important to consider why the NFIP was initially created by Congress in 1968. One of the most important goals of the Program is to break the continual cycle of flooding, damage, and repair. The intent of the NFIP is not to prohibit development, but to guide development in floodplain areas in a manner that is consistent with both nature's need to convey flood waters and a community's land use needs. In order to accomplish this mission, the NFIP began allowing the sale of federally backed flood insurance in communities that adopted regulations for future development in flood prone areas. A common misconception about the NFIP is that it is a taxpayer supported Program. Flood insurance claims are paid from the same fund to which premiums are paid. The Program has authority to borrow from the federal treasury, which it sometimes does if the Program has a higher than normal year of losses. However, any money borrowed is paid back with interest. To date Congress has not forgiven the loan to the Program for the massive claims that were paid out due to Hurricane Katrina in 2005. Much of the premiums collected by the Program since Katrina are paying for the interest on that loan. There is a FEMA document titled *Myths and Facts about the NFIP* that addresses some of the common questions regarding flood insurance availability.

Homeowner's insurance does not cover flood damage and federally backed flood insurance is only available in communities that choose to participate in the NFIP. Federal law mandates the purchase of flood insurance for those structures in the SFHA that are being financed by a federally backed lending institution (see FEMA 186/May 1997 *Mandatory Purchase of Flood Insurance Guidelines*) Participation provides the availability of flood insurance, and hence, solves many of the real estate/lending issues that occur in non-participating communities. Also, as a participating community, every property owner and renter in the community would be eligible to purchase flood insurance, regardless of their location. Approximately 25% of all flood insurance claims come from areas that are outside the mapped floodplain. But while 25% is a substantial percentage it accounts for only approximately 2% of the claims paid out. If a town decides to leave the Program or is suspended from it, the current flood insurance policies could not be eligible for renewal and no new policies could be written.

The only "cost" associated with participation in this Program, is the time it takes to continue to administer and enforce the local floodplain management ordinance. The basic premise of requiring permit applications and reviewing all development in the SFHA is to insure that improvements are done in such a way that they will help mitigate future flood damages. It is expected that, over time, the floodprone structures in your community will be replaced (or improved) with stronger, more flood resistant buildings or materials.

Another very important benefit of participation in the NFIP is that the community is eligible to apply for federal funds (on a competitive basis) under the 404 Post Disaster Hazard Mitigation Grant program. Also, in the event of a presidentially declared disaster, residents will have access to disaster assistance funds that are not otherwise available in non-participating communities.

The fact that Maine has had mandatory Shoreland Zoning laws on the books for many years has greatly assisted in reducing the amount of non-compliant development in floodplains. In the *State of Maine Guidelines For Municipal Shoreland Zoning Ordinances*, the section on Principle and Accessory Structures requires that the first floor elevation or openings of all buildings and structures including basements have their lowest floor elevated at least one foot above the elevation of the 100 year flood, or similar standard. Consequently, if the community opts out of the NFIP or is suspended from the Program, they it will still be required to enforce basically the same standard as in the floodplain management regulations.

It is very important to understand the impacts of participation vs. nonparticipation in the NFIP. For more information, please call the Maine Floodplain Management Program at 287-3261 or visit the Program's website at www.maine.gov/spo/flood

COMMUNITY RATING SYSTEM (CRS) PARTICIPATION A FURTHER BENEFIT

Some Maine communities are already taking advantage of the CRS Program which recognizes community efforts that go beyond the NFIP minimum standards by reducing flood insurance premiums for the community's property owners. All communities participating in the NFIP start out as a Class 10. Each accumulation of 500 points gives the residents in your town a 5% reduction on flood insurance rates. Points are awarded based on credible activities being undertaken in the community.

