

# Flood insurance is complicated but important to understand

**BY KEN DELEON  
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The entire city of Palo Alto lies in a flood zone, according to the city's website. Most of the city, however, lies in a moderate risk area, or "X" zone, which according to the Federal Emergency Management Agency (FEMA), is in an area outside the 100-year flood zone but inside the 500-year flood zone. Properties within the 100- and 500-year flood

zones have a high probability of major flooding at least once in that time frame.

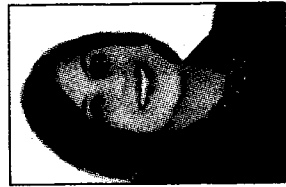
Some properties are within the 100-year flood zone but do not pose a hazard, and therefore flood insurance would not be a requirement from a lending bank.

The remainder of Palo Alto is located in Special Flood Hazard Areas that have been determined to be hazardous in the case of a 100-year flood. Areas of Crescent Park, Green Gables and South Palo Alto fall within these Special Flood Hazard Areas, as well as properties located near creeks, such as in the hills communities of Palo Alto and Los Altos Hills. For homebuyers, it is imperative to review a property's environmental reports to best understand whether a home falls within a flood zone that would require purchasing flood insurance.

The city of Palo Alto has great online resources



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signed the Homeowner Flood Insurance Affordability Act (H.R. 3370) which repeals some aspects of the Biggert-Waters Flood Insurance Reform Act.

Under this new law, once a home changes ownership flood insurance premiums should not increase. Homeowners in flood-prone areas will hopefully see financial relief soon after this new law takes effect, although it is not certain exactly when this will happen.

Some other provisions of the Homeowner Flood Insurance Affordability Act include providing homeowners with refunds of insurance premiums after the drastic increase last year, when the Biggert-Waters law went into effect.

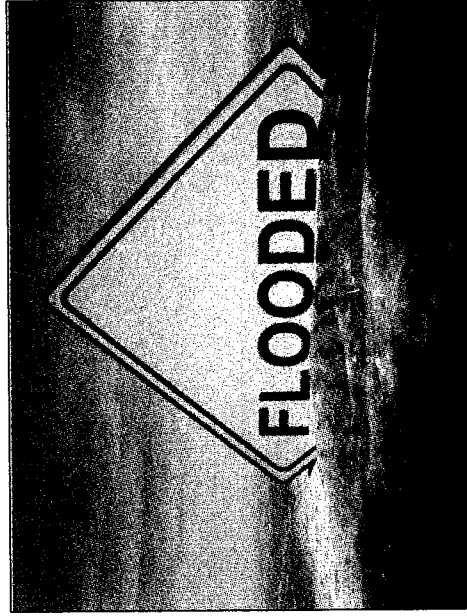
## What the law does

The law also directs FEMA to submit to Congressional committees a framework to address flood insurance affordability for policies sold under the National Flood Insurance Program.

The law will also impose an annual surcharge of \$25 for residential policyholders and a \$250 surcharge for businesses and second homeowners for policies under the National Flood Insurance Program that are newly issued or renewed once this bill is enacted. The act also has a goal to minimize the number of policyholders who have annual premiums greater than 1% of the total coverage, for example, \$1,000 for a \$100,000 policy.

The law also establishes a Flood Insurance Advocate within FEMA to answer questions about flood risk, flood mitigation, flood insurance map review, and other related concerns.

According to a local insurance agent, current homeowners with a FEMA subsidized policy in



2005), Irene (category 3 August 2011), Isaac (Category 1 August 2012) and Sandy (category 3 October 2012). These payouts left the National Flood Insurance Program (NFIP), a program created in the late 1960's and managed by FEMA, in billions of dollars of debt.

The goal of the Biggert-Waters Act was to shift the financial risk of insuring flood-prone properties to the property owners. Once this law went into effect, flood insurance premiums skyrocketed.

## FEMA vs. private insurance

We saw this in Palo Alto as well. In early 2013, annual flood insurance premiums ranged from \$1200-\$1500 annually. When the Biggert-Waters Act went into effect on October 1, 2013, annual premiums shot up, some to over \$5,000 annually.

Currently, if a property is located in a zone "A," which is high risk and a zone found in Palo Alto, any

about the type of flood zone a particular property falls into.

In 2012, Congress passed the Biggert-Waters Flood Insurance Reform Act which ended federal insurance subsidies for homes in areas prone to flooding, such as the coastal communities in Florida and Texas, zoned "V" or coast high hazard areas, according to FEMA.

The cost to insure these properties had increased significantly due to payouts caused by the damage brought by Hurricane Katrina (category 5 August

FEMA subsidized insurance policy requires an elevation certificate. Since the Biggert-Waters Act went into effect, some home owners have pursued private flood insurance to satisfy their lender requirement, as private insurance does not require an elevation certificate.

It is important to note, however, that FEMA-subsidized and private flood insurance quotes may differ by thousands of dollars after underwriting has taken place.

On March 21st of this year, President Obama

place may want to consider getting an elevation certificate to make sure they are rated properly. An elevation certificate can be obtained by local surveyors. These certificates will also be helpful to have on hand should a homeowner decide to sell in the future, as this will come in handy for potential buyers.

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