

NFIP Grandfathering Rules for Agents



Know the Options

To reflect current flood risks, the Federal Emergency Management Agency (FEMA) is updating the nation's Flood Insurance Risk Maps (FIRMs) using the latest data-gathering and mapping technology. New FIRMs are being issued nationwide. When the new FIRMs take effect, some residents and business owners will learn that their properties' flood risks have changed and that their homes or buildings are now shown in high-risk areas. Such zones are known as Special Flood Hazard Areas (SFHAs) and are noted on FIRMs as zones beginning with the letters "A" or "V." In these zones, property owners with mortgages from federally regulated or insured lenders are required to purchase flood insurance. Other property owners will learn that the Base Flood Elevations (BFEs) for their properties have increased. These changes also could result in higher flood insurance premiums. As an insurance professional, it is important for you to know the best option for your client.

What Is the Grandfathering Rule?

When flood map changes occur, the National Flood Insurance Program (NFIP) provides a lower-cost flood insurance rating option known as "grandfathering." It is available for property owners who:

- Already have flood insurance policies in effect when the new flood maps become effective and then maintain continuous coverage; or
- Have built in compliance with the FIRM in effect at the time of construction.

While grandfathering typically will provide cost savings to a property owner when the new FIRM takes effect, there may be cases when using the rating based on elevation will result in lower premiums. So both options should always be evaluated.

Timing is important as owners of most pre-FIRM buildings (built before the first flood map became effective) have only one chance to grandfather and lock in the existing zone for future rating. For a pre-FIRM property in a high-risk area that is mapped into a higher-risk zone (e.g., Zone AE to Zone VE), the last chance to qualify for grandfathering is to buy or renew a policy **before** the new FIRM becomes effective.

The same applies for a pre-FIRM property newly mapped into a high-risk area for the first time (e.g., Zone X to Zone AE or VE) that does not qualify for a Preferred Risk Policy (PRP).

If a building has been substantially damaged or improved, it is not eligible to be grandfathered to the FIRM in effect at the time of the building's original construction date. The FIRM in effect at the time of the last substantial improvement or damage must be used.

Newly Mapped into the SFHA Option

Buildings newly mapped into a high-risk flood zone may initially be eligible for a lower-cost PRP rate in the year following a map change.

However, premiums may increase up to 18 percent each year as part of the premium rate revisions put in place by the Homeowner Flood Insurance Affordability Act of 2014.



Below are conditions and examples of applying grandfather rules:

Pre-FIRM (construction prior to the date of the community's initial FIRM or prior to January 1, 1975)

- If a policy was obtained before the effective date of a map change, the policyholder is eligible to maintain the prior zone as long as continuous coverage is maintained. The policy can be assigned to a new owner at the option of the policyholder.
 - **Example A:** A house was built in 1974, and the community's first FIRM became effective in 1986. When the insured's policy was written, the structure was in Zone A. As a result of a 2014 FIRM revision, the new flood zone is Zone VE. As long as there was no interruption in coverage, and there have been no substantial improvements or damage, the customer's policy can continue to be rated using pre-FIRM Zone A rates.
 - **Example B:** A house that was built in 1983 was mapped into Zone X in the community's first and only FIRM in 1984. In anticipation of the upcoming FIRM and the house being mapped into Zone A, the homeowner purchased a standard-rated policy (due to loss history, the building did not qualify for a PRP) 30 days before the new FIRM's effective date of November 1, 2014. Consequently, when the standard-rated Zone X policy comes up for renewal, it will be renewed using Zone X standard rates. At subsequent renewals, coverage must be continuously maintained in order to keep using the Zone X rates.
- If a policy was obtained prior to a FIRM revision but then the building was substantially improved, the building must be re-rated using the FIRM that was in effect at the time that the substantial improvement occurred.
 - **Example:** A house was built in 1968, and the community's first FIRM was in 1976. When the insured's policy was written, the pre-FIRM structure was in Zone AE. As a result of a 2009 map revision, the new flood zone is Zone VE. In 2014, the property owner completely renovated the building. As a result, grandfathering is not an option. The property owner will be required to use the Zone VE rates, and the year of construction will change to 2014. The building must be rated as post-FIRM.

Pre-FIRM Exception: If the community's first FIRM was effective *prior* to January 1, 1975, and a building has not been substantially damaged or improved since its original construction, the rates can be based on the FIRM zone and/or the BFE on the FIRM in effect at the time of construction (i.e., it can be treated like a post-FIRM structure) if construction is after the initial FIRM date but before January 1, 1975. In this case, proper documentation must be provided. In all other instances, new policies for pre-FIRM buildings must use the FIRM in effect when coverage is applied for.

- **Example:** A small office building was built in 1974; the community's first FIRM was 1971. The building is located in Zone B, behind a levee. In 2011, a new FIRM becomes effective showing the levee as no longer providing the required protection ("de-accredited"), placing the structure into Zone AE. The property owner decides not to purchase flood insurance as there is no mortgage on the building. Three years later, the building is sold and the new owner's lender requires flood insurance. Even though the building is technically classified as a pre-FIRM structure, Zone B can be grandfathered for rating as there was a FIRM in effect at the time of construction (see Post-FIRM below).