A couple of Maine examples:

The Town of Wells has earned a Class 9 under the CRS, which translates to a 5% premium savings on every flood insurance policy in Wells. As of 07/23/07, there are 820 flood insurance policies in force in Wells and the total premium savings due to the CRS credit is approximately \$29,000! The average flood insurance policy holder in the floodplain in Wells saves approximately \$48 on their annual premium which would cost about \$915 annually without the town's CRS credit. If Wells did not participate in the CRS, the town would revert back to a Class 10 and every policyholder would see a 5% increase in their premium.

The City of Lewiston has earned a Class 8 under the CRS by earning more than 1,000 credit points, which translates to a 10% premium savings on every flood insurance policy in Lewiston. As of 07/23/07, there are 39 flood insurance policies in force in Lewiston and the total premium savings due to the CRS credit is approximately \$2,800! The average flood insurance policy holder in the floodplain in Lewiston saves approximately \$109 on their annual premium which would cost about \$981 annually without the city's CRS credit. If Lewiston did not participate in the CRS, the town would revert back to a Class 10 and every policyholder would see a 10% increase in their premium.

If you would like to know more about the CRS, please refer to Chapter 7.



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Effects of Suspension from the National Flood Insurance Program

Should a community be suspended from the National Flood Insurance Program (NFIP) the effects are severe. For your information, we have outlined the effects below:

A. The first and foremost consequence is that no new flood insurance policies can be sold within the community and existing policies will expire as they come up for renewal. This is particularly important in view of recent legislation amending the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act) which became effective on May 22, 1989.

Prior to the Stafford Act state and local governments, and certain private non-profit organizations eligible for disaster assistance, have not been penalized for failing to insure their flood prone facilities prior to a major flood disaster. This means that a building and its contents located in a special flood hazard area must be protected by the maximum amount available under the NFIP's standard flood insurance policy in order to qualify for full disaster assistance.

B. The sanctions of the Flood Disaster Protection Act of 1973, as amended, will be imposed. Thus, all forms of direct federal financial assistance for acquisition or construction in the special flood hazard area will cease to be available. This includes:

1. Federal Disaster relief for flooded buildings and their contents, as explained in A. above.
2. All federal grants from such agencies as: Environmental Protection Agency, Department of Commerce, Department of Housing and Urban Development, and the Small Business Administration, to name a few.
3. All federally insured or guaranteed loans, such as: SBA, FHA, VA, and Farmer's Home. In addition, banks must notify new or renewal mortgages in flood hazard areas that federal disaster assistance would be restricted for their properties in the event of a flood.

C. Although lending institutions are not prohibited from making conventional mortgages for acquisition or construction purposes within the special flood hazard area of a suspended community; they may be reluctant to issue mortgages on properties without flood insurance protection and to take on the responsibility of a mortgage that cannot be resold on the secondary market to any federal or quasi-federal instrumentality.

D. In communities without a sound floodplain management program, substantially improved or new structures which are allowed to be built with the lowest floor (including basement) below the 100-year flood elevation will have at least a one in four chance of being flooded during the next 30 years. Those built significantly below the 100-year level will have an even higher chance of being flooded. In addition to the increased risk of flood damage, the insurance premiums for structures built this way is based on the actuarial rate rather than the subsidized rate. Actuarial rates can be as high as 25 dollars per 100 dollars of insurance coverage. This could mean that in the next flood, many people who were allowed to build unsafely in the special flood hazard area may suffer an uninsured loss.

It is conceivable local governments may be held liable, because their actions deny the ability of its citizens to purchase flood insurance and does not take positive steps to reduce the exposure of life and property in the face of authoritative scientific and technical data.

In view of all this, it is quite safe to say that a significant economic and social dislocation would take place should a community choose to cease participation in the Flood Insurance Program.

The regulations which a community is being asked to adopt and enforce are really basic common sense. We have scientifically calculated the probable levels of the flood that has a one-percent chance of annual occurrence (100-year Flood). The floodplain management regulations which we require simply attempt to reduce the flood risk through proper and safe construction.

Further information and assistance is available from our office at the above address or call us at (617) 223-9561.