

FEMA Risk Rating 2.0

NAR MYTH BUSTER

October 1, 2021

On October 1, 2021, FEMA began implementing a new flood insurance pricing methodology called Risk Rating 2.0: Equity in Action. REALTORS® have been calling for these changes since Congress passed the Biggert-Waters Flood Insurance Reform Act in 2012.

Changes won't take effect for existing policies until April 1, 2022, but many misconceptions about the new rating system are already circulating. This document provides the facts.

MYTH:

Risk Rating 2.0 will lead to higher premiums for most policyholders.

FACT:

With Risk Rating 2.0, FEMA is updating a 50-year-old rating system to price each home individually – rather than by flood zone – and more accurately using modern technologies and practices.

Risk Rating 2.0 will reduce the top rate in the program from \$63,000 to \$12,000 per year. Twenty-three percent of current policyholders will see an immediate premium decrease of \$85 per month, and most others will pay nearly the same at their next renewal.

Without these changes, rates would continue to climb 18 to 25 percent every year until reaching \$63,000 for a \$250,000 home.

MYTH:

Risk Rating 2.0 will lead to unfair premium adjustments.

FACT:

Risk Rating 2.0 will create a more equitable and sustainable flood insurance program by addressing rating disparities. Low value properties will no longer subsidize high value properties.

Under the previous system, policyholders with lower-value homes have been paying more than they should, and policyholders with higher-value homes have been paying less than they should. These lower-value homes have some of the highest rates in the NFIP today.

With Risk Rating 2.0, policyholders with lower-value homes will generally see a decrease in their cost of insurance – as FEMA's new methodology accounts for more risk variables and rates each home individually.

And, unlike the current methodology, when a property reaches its full risk rate under Risk Rating 2.0, increases stop.



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MYTH:

Risk Rating 2.0 will change everything about flood insurance.

FACT:

Risk Rating 2.0 maintains the 18 percent cap on annual increases for most rates. It also preserves grandfathered rates, including those for newly mapped and pre-Flood Insurance Rate Maps (FIRM) subsidized homes.

Additionally, policyholders can still transfer discounts by assigning their flood insurance policy to the new owner.

MYTH:

Risk Rating 2.0 will delay or complicate transactions, as real estate professionals will now have to offer flood insurance or risk assessments.

FACT:

Real estate agents and brokers will continue to be an information source, not flood experts. Like mold, termites, or other property risks clients may ask about, you can share the facts about flood risk and be prepared with list of qualified, trained professionals – NFIP and private market insurance agents, licensed surveyors, engineers, and others – who can answer