CT property owners face tsunami of flood insurance hikes

BY CAROL LATTER

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Photo | Contributed
Superstorm Sandy damaged many businesses and homes on Connecticut’s shoreline including the ones shown left.

If you own a piece of property on the Connecticut shoreline or in close proximity to a river, you may soon be facing a shocking bill for flood insurance: $4,000, $6,000, $10,000, or more.
That could be just the first in a series of skyrocketing insurance bills you'll be getting every year. And there's worse news – you may be affected even if you've never needed flood insurance before.

The skyrocketing costs, realty experts and lawmakers say, are a result of the Biggert-Waters Act of 2012, a federal law designed to achieve two goals: bail the National Flood Insurance Program (NFIP) out of some $25 billion in debt incurred in the wake of Hurricane Katrina and other recent natural disasters, and make the program self-sustainable going forward.
But the legislation had other unintended consequences: Homeowners, prospective homebuyers and business owners in existing and newly identified floodplain areas are being blindsided by catastrophic flood insurance rate increases.

The combination of the Act's phase-out of federal flood insurance subsidies and the long-overdue updating of flood risk maps by the Federal Emergency Management Agency (FEMA) has created a perfect storm for property owners.

Everyone who purchased a home or business site after Biggert-Waters was signed into law on July 6, 2012 – along with many long-term owners who have benefited from artificially low flood insurance rates for years — will now have to pay much higher, actuarial rates if they have a first or second mortgage.

That could force property owners to pay increases of seven, 10 or even 20 times the March 2010 nationwide average annual policy premium of $572 .
Meanwhile, newly redrawn FEMA flood maps are placing some properties in a floodplain category for the first time, or raising their designated risk levels, which will also lead to higher insurance rates.

The issue has raised major concerns among businesses and homeowners, and now Congress is trying to figure out a temporary fix to the steep rate increases.

While Congress was reportedly working on a bipartisan deal at press time, "there is no resolution yet," according to Debra Chamberlain, a realtor with William Raveis in Mystic for the past 14 years and the incoming president of the Connecticut Association of Realtors (CAR). "We're pushing for one."

Beyond the individual impact on home and business owners, there is concern over what impact the new flood insurance rates will have on the real estate industry as well, which is only beginning to rebound from the recession.

Chamberlain said she fears the flood insurance rate hikes will not only devastate individual property owners but threaten the underpinnings of the economic recovery. She said homeowners who can't afford to pay the new flood rates could lose their homes to foreclosure or be forced to sell them.

"Then you would have a lot of homes on the market, which could impact the price at which those properties sell," Chamberlain said. "It's a slippery slope. We think it has tremendous implications because if we've learned nothing else, it's that real estate is the foundation under this economy. Why would we blast our foundation out from under us?"

Chamberlain said that already seems to be happening in the Groton Long Point section of Groton, where there's "a record number of houses on the market." As in many other shoreline communities, residents are already fed up with spiraling property taxes, and feel the flood insurance debacle is the last straw.

"They're saying, 'We've kind of had it.' They begin to wonder why they're living there," Chamberlain said. At the same time, "the towns rely on their property taxes, and the [property owners] on the waterfront pay the most. If you start chipping away at those in a quick fashion, the towns have a problem. It's all interconnected. You can see why we're urging caution."

Phasing in hikes

For many Connecticut secondary or seasonal homeowners, the first in a series of drastic annual rate increases kicked in Jan. 1, according to Diane Ifkovic, an environmental analyst with the Connecticut Department of Energy and Environmental Protection (DEEP), and the state's designated NFIP coordinator.

Effective Oct. 1, the rate hikes expanded to include "businesses, commercial properties and houses where the flood insurance policy has lapsed," she said. While some continuously insured homes will still be grandfathered into lower rates, owners who purchased insurance for flood season and then let it expire may be in for a surprise when they try to renew their policies.
Also affected are properties that have been substantially damaged or substantially improved, and those that have suffered repetitive damages.

The pool of people affected is only expected to spread, according to Allison Bennett, a personal insurance agent with Smith Insurance Company in Niantic. In the past, she said, someone selling a house carrying subsidized flood insurance could transfer that coverage to the new owner with a simple signature.

"With the new changes, that's no longer allowed," she said. "If the house was grandfathered because of continuous insurance, now it has a full-risk rating. The new owners are not eligible for the subsidy."

