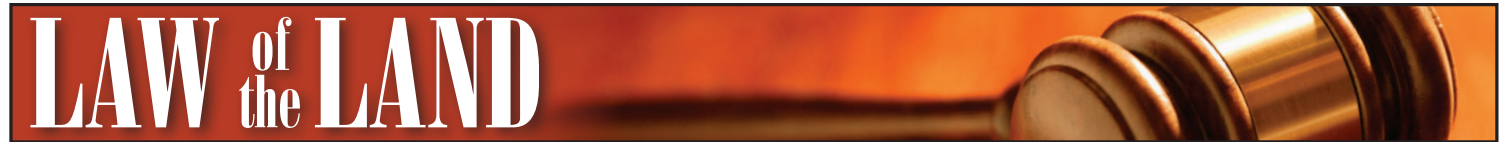


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Flood Insurance Changes Protect Cape Property Values

Federal Legislation Delays Premium Hikes

BY CHRISTOPHER R. VACCARO
SPECIAL TO BANKER & TRADESMAN

Patti Page sweetly assured that we would fall in love with old Cape Cod in 1957. Her prediction came true for homeowners and real estate investors. However, recent changes to the National



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Flood Insurance Program (NFIP) threatened this love affair, until Congress took action.

Cape Cod is blessed with sandy beaches, salt marshes, and protective harbors. But the Cape is cursed with sudden storms that rearrange the shore and damage coastal property. The NFIP took effect in 1968, after private insurers excluded flood hazard coverage from their standard policies. The NFIP authorizes the Federal Emergency Management Agency (FEMA) to identify Special Flood Hazard Areas on Flood Insurance Rate Maps. The program discourages development in those areas, without flood insurance available through the NFIP. Unfortunately, flood insurance premiums often do not reflect actual risks of flood losses, with about 20 percent of policyholders' premiums being subsidized. The NFIP pays out more in claims than it receives in premiums, and the federal government's general revenues are tapped to cover the difference. Taxpayers living outside flood zones effectively subsidize flood insurance premiums on many coastal homes, which often belong to wealthy individuals.

For decades the NFIP's losses were manageable, but its deficit ballooned to \$24 billion after Hurricane Katrina and Superstorm Sandy. The program was taxed by flood damage to older structures built before the NFIP was adopted. Repetitive loss payments on high-risk properties aggravated the problem.

In response to this flood tide of red ink, Congress passed the Biggert-Waters Flood Insurance Reform Act of 2012. This legislation required steep annual increases to flood insurance premiums on many subsidized properties, and would have ended insurance subsidies on properties when sold to new owners. The legislation pushed FEMA to update Flood Insurance Rate Maps, placing properties thought to be safe from flooding into Special Flood Hazard Areas. The changes to FEMA's flood maps would have especially impacted the Town of Dennis, with about 4,000 homes added to flood zones.

Higher premiums and expanded flood zones presented a double whammy that threatened Cape property values. After unanimously backing the Biggert-Waters Act in 2012, Massachusetts' congressional delegation reconsidered, and sought to mitigate the law's effects. Congressman Bill Keating, representing the South Shore and Cape, challenged FEMA's remapping methodology.

To forestall negative impacts of the Biggert-Waters Act, Congress passed the Homeowner Flood Insurance Affordability Act of 2014, which the president signed into

law in March. This legislation delays major premium increases and implementation of FEMA's new maps, while FEMA develops a plan to make premiums more affordable. Some policyholders can recover premium refunds for policies purchased since 2012. The law also compensates homeowners who successfully appeal FEMA's new maps that place their properties in flood zones. Sellers of subsidized homes may pass along their lower premium rates to buyers, thus protecting property values which might have dropped if buyers had to pay full-risk premiums. The legislation also imposes annual \$25 insurance surcharges on primary residences, and \$250 surcharges on other properties, to add fiscal stability to the program.

The Homeowner Flood Insurance Affordability Act is a rare instance of bipartisan cooperation in Washington. The legislation recognizes the NFIP's snowballing deficits, then offers a long-term solution without immediately foisting draconian premium increases on coastal property owners. This approach should sustain Cape property values, while allowing premiums to gradually rise over time, eventually eliminating subsidized flood insurance.

With the Homeowner Flood Insurance Affordability Act now in the books, our love for the Cape continues, as does the Cape's robust real estate market. ■

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