Post-FIRM (construction on or after the date of the community's initial FIRM)

- Post-FIRM buildings have two opportunities to have a previous zone or BFE grandfathered. The simplest way to do this, and to avoid having to provide additional documentation, is the continuous coverage option. When a policy is obtained before the effective date of a map change, the prior zone and BFE can be used for rating as long as continuous coverage is maintained (Example A). If coverage is not purchased before the new effective date of a FIRM, a building still can be grandfather-rated by providing the proper documentation to show it was built in compliance as of the date of construction (as long as there has been no substantial improvement or damage since its construction; Example B). In either example, the policy can be assigned to a new owner at the option of the policyholder.
 - **Example A (Continuous Coverage):** In 1986, a house was built in an Unnumbered Zone A with no estimated BFE. The community's first FIRM was issued in 1978. There was no mortgage on this post-FIRM building, and the property owner did not purchase flood insurance initially. In 1994, the zone changed to Zone AE with a BFE of 10 feet. The property owner applied for a loan soon afterward, and the lender required flood insurance on the building. The owner applied for insurance, and an Elevation Certificate submitted with the Flood Insurance Application indicated that the lowest floor was constructed at the current BFE. The policy was issued using the new FIRM, because it provided a more favorable rate than the Unnumbered Zone A in effect when the house was built. In 2013, another map revision occurred, and the house remained in the Zone AE but the BFE increased to 11 feet. As long as there was no interruption in coverage and no substantial improvement or damage, the property owner's policy can continue to be rated using the BFE of 10 feet in Zone AE at each subsequent renewal.
 - **Example B (Built in Compliance):** A small restaurant was built in 2001 in Zone AE. The community's first FIRM was in 1993 and was still in effect on the date of construction. The BFE was 10 feet on the 1993 FIRM, and the lowest floor elevation (LFE) was 11 feet, resulting in a +1 elevation difference for rating. A new FIRM for the community took effect in 2013. The building remained in Zone AE but the BFE became 12 feet, resulting in an elevation difference of -1 foot. Since the building had not been altered and was in compliance when constructed, it can continue using +1 elevation difference.

Summary of Rules

When a map change is approaching, it is important to remember that most pre-FIRM structures have only one opportunity to lock in the current flood zone for future rating¹—before the new FIRMs take effect. The policy must then be renewed each year. The benefits of the grandfathered zone can be transferred to the new owner if the building is sold. Post-FIRM buildings have two chances to lock in the BFE and/or flood zone¹—before the maps become effective or after the effective date, but with the proper documentation. Continuous coverage is not required. If, however, a building is substantially damaged or improved or if it was not built in compliance, grandfathering of previous zones or BFEs can no longer be applied.

¹ Buildings newly mapped into an SFHA that qualify for the PRP should be rated using the PRP Eligibility Extension option.

Grandfathering Premium Savings Examples²

The NFIP's grandfathering provision often offers premium savings to property owners. The examples below show how an agent can utilize a variety of cost-saving options available through the NFIP. To simplify the examples, potential annual premium increases were *not* applied to any of the premiums. Note that examples related to properties newly mapped into high-risk zones are not provided here, as those would utilize the PRP Eligibility Extension rating option.

- **Example 1:** A home was constructed in 1974. The first (and current) FIRM took effect in 1984 and placed the home into Zone C. A new FIRM will become effective July 1, 2013, and the property will be mapped into Zone A. The home is considered to be a pre-FIRM building, and due to losses on a previous policy that is no longer in effect, it is not eligible for a PRP. If no standard-rated Zone X policy is purchased before the FIRM's effective date, the building will not qualify for grandfathering; a Zone A rate will be used and the annual premium will be \$2,643. However, if a policy is purchased before July 1, 2013, the property will be eligible for grandfathering. By purchasing a policy before the maps become effective, the homeowner will pay \$1,584. Compared to the non-grandfathered Zone A-rated premium, grandfathering results in savings of more than \$1,000 a year.
- **Example 2:** A community's first FIRM was issued seven years ago. A home was built a year later in Zone X. The original homeowner carried a PRP, but due to losses the building is no longer eligible for the PRP. Now, new FIRMs are being issued that will place it in a Zone AE. If the property owner purchases a policy using Zone X standard rates (\$1,584), the building can be grandfathered using standard Zone X rates for subsequent years.

NOTE: If the property owner purchases an Elevation Certificate after the new map takes effect and the survey indicates that the lowest floor is 2 feet above the BFE, then using the new map, the elevation rating would actually provide additional savings, as the rate for an elevation difference of +2 is only \$570. So, by using the new FIRM information to rate, premiums will be less than half the grandfathered premium and the insured will save close to \$1,000 a year.

- **Example 3:** A home was built in Zone AE in 1995. The community's first FIRM was issued in 1991. The difference between BFE and LFE was +1 foot. When the new FIRMs took effect, the BFE increased 2 feet, so that the elevation difference is now a -1 foot. The property received a notice requiring flood insurance and the premium calculated out to be \$5,042. However, because it was a post-FIRM structure, it can be grandfathered using the previous BFE, resulting in a premium of \$810 or a savings of more than \$4,000 a year.

Additional Resources

The following are resources regarding map changes and grandfathering:

- NFIP Help Desk: **1-800-427-4661**
- Rating using the Grandfather Rule: fema.gov/flood-insurance-manual
- For information about effects of mapping changes and a status of mapping projects nationwide: Agents.FloodSmart.gov/mapupdates
- NFIP's consumer site about flood insurance and PRP Eligibility Extension: FloodSmart.gov
- View and print current and past (historic) flood maps for grandfathering: msc.fema.gov
- For flood hazard mapping questions, contact the FEMA Map Information Exchange (FMIX): **1-877-336-2627**
- For more information about FEMA's latest efforts in updating FIRMs: fema.gov/risk-mapping-assessment-planning
- For more information on substantial damage and substantial improvements: fema.gov/library/viewRecord.do?id=4160

²Premiums are based on \$200,000 in building coverage and \$80,000 in contents, using minimum deductibles and **January 2013** rates for a single-family residence, one floor, without a basement.