Post-Storm Cost May Force Many From Coast Life

By DAVID M. HALBFINGER

New York and New Jersey residents, just coming to grips with the enormous costs of repairing homes damaged or destroyed by Hurricane Sandy, will soon face another financial blow: soaring flood insurance rates and heightened standards for rebuilding that threaten to make seaside living, once and for all, a luxury only the wealthy can afford.

Homeowners in storm-damaged coastal areas who had flood insurance — and many more who did not, but will now be required to — will face premium increases of as much as 20 percent or 25 percent per year beginning in January, under legislation enacted in July to shore up the debt-ridden National Flood Insurance Program. The yearly increases will add hundreds, even thousands, of dollars to homeowners’ annual bills.

The higher premiums, coupled with expensive requirements for homes being rebuilt within newly mapped flood hazard zones, which will take into account the storm’s vast reach, pose a serious threat to middle-class and lower-income enclaves. In Queens, on Staten Island, on Long Island and at the Jersey Shore, many families have clung fast to a modest coastal lifestyle, often passing bungalows or small Victorian homes down through generations, even as development turned other places into playgrounds for the well-to-do.

While many homeowners are beginning to rebuild without any thought to future costs, the changes could propel a demographic shift along the Northeast Coast, even in places spared by the storm, according to federal officials, insurance industry executives and regional development experts. Ronald Schiffman, a former member of the New York City Planning Commission, said that barring intervention by Congress or the states, there would be “a massive displacement of low-income families from their historic communities.”

After weeks of tearing debris from her 87-year-old, two-story house on the bay side of Long Beach, N.Y., Barbara Carman, 59, said she understood the need to stabilize the flood insurance program, but she compared coming premium increases to “kicking people while they’re down.”

Ms. Carman and her husband, who had hoped to retire in a few years, were reconsidering whether they could afford to remain on the coast on fixed incomes. But she said she feared that even selling their home could be hard.

“Only wealthy people could afford it, I guess, not middle-class people,” she said. “You’re going to price us out of here.”

The heightened financial pressure has emerged as an unintended consequence of efforts to stop the government subsidization of risk that has encouraged so many to build and rebuild along coasts increasingly vulnerable to
extreme weather. Supporters of the effort acknowledged that it would squeeze lower-income residents but said it was vital for the insurance program to reflect the risk of living along the shore.

“The irony is, if we allowed market forces to dictate at the coast, a lot of the development in the wrong places would never have gotten built,” said Jeffrey Tittel, director of the Sierra Club’s chapter in New Jersey. “But we didn’t. We subsidized that development with low insurance rates for decades. And we can’t afford to keep doing that. Should a person who lives in an apartment in Newark pay for someone’s beach house?”

Because private insurers rarely provide flood insurance, the program has been run by the federal government, which kept rates artificially low under pressure from the real estate industry and other groups. Flood insurance in higher-risk areas typically costs $1,100 to $3,000 a year, for coverage capped at $250,000; the contents of a home could be insured up to $100,000 for an additional $500 or so a year, said Steve Harty, president of National Flood Services, a large claims-processing company.

Premiums will double for new policyholders and many old ones within three or four years under the new law.

Across the board, rates will begin rising an average of 20 percent after Jan. 1, according to the Federal Emergency Management Agency; rate increases had previously been capped at 10 percent. For properties older than the flood insurance program, where premiums cost half as much as for newer buildings, those discounts are being phased out, through yearly rate increases of 25 percent.

Second homes and businesses will see these increases next year without exception. Primary homes will lose their discounted rates if repairs cost more than half the value of the home, if the home has had recurring flood damage or if the owner refuses an offer of money to help elevate or relocate the building — the exact situations being confronted by many homeowners affected by Hurricane Sandy. The discounted rates disappear if owners sell, let their policies lapse or make major improvements.

The practice of grandfathering is also being discontinued: homes that were built in areas deemed safe at the time, but later added to flood hazard areas, will no longer be treated as though they are on high ground.

At the same time, avoiding the expense of flood insurance will become harder for middle-class homeowners, many of whom have historically dropped their policies after a few uneventful years even though it is required for homeowners with federally backed mortgages who live in flood-prone areas. Lenders who do not enforce the requirement will face higher penalties.

The stiffened penalties, higher premiums and elimination of subsidies enacted in July were meant to bolster the finances of the flood insurance program; it fell $18 billion into debt after Hurricane Katrina and had just $3 billion of borrowing capacity left before Hurricane Sandy, which could prompt claims of $6 billion to $12 billion.

Congress was prodded into action not just by fiscal conservatives but also by environmental advocates who believed the program encouraged reckless development in harm’s way.

But the law did not address affordability, except to say that FEMA should study it.
“You have to move toward fiscal soundness,” said J. Robert Hunter, a federal insurance administrator during the Ford and Carter administrations who is now insurance director for the Consumer Federation of America. “But we’ve said you also have to add some protection for low-income people. But they’ve never done it.”

Mr. Hunter, who was named to a post-storm commission on resilience by New York’s governor, Andrew M. Cuomo, said his analysis of FEMA data showed that fewer than 30 percent of homes in areas affected by the storm had policies in effect.

Agency officials said it would be months before the new flood maps were finished, which means that homeowners are approaching the question of rebuilding without a full understanding of the requirements they may face.

Dave Miller, head of the National Flood Insurance Program, said FEMA would provide guidance on map updates to local officials long before the maps were made official.

But he urged homeowners to think beyond the current standards. “It may not hit you today,” Mr. Miller said, “but a year or two from now, when the maps are adopted, it’s going to hit your community, and you’re going to ask, ‘Why didn’t we hear this before?’ ”

Edward Thomas, a longtime FEMA official who is now president of the Natural Hazard Mitigation Association, said raising a structure even higher than the new minimum elevation was the only prudent option.

Premiums when the next maps are adopted could be “absolutely enormous: a doubling or tripling of the rate,” he said.

Yet exceeding still-unwritten flood standards is a ruefully far-fetched notion for New York and New Jersey residents, for whom mountains of ruined possessions are the immediate reality and rebuilding at all is a financially daunting question.

In Breezy Point, on the Rockaway Peninsula in Queens, Jimmy O’Meara, 66, a retired Wall Street executive, said he had the means to rebuild his 1930s-era bungalow, though he had no flood insurance. But he worried aloud that his neighbors — firefighters, police officers and retirees — could give up when they realize the costs of returning.

“I don’t want to live there alone,” he said. “If there’s no ceiling on the cost of insurance, it may dissuade people from rebuilding or staying. It could depopulate Breezy, if not just the threat of storms increases, but the cost of living there increases dramatically.”

Charles V. Bagli and Sarah Maslin Nir contributed reporting.