The same is true of adult children inheriting a family home in a flood zone.

And unlike other types of insurance, the price of flood coverage "is not a shoppable rate with other carriers. It's regulated through the National Flood insurance Program," Bennett said.

Mike Meeneghan, CEO of Smith Insurance, said members of his firm "spent a lot of time educating ourselves and our customer base so they wouldn't be surprised. We did get a lot of calls from people who heard from their banks that they need flood insurance now, and they were very surprised by the rates. We are dealing with a lot of upset people."

Bennett said they had one client who purchased a property in Dec. 2012. She was in a high-risk flood zone, paying $792 for insurance, but her rate jumped to $7,872 per year.

"With the recent surge in storms, you can understand why the property insurance rate along the coast would increase, but that type of increase is not expected," Bennett said.

Meeneghan said despite efforts to delay or mitigate the premium increases, "FEMA is pretty resolute. They're trying to make the flood program self-sustainable. It's been subsidized by the government for so many years, and the recent hurricanes have exposed their vulnerability."
Michael J. H. Blair, founder of Hunter, Moore & Stearns Real Estate in Stonington, said owners and buyers whose budget can't stretch to accommodate huge premiums will bear the brunt of the insurance changes.

Many older pre-existing beach cottages that have been in the family for years – along with "mid-priced" homes on streets adjacent to the waterfront – are seeing dramatic increases that could put them in an untenable financial position.

"A lot of these communities already have a high mill rate, and now you're compounding that with a high flood insurance rate," Blair said.

Businesses feel the pinch

Businesses are also starting to feel the effect of these changes. For restaurants, hotels, inns, tour boat companies, theaters and any other firms located on or near a Connecticut flood zone, it will be one more – not insignificant – expense cutting into the bottom line.

Jeffrey H. Cashman, president of CT Insurance Services, which has offices in North Haven, Stamford and Wallingford, said while many companies will be able to absorb the rate increases as a cost of doing business, others may not. "Clearly, there will be some businesses that will close due to [increased] flood insurance," he said.

Building owners renting out their premises may be able to pass that cost onto their tenants in the form of higher rents.

But some smaller companies – especially those struggling in the current economy – might go out of business or move as a result, especially if they also have to pay significantly increased premiums for the contents of their space.

On the flip side, said DEEP's Ifkovic, many businesses own the buildings they occupy. "If you own it and there's no bank involved, then you don't need to buy flood insurance," Ifkovic said. "But then you're not covered if a huge storm comes along and damages your business, so is that a risk you want to take?"

She said although businesses in leased buildings may not be giving the matter much thought now, it may become an issue as landlords pass on the expense.

While the premium increases may be causing consternation and even panic for property and business owners, some people feel the NFIP has no choice but to raise rates to reflect the actual risk of insuring homes in flood-prone areas.

The program, already more than $20 billion underwater following Katrina, was rocked by additional losses after dealing with several other major storms including Superstorm Sandy.
In January, Congress passed a $51 billion relief bill after learning that federal support for Sandy would likely exceed the available balance of FEMA's Disaster Relief Fund. Experts say that without significant changes to the program, it will be almost impossible for the NFIP to pay off its debt, especially as interest assessments continue to add to the total.

The problem won't likely be solved any time soon. Blair notes that until a few years ago, those "100-year-storms" were considered to be the stuff of legend in New England, New York and New Jersey. "Now we've had two years of heavy storms and flooding and damage. It's become reality," he said.

DEEP's Ifkovic said if there's a bright spot for Connecticut, it's that following a couple of major storms prior to last October, the state urged shoreline residents to take proactive steps to prevent future damage.

"When people rebuilt, we tried to stress to them to rebuild according to FEMA's new map standards," she said. "At the time, New Jersey and New York didn't have new mapping so we were a little bit more ahead of the curve. I think we've had a more thoughtful reaction." By the time Sandy came along, "we were in a better position by happenstance."

The new legislative changes will ensure the shoreline is better prepared for the next weather-related disaster, Ifkovic believes. And while delaying the rate hikes to allow people to understand and plan for the changes is not a bad thing, she said, in the end, someone has to foot the bill for flood insurance.

"If people really want to live there, they have to understand what it means," she said. "It's becoming the cash-in-hand buyer's paradise because if you can't afford it, you probably can't live there."g