GET THE FACTS
ABOUT RISK RATING 2.0
AGENDA

- Overview and Welcome
- Current FEMA Insurance Rating System
- Risk Rating 2.0 – What REALTORS Need to Know
- Realtor® Resources
- Thank you!
NFIP - National Flood Insurance Program

$96 Billion Paid Out

$60 Billion Collected since the 1970s

- Hurricane Katrina in 2005 had the highest NFIP payouts, at $16.3 billion.
- Hurricane Harvey ranked second with $8.9 billion in NFIP payouts.
- Superstorm Sandy, ranked third, with $8.8 billion in NFIP payouts.
- Hurricane Irma, ranked ninth with $1.1 billion in payouts.
- Hurricane Ida, 2021 - cost unknown but significant

Source: FEMA.gov
2012 Biggert-Waters Act

Wright National Flood Insurance Company
A Stock Company
PO Box 33003
St. Petersburg, FL, 33733
Office: 800.820.3242 x 0
Fax: 800.850.3299

Construction Date
Building Replacement Cost
Building Elevated

01/01/1986
$300,000.00
Building is elevated

Property Address
3318 FORT MCALISTER RD
RICHMOND HILL, GA 31324-4805

Occupancy Type
Single Family

Building Type
Two Floors

Elevation Certificate
Yes

Lowest Floor Elevation
9.3 feet

Location of Contents
Basement / Enclosure and Above

Coverage/Limit
Building
$250,000.00
Contents
$100,000.00

Discount/Rate
1 Year Premium
$0.00
$97,574.00

THIS IS NOT AN OFFER FOR INSURANCE. THIS QUOTE IS NON-FIRM AND NON-BINDING AND SUBJECT TO REVIEW AND ADJUSTMENT.
Please submit the required documentation listed on your application summary for review and approval. If additional information is required to actuarially rate the risk, you will be contacted.
NAR has worked 10 years with FEMA on a Long Term, Equitable solution

2012 - Biggert Waters Flood Reform Act

2014 - Homeowner Flood Insurance Affordability Act

2015 - NAR Forms Insurance Committee to hire Actuaries and Work with FEMA

2021 - NFIP Risk Rating 2.0

RPAC and Advocacy at work
Austin Perez

NAR Staff Executive, Insurance Committee
NATIONAL ASSOCIATION OF REALTORS®
Problem 1: Current NFIP rates developed 50 years ago

Base Flood Elevation (BFE) and Special Flood Hazard Area
Problem 2: Neighbors paying very different rates

- Hypothetical, identical houses*
  - Risk 1 near a creek
  - Risk 2 across the street from Risk 1
  - Risk 3 far away from the creek

- Current NFIP premiums:
  - Risk 1: $6,042
  - Risk 2: $400
  - Risk 3: $400

Source: Milliman
Problem 3: Many paying more than their share of the risk

- Homes in same zones are subject to same rates across states
- AE zones in coastal Tampa and Columbus, OH
- Identical houses at these locations
  - One-story, frame house worth $250k
  - First floor 1 foot above base flood elevation
  - No basement, built 1990

Source: Milliman
Tony Hake

Director, NFIP Transformation
FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)
Flooding in America

• America’s #1 Natural Disaster
• Every state
• Just one inch of water can cost $25,000 in damage
• Most Homeowner’s Insurance doesn’t cover flood
• Many flood disasters aren’t Presidentially declared disasters
• Most people don’t have flood insurance
The National Flood Insurance Program

- Created by Congress in 1968 to reduce the toll of flooding disasters in the U.S.

- Is a voluntary federal program enabling property owners in participating communities to buy flood insurance

- In exchange, communities must adopt floodplain management regulations that meet NFIP minimum requirements.
NFIP By the Numbers...

5.0 million policies (95% residential and 5% non-residential) with $1.3 trillion of coverage in 22,490 participating NFIP communities.

35,073 validated claims and $1.48 billion validated payments on losses occurring in 2019.

Data as of June 29, 2020
Risk Rating 2.0: Equity in Action
Equity in Action – Phased Approach

New single-family home policies
New multi-unit home policies
New commercial property policies

Existing single-family home policies
Existing multi-unit home policies
Existing commercial property policies

Oct. 1, 2021*
April 1, 2022

*Also beginning Oct. 1, 2021, existing policyholders eligible for renewal will be able to take advantage of immediate decreases in their premiums.
Why Risk Rating 2.0: Equity in Action

Equity:

Individuals will **no longer pay more than their share** in flood insurance premiums based on the value of their homes.

Roughly 2/3 of policyholders with older pre-FIRM homes will see a premium decrease.
Equity in Action premiums will more accurately reflect a property’s unique flood risk by considering a broader range of variables.

