

### Top Line Summary

- Independent actuaries studied National Flood Insurance Program (NFIP) rates in 5 counties.
- The study finds that many property owners are overcharged while others are undercharged.
- NAR recommends several changes to better align NFIP rates to the property-specific risk.

### Key Study Findings

- NFIP rates are currently not well aligned with risk.
- NFIP rates do not track with other risk factors such as distance to coast/river.
- Doing so could increase NFIP participation and strengthen solvency.
- A Zones (high risk): NFIP uses one rate table to charge most high risk properties across the U.S.
  - As a result, two property owners facing different risks could pay the same premium rate.
    - For example, storm surge flooding in coastal areas causes more damage than riverine flooding – yet in the A zone, rates do not reflect this difference.
  - Also, because 20% of properties are subsidized, adjacent properties with identical risk profiles could pay dramatically different rates.
- X Zones (low risk): While the A zone table accounts for the relative elevation of the property, the X zone table does not; many will not voluntarily opt in as long as the average rate is so high.
  - Thus some low risk properties pay more than high risk properties that are elevated.

### Recommendations

- Divide the A zone into coastal and inland subzones and calculate a rate table for each.
- Incorporate risk factors such as distance to river/coast, in addition to property elevation.
- Develop an X zone table that accounts for property elevation and other appropriate risk factors.

### Methodology

- This is a case study, not a full actuarial study of FEMA's rate-making process.
- Selected 5 counties: Pinellas, FL; Harris, TX; Ocean, NJ; Merced, CA; and Hancock, Ohio.
- Identified a typical high risk property for each county (e.g., 1-story \$175,000 masonry structure built in 1970) then varied one attribute (e.g., built in 1995 instead of 1970).
- Assumed that all properties in the county reflect these characteristics so only the location and elevation of the property would vary.
- Calculated the rate two ways: first as NFIP would then as a private insurance company would, and compared the results.
- Evaluated how the rates change with other risk factors including the distance to coast/river.

**Complete Study & Results:** Available upon Request

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