

must be submitted in writing, as indicated in the **ADDRESSES** section of this document.

SUPPLEMENTARY INFORMATION: For further information, please see the information provided in the direct final action for Maryland's amendments to the VOC requirements from specific processes, that is located in the "Rules and Regulations" section of this **Federal Register** publication. Please note that if EPA receives adverse comment on an amendment, paragraph, or section of this rule and if that provision may be severed from the remainder of the rule, EPA may adopt as final those provisions of the rule that are not the subject of an adverse comment.

Dated: December 31, 2002.

Thomas C. Voltaggio,

Acting Regional Administrator, Region III.

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FEDERAL EMERGENCY MANAGEMENT AGENCY

44 CFR Part 61

RIN 3067-AD34

National Flood Insurance Program (NFIP); Increased Rates for Flood Coverage

AGENCY: Federal Emergency
Management Agency (FEMA).

ACTION: Proposed Rule.

SUMMARY: We (the Federal Insurance and Mitigation Administration of FEMA) propose to change the way premiums are calculated for policyholders who purchase flood insurance coverage under the NFIP for "Pre-FIRM" buildings in Special Flood Hazard Areas (SFHAs). (The term "Pre-FIRM buildings" means buildings whose construction began on or before December 31, 1974, or before the effective date of the community's Flood Insurance Rate Map (FIRM), whichever date is later. Most Pre-FIRM buildings and their contents are eligible for subsidized rates under the NFIP.)

We are planning to increase flood insurance rates to be implemented in coordination with the elimination of the Expense Constant, a flat charge that the policyholder currently pays to defray certain expenses of the Federal Government related to flood insurance. As part of this planned increase in rates, we are proposing to increase Pre-FIRM subsidized rates. As a result of this change, the same amount of premium revenue will still be collected to cover those expenses currently generated by

the Expense Constant; however, policyholders will pay for those expenses through premiums that vary by the amount of insurance that they purchase, instead of a flat charge per policy. The end result will be revenue neutral.

DATES: We invite comments on this proposed rule, which we should receive on or before March 5, 2003.

ADDRESSES: Please submit any written comments to the Rules Docket Clerk, Office of the General Counsel, Federal Emergency Management Agency, 500 C Street, SW., room 840, Washington, DC 20472, (facsimile) 202-646-4536, or (e-mail) rules@fema.gov.

FOR FURTHER INFORMATION CONTACT:

Thomas Hayes, Federal Emergency Management Agency, Federal Insurance and Mitigation Administration, 500 C Street SW., Washington, DC 20472, 202-646-3419, (facsimile) 202-646-7970, or (e-mail) Thomas.Hayes@fema.gov.

SUPPLEMENTARY INFORMATION:

Background

The Flood Disaster Protection Act of 1973 requires us to charge full-risk premiums for flood insurance coverage on buildings when their construction began after December 31, 1974, or on or after the effective date of the Flood Insurance Rate Map, if the second date is later. (We call such construction "Post-FIRM" construction.)

The Flood Disaster Protection Act of 1973 also authorizes us to apply chargeable premiums to Pre-FIRM property and gives FEMA flexibility to set the flood insurance rates for such property. The legislation calls for us to balance the need to offer reasonable rates that encourage people to buy flood insurance with the statutory goal to distribute burdens fairly between all who will be protected by flood insurance and the general public.

Through the years, FIMA has increased these rates five times with the latest being the final rule 67 FR 8902, published February 27, 2002. Each of the prior changes has been implemented in order to distribute burdens fairly among all who will be protected by flood insurance and to reduce the burden on the general public.

However, with this rule, the proposed rate increase will simply offset the revenue that the Program would otherwise forego through the elimination of the Expense Constant, as explained in the next section. This rule is revenue-neutral, whereas the previous rules resulted in premium increases for the class of Pre-FIRM SFHA policyholders.

While this proposed change to offset the elimination of the Expense Constant will be premium-neutral for the class of Pre-FIRM SFHA policyholders, it will result in slightly different premiums for individual policyholders. For residential structures, the largest net premium increase for any policyholder will be \$24, while policyholders that purchase either Contents-only (e.g., renters) or building-only coverage will see net premium decreases of at least \$10. Non-Residential policyholders will have slightly different results.

Section 572 of the National Flood Insurance Reform Act of 1994, Pub. L. 103-325, 42 U.S.C. 4015, however, imposes the following annual limitation on rate increases under the NFIP:

"Notwithstanding any other provision of this title, the chargeable risk premium rates for flood insurance under this title for any properties within any single risk classification may not be increased by an amount that would result in the average of such rate increases for properties within the risk classification during any 12-month period exceeding 10 percent of the average of the risk premium rates for properties within the risk classification upon commencement of such 12-month period."

This regulation complies with this statutory limitation on annual rate increase under the NFIP, since it will be revenue neutral.

Proposed Changes and Their Purposes

We are proposing to increase the rates for Pre-FIRM SFHA policies to offset the revenue that the Program would otherwise forego through the elimination of the Expense Constant. The Expense Constant is a flat charge that the policyholder currently pays to defray certain expenses of the Federal Government related to flood insurance. This proposed change will be premium-neutral for the class of Pre-FIRM SFHA policyholders.

FIMA believes that eliminating the Expense Constant will help us further the goals of the flood program, especially in regard to policy growth. Currently, policyholders see two flat charges on their flood insurance premium bills—\$50 for the Expense Constant, and \$30 for the Federal Policy Fee (a statutorily-mandated fee to cover certain administrative expenses of the National Flood Insurance Program that are not covered by the Expense Constant). Our marketing research has indicated that this is viewed very unfavorably by prospective insureds. They view it as having to pay \$80 before they can even purchase any flood insurance coverage. By eliminating the expense constant, we can hopefully