**Current Rating Methodology**
- **FEMA-sourced data**
  - Rating Variables
    - Flood Insurance Rate Map Zone
    - Base Flood Elevation
    - Foundation Type
    - Structural Elevation (Special Flood Hazard Area Only)
  - 1% Annual Chance of Flooding (Frequency)
  - Fees and Surcharges

**Risk Rating 2.0 Methodology**
- **FEMA-sourced data**
- **Additional data sources**: Federal government-sourced data, commercially available third-party
- **Cost to Rebuild**
- **Rating Variables**
  - Distance to Coast/Ocean/River
  - River Class
  - Flood type — Fluvial/Pluvial
  - Ground Elevation
  - First Floor Height
  - Construction Type/Foundation Type
- **Broader Range of Flood Frequencies**
- **Fees and Surcharges**

*Additional variables are not shown here*
Equity in Action Resource Investments

**TIME:** Research, design, analysis, development, and testing translates to 5+ years of work and thousands of hours.

**PEOPLE:** The cross-functional team of 20+ NFIP program experts, including 8+ full-time actuaries, collaborated with a diverse network of experts from a wide range of disciplines:

- Academics
- Actuaries
- Building scientists
- Engineers
- Insurance industry experts
- Mappers
- Underwriters
- Mitigation experts

**TECHNOLOGY:** Cutting-edge technology and best available data used to make a modern-day program:

- Private Sector
  - Rate Setting Methods
- Private Sector
  - Catastrophe Models
- Government Models, Available Data, and Collaborations

Source: FEMA
What is Not Changing

• Statutory rate caps on annual premium increases
• Availability of premium discounts
• Transfers of policy discounts to new homeowners
• Use of Flood Insurance Rate Maps (FIRMs) for mandatory purchase and Floodplain Management
• Availability of premium discounts for Community Rating System (CRS) participation
Legacy Rating System vs. Risk Rating 2.0

The graphs compare rate analysis under the legacy rating system to the Risk Rating 2.0 rating system.

Legacy Rating System: 92%
Risk Rating 2.0: 23% decrease, 66% $0 to $10, 7% $10 to $20, 4% Over $20

Federal Emergency Management Agency
Legacy Rating System vs. Risk Rating 2.0 – Policies Increasing >$100/Month

- Under the legacy rating system, 45,035 policyholders have seen premium increases of more than $100 per month. The single-family homeowners in this group have an average replacement cost value (RCV) of $399,643.

- Under Risk Rating 2.0: Equity in Action, only 3,246 policyholders will see premium increases of more than $100 per month. The single-family homeowners in this group have an average RCV of $1,064,537.

Federal Emergency Management Agency
What can policyholders with steep flood insurance costs today expect under Risk Rating 2.0?

<table>
<thead>
<tr>
<th>Methodology</th>
<th>Single-Family Home Maximum Policy Cost*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legacy Rating Methodology</td>
<td>$45,925</td>
</tr>
<tr>
<td>Risk Rating 2.0</td>
<td>$12,125</td>
</tr>
</tbody>
</table>

Policyholders paying the most under the legacy methodology will see dramatic decreases when they transition to Risk Rating 2.0.

*Amounts shown include premium, fees, assessments, and surcharges
Risk Rating 2.0 – National Rate Analysis

Under the **current rating methodology**, every year at renewal, policyholders on average see premium increases of **$8 per month**.

<table>
<thead>
<tr>
<th></th>
<th>On Average, $86 Per Month Immediate Decreases</th>
<th>On Average, $0-$10 Per Month Increases</th>
<th>On Average, $10-$20 Per Month Increases</th>
</tr>
</thead>
<tbody>
<tr>
<td>23%</td>
<td></td>
<td>66%</td>
<td>7%</td>
</tr>
<tr>
<td>23% of current policyholders will see immediate premium decreases</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>An additional <strong>66%</strong> of current policyholders will see, on average, <strong>$0 - $10 per month</strong> increases</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>7%</strong> of current policyholders under Risk Rating 2.0 will see, on average, <strong>$10 - $20 per month</strong> increases</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>And <strong>4%</strong> of current policyholders under Risk Rating 2.0 will see, on average a <strong>$20 or more per month</strong> increase</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

FEMA

Federal Emergency Management Agency
Ohio Legacy Rating System vs. Risk Rating 2.0

The graphs compare rate analysis under the legacy rating system to the Risk Rating 2.0 rating system.
Cyndee Haydon

