Environment

Skyrocketing Flood Insurance Rates Bring Financial Chaos, Heartache to Coastal Homeowners Across U.S.

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When Superstorm Sandy slammed into New York and New Jersey last fall, it sent massive floods through the streets of coastal towns and cities across the Northeast, turning areas like Toms River, N.J., into something like a war zone.

But nearly a year later, residents there and in many other coastal communities across the U.S. face a potentially far more devastating menace: a nationwide revamp of flood insurance rates, forcing premiums that were once around $500 per year into the $5,000-, $10,000- and even $20,000-a-year range and higher.

"The adverse effect of [this] would be more devastating than Hurricane Katrina," Louisiana Insurance Commissioner Jim Donelon said in an interview with weather.com, noting the crippling economic damage the historic 2005 storm left behind on the Gulf coast. "Because it will render literally thousands of properties in my state worthless."

What's prompting reactions like this is the Flood Insurance Reform Act of 2012, passed by Congress last summer and often called "Biggert-Waters" for its two Congressional sponsors: former Illinois Rep. Judy Biggert and Rep. Maxine Waters of California.

The act made sweeping changes to the National Flood Insurance Program (NFIP) – which has been the only provider of flood insurance for homes and businesses across the U.S. since its creation in 1968 – with the goal of raising rates to reflect the true actuarial risk of properties in flood zones.

Saying goodbye to subsidized flood insurance

Biggert-Waters does that by phasing out subsidies for flood insurance in the most high-risk areas. Before the act's passage, the Federal Emergency Management Agency (FEMA) had sold more than a million policies at subsidized rates. After it passed, **more than 430,000 policyholders** had their subsidies immediately cut off; another 715,000 remained, but are expected to be gradually phased out.

Those changes were seen as urgent last summer by Congress -- which passed the bill with overwhelming bipartisan support, including a vote of 406 to 22 in the U.S. House of Representatives -- because the NFIP was reportedly more than **$18 billion in debt**, with about $15 billion of that coming from the damage caused by 2005's Hurricanes Katrina and Rita.

But that was before anyone knew what the details of the program would look like. And since FEMA began rolling out new flood zone maps and flood insurance rates to go with them earlier this year, based on the changes called for in Biggert-Waters, reaction has been swift and intense.

Inside the Quinns' home in Toms River, N.J., 11 months after Sandy. A ladder serves now as the staircase between floors.

“It’s actually heartbreaking," said Margaret Quinn, a 44-year-old mother of two who lives with her husband in the Silverton neighborhood of Toms River. Their three-story home suffered major flood damage when Sandy hit, damage they've been waiting almost a year to repair thanks in large part to the curveball thrown by the new flood insurance rates.

"It is so heartbreaking that, you know, the tears come in spurts every now and then," she added.

Until this year, the Quinns paid an average of about $520 to $540 per year for flood insurance, which they renew every August. But starting next year, Ms. Quinn estimates they'll have to pay between $5,000 and $8,000 annually, a jump of roughly 1,000 percent.

That's because the new flood maps in Silverton raised what's known as the **base flood elevation (BFE)** for her home by a few feet. If the Quinns can elevate their home to meet the new BFE requirements, they'll avoid the big increase in their flood insurance premiums.

But it's going to cost them nearly $150,000 to do that, Ms. Quinn added. "It’s turning out to be such a burden financially and emotionally, with everything with plans, and how do we lift the house ... just the planning stage is costing us tens of thousands of dollars."

New home becomes a nightmare

On the opposite side of the country, the situation is much the same. Thirty-year-old Tim Clearwater and his wife purchased a home last November in Haleiwa, a small beachfront town on the north shore of Oahu in Hawaii. Last year, the annual flood insurance premium on their one-story, 1950s-era house was just over $2,700.

Starting in October, however, their new rate will jump to approximately $26,000 a year. "It's a ten times increase," Mr. Clearwater said in an interview. "It doubles my mortgage payment."

Why is the Clearwaters' flood insurance rate set to jump so high, so fast? For two reasons: their home lies several feet below the BFE for their area, and because they purchased their home after July 6, 2012.

Among the law's reforms is a rule that allows flood insurance subsidies to be phased out gradually for some homes. For others, however -- including homes sold after Biggert-Waters passed last July, or those whose policies lapse -- their premiums immediately shoot up to the non-subsidized actuarial rate.

“If I could sell the house, I would," Clearwater added. "But who’s going to buy it?"

The Clearwaters' Hawaii home, whose insurance is set to jump in October from just over $2,700 to about $26,000 a year.

That question reveals why Biggert-Waters could be so damaging to the economies of states with large coastal populations like Florida, says Pinellas County Property Appraiser Pam Dubov. More than 50,000 of her county's 142,000 properties **carry subsidized flood insurance**, more than any other county across the country.

The law's complex rules mean that even houses along the same street might be treated very differently, she added. Before Biggert-Waters, any given series of homes on a street were highly likely to have the same subsidized flood insurance premium. Now, however, their premiums may differ by as much as $10,000 or more.

“So the question becomes ... is the real estate market going to be smart enough to distinguish between the house where the rate is going to go down, the house where the rate’s going to double, and the house where the rate is going to quadruple or go up five or six times what the current rate is?"

'We were just beginning to turn the corner here'

Whether home buyers make those distinctions is likely to have huge implications for the health of the real estate market there, she said, and by extension the entire local economy.

"I’m hearing from people who are worried about their property values. The one asset they own is their home, and we have just come out of the worst real estate market plunge that our county has ever experienced," Dubov added. "We were just beginning to turn the corner here, and it was the beach communities leading the way."

In New Jersey, homeowners like **George Kasimos** have decided they're not allowing this to happen without a fight.

A 47-year-old real estate broker in Toms River, Kasimos was shocked to learn last winter that after FEMA issued updated flood maps for his Snug Harbor neighborhood, thousands of homeowners like him were now in flood zones labeled "V," the highest-risk zones.

"The dreaded 'V' zone means you’ve got to put it on pilings," he said. “You’ve got to knock your house down or you’ve got to lift it up. It’s a $150,000 proposition. If you don’t do that, you’re going to be paying $30,000 flood insurance premiums ... [but] nobody can pay 30 grand a year. Nobody can pay $150,000 to raise their home."

The speed with which FEMA was moving forward with the changes -- in advance of **an October 1, 2013, deadline** that will hike flood insurance premiums for thousands of homeowners nationwide -- prompted him to form **Stop FEMA Now**, a grassroots group that's attracted thousands of coastal homeowners and sparked protest rallies up and down the East Coast.

“I don’t sleep anymore, because it’s just something I can’t let go of," he added. “If we don’t change this, this is going to make the 2007 housing bubble look like a walk in the park. It’s devastating – the disaster from the Biggert-Waters Act is [causing] significantly more monetary damage than Sandy."

Many homeowners, Kasimos says, are likely to walk away from their homes. But that's no option for families like the Quinns, who have owned their Silverton home for more than 20 years and have just 9 years of mortgage payments left.

"Am I going to give up everything for 9 years? Even with lifting the house, there are no guarantees," said Ms. Quinn, who added that due to the complex tangle of rules now in place for construction in a flood zone, they may not be able to rebuild their home's first floor for another year. “We really can’t walk away."

"What’s the cost of flood insurance going to be in 5 years, and can we afford to stay here then? It may not be the house I retire in or see my grandchildren come over to," she added. "We love our house. That was our plan in life. Not to do what we’re doing now."