GREATER NEW ORLEANS INC REGIONAL ECONOMIC DEVELOPMENT

CSFI coalition for sustainable flood insurance

# NFIP Risk Rating 2.0 FAQs

*In the implementation of Risk Rating 2.0 (RR 2.0), FEMA has applied its administrative authority to update the pricing methodology for the National Flood Insurance Program (NFIP) – the first major overhaul of rates since the 1970's. As of October 1, 2021, new policies are subject to RR 2.0, and on April 1, 2022, renewing policies will be written under RR 2.0. Using new capabilities and tools, RR 2.0 incorporates more flood risk variables, including the property's replacement cost value, distance from water, and flood frequency.*

**What percentage of homes will see increases under RR 2.0?**
According to FEMA's national rate analysis, 77 percent of policyholders' premiums across the country will increase with the implementation of RR 2.0. Some states, like Florida, Louisiana, and Texas, will see 80 percent of policies, or more, increase. According to a Congressional Research Service report, 50 percent of properties will reach their full risk rating in 5 years, and in 10 years, 90 percent of properties will reach their full risk rating. With annual updates to rating factor inputs planned by FEMA, premiums may change annually. New policies will immediately be charged their full risk premium; homebuyers are encouraged to assume an existing policy on a property to maintain an 18 percent glide path to full risk rate.

**My home and my neighbor's home are the same distance to a water source? Why is my premium higher now?**
"Geographic Factors" include distance to river, drainage area, distance to lake, structural relative elevation, levee quality, and more. Even with two adjacent properties having similar distances to flooding sources, and similar geographic factors in all, there are many other variables, including replacement cost, elevation, and type of construction, that affect premium calculation. For example, more flood damage happens to wood structures compared to masonry structures, so there will be lower claim payments for masonry properties, and masonry has a lower value as a rating factor.

**Why would a two-story home have a lower premium than a single-story home?**
"Floors of Interest" is another rating factor – one of about a dozen "Property and Contract Factors" – considered by RR 2.0. According to FEMA, a homeowner would have more loss exposure in a single-story home. In a two-story home, contents are spread over two floors. In a one-story home, all of the contents are located on one floor, increasing risk of damage or loss.

**What will the maximum NFIP policy cost be for a homeowner?**
$12,125 is the maximum premium any single-family home policyholder will receive in year one under RR 2.0. While not an official cap set by law, this is the maximum amount any single-family home policyholder will be charged under the new pricing methodology, according to FEMA. This maximum will be reviewed annually and may change in future years.

**What does "all policies formerly eligible for Grandfathering will transition to their new full risk rates," per FEMA, mean?**
Under the legacy rating system, Grandfathering was available to policyholders when a map change resulted in either a rating zone or base flood elevation change. Now, all existing policies formerly eligible for Grandfathering will transition to their new full risk premium gradually, within the 18 percent annual cap (for primary residences) imposed by Congress.

**If I am buying a home that already has an existing NFIP policy in place, can I assume that policy when I buy the home?**
Yes, under Risk Rating 2.0, a home buyer can still take over the non-lapsed policy of the existing homeowner. This is advisable, as a new policy will immediately be charged their full risk premium. Homebuyers are encouraged to assume an existing policy on a property to maintain an 18 percent glidepath to full risk rate. For non-primary homes and commercial properties, the glidepath is 25 percent. If a policy lapses, it cannot be reopened or assigned to a new homeowner.

**Are elevation certificates (ECs) required to purchase insurance? If not, what will be used to determine elevation?**
ECs are no longer required to purchase coverage. Instead, FEMA will use modeling tools to determine the first-floor height of a building. To ensure accuracy, policyholders may still obtain an EC, which provides more refined elevation information, and then submit the EC to their agent to determine if it will benefit their rate. ECs can also inform mitigation actions that lower flood risk, and ECs will continue to be used for floodplain management building requirements and Community Rating System compliance. Under RR 2.0, there multiple examples of EC submission resulting in lower premiums.

**Tips for Policy Holders**

**Existing Policyholders:**

1. **Renew your existing policy and maintain an active policy:** By maintaining an active policy, you will stay on the Congressionally-mandated glidepath, limiting annual increases on premiums to 18% for primary residences and 25% for non-primary residences and commercial properties. Ensure that your policy is renewed prior to your expiration date (the renewal date plus a 30-day grace period), so that it does not lapse. Once a policy lapses, you cannot reopen it, and if you choose to purchase flood insurance again, you will face full risk rate premiums.
2. **Assign your policy to a new property owner:** If you decide to sell your property, and if you have an active policy, you can assign that policy to the subsequent property owner, who will then benefit from gradual ramp up to the full risk rate premium. Thus, the ability to assign a policy may affect your property value, and it may also have implications on a prospective buyer's mortgage (for properties in high-risk flood areas, flood insurance is required to obtain government-backed mortgages). If you do not have an active policy, a purchaser of your property will immediately assume full risk rate, and likely a higher premium.

**New Policyholders:**

1. **Assume an existing policy:** If you are buying a property, ask if that property has an existing NFIP policy. If the property does have an active policy, assume that policy, so that you will be on the glidepath to full risk rate, just as a current policyholder would. If the property does not have an active policy, or if a policy lapses during the transaction, you will immediately be charged a full risk rate premium – you cannot reopen a lapsed policy.

**New & Existing Policyholders:**

1. **Consider undertaking mitigation measures:** FEMA has identified three mitigation measures that can reliably lead to discounts under RR2.0: elevating properties on posts, piles, or piers; elevating machinery and equipment above the first floor; and installing flood openings in a building's enclosure. However, as each of these measures respectively affect only one of many risk factors involved in premium calculation, the exact impact on premiums from undertaking an individual measure is unclear.
2. **Consider obtaining an Elevation Certificate (EC):** Contact your floodplain manager, ask a seller, or hire a professional to acquire or complete an EC, which certifies a property's height in relation to base flood elevation. An EC may result in more refined elevation data than FEMA's model-derived first floor height; hence, an EC can possibly result in favorable rate changes.
3. **Check to see if your community participates in the Community Rating System (CRS) and encourage participation:** CRS provides community-wide premium discounts to compliant properties in certain communities that voluntarily participate in the program. If your community participates in the program, upon reaching your full risk rate, you will receive a discount corresponding to the credit points earned by your community, which are accumulated based on activities conducted.
4. **Review documents and resources provided by FEMA to date:** Various materials with background information on RR2.0 can be accessed on FEMA's website: https://www.fema.gov/flood-insurance/risk-rating. Downloadable technical documents provide some insight into RR2.0's methodology, data sources, rating factors, and premium calculation. Be aware that certain details and long-term guidance, including premium increase predictions beyond year one, have not yet been released by FEMA. In response, there are ongoing Congressional efforts, and efforts from the coalition and at the jurisdictional level, to increase transparency of RR2.0.

***ABOUT CSFI*** *Since April 2013, GNO, Inc. has led the Coalition for Sustainable Flood Insurance (CSFI), a national coalition that has included approximately 250 organizations across 35 states, formed during the implementation of the Biggert-Waters Act. CSFI was a driving force behind the passage of the Homeowner Flood Insurance Affordability Act (HFIAA). Since the passage of HFIAA, our coalition has focused on advocating for a stronger policy framework for the NFIP. CSFI is an initiative of Greater New Orleans, Inc. For more information, please visit www.csfi.info.*