2022 NAR Vice Chair, Insurance Committee
NATIONAL ASSOCIATION OF REALTORS®
Old NFIP 1.0 Policy Facts

- Today NFIP rates can rise 18%-25% per year until they hit $63,000 for a $250,000 Policy
- NFIP is 50+ years old & rate based only on flood zone and elevation today
- Rates never stops rising for Pre-Firm Grandfathered homes
- 2/3rds of older Pre-Firm homes are overpaying under the current system
- Old NFIP Not Sustainable for homeowners or taxpayers

Source: Fema.gov
Risk Rating 2.0 Facts

Buyers Can Now Make Educated Decisions with all the Facts

- Maintains same 18%-25% cap on annual increases so no big jumps
- Fewer policy holders seeing big increases;
- Now lower value homes don't cross subsidize high value homes
- All policies (even X zone) get property specific rates and mitigation discounts including CRS
- Buyers can shop private market and make their choice

Source: FEMA
Hypothetical NFIP Glidepath Increasing 9% a year

Note: Max NFIP Statutory Rate increases are 18%/yr Primary & 25%/yr all others
Average Pre-Firm NFIP Rate for NJ is $3000 – Source: FEMA
Ohio Legacy Rating System vs. Risk Rating 2.0

The graphs compare rate analysis under the legacy rating system to the Risk Rating 2.0 rating system.

Legend:
- Green: Decrease
- Blue: $0 to $10
- Blue: $10 to $20
- Gray: Over $20

Legacy Rating System:
- 80% in blue
- 10% in gray
- 10% in gray

Risk Rating 2.0:
- 45% in green
- 45% in blue
- 6% in gray
- 4% in gray

Federal Emergency Management Agency (FEMA)
A Few Early Examples:

$200,000 Cincinnati OH- AE Zone, 956 sq ft Frame not on water, Pre-FIRM one story (Built 7/1/1900)

- Current NFIP pre-FIRM rate
- Rate 2.0
- No automatic annual increases
- $1,547/yr – NFIP with no contents ($4,411/yr savings = @$368/mo less)

Never stops increasing up to 18%+/yr

$5,958/yr - Current NFIP
$200K with 100K contents
A Few Early examples
$1.5M Treasure Island, FL Slab Home AE zone & 100ft from VE
Pre-Firm not elevated (Built 1967)

• Current NFIP rate (before 10/1/21)

Never stops increasing 18%+/yr

$2,488 - Current NFIP with no contents

• Rate 2.0 – April 1 2022

• No automatic increases
• Buyers can now plan for future

• $7,669 – NFIP with no contents
• Factors cost to rebuild, etc.
• Cost is not even 1% = 0.76%
TRANSITIONS TYPICALLY MESSY AND NOISY!

Installing a new operating system

Pause – Breathe – Get the Facts!
Selling real estate after Oct 1, 2021

- Now know home's actuarial rate
- Buyers can make better long-term decisions
- Better idea of cost of future flood insurance

PRO Tip: Buyers can assume Seller's NFIP Policy
What Realtors® Need To Know

• Prepare your clients that change is coming

• Utilize NAR resources provided - Handout NAR FEMA flyer to clients

• Be their calm professional...Pause – Breathe – Get the facts

• Ask - Does the seller have a flood policy? If Seller has an existing NFIP policy, Buyer has option to assume/transfer it.

• Encourage Buyer’s to start early in the process and work with experienced, knowledgeable flood insurance agents to understand process and all their options.

• Don’t assume - remember your license and training
Realtors® Bring Value to Your Clients and Sphere

- Share our 10 yr journey and how you (Realtors) have advocated through NAR and RPAC to achieve this for your neighbors and the communities you serve - OWN IT!

- Get the Facts about Flood Insurance and be proactive and bring information and value updating clients and sphere - handout the NAR FEMA Flyer

- You can help connect them with insurance agents who specializes in flood insurance so they can get all their options

- Be a resource and advocate to help them escalate any issues to FEMA or NAR if they arise
Equity in Action – Learn More

Explore more about Risk Rating 2.0 – Equity in Action by visiting [www.fema.gov/nfiptransformation](http://www.fema.gov/nfiptransformation).

Available Products and Resources

| • Equity in Action Fact Sheet |
| • Video: Defining a Property’s Unique Flood Risk |
| • National Rate Analysis |
| • State Profiles |
| • ZIP Code-Level Data |
| • County-Level Data |
| • Methodology Data Source |
| • Premium Calculation Worksheet Examples |
| • Appendix D Rating Factors |
Additional NAR Resources for You


NAR Member Legal Guidance  https://www.nar.realtor/flood-insurance#section-166024


Additional Contacts for You

Austin Perez
Senior Policy Representative – Insurance
National Association of REALTOR
APerez@nar.realtor

Or you can email FEMA directly at FEMA-NFIP-INSURANCETRANSFORMATION@fema.dhs.gov
THANK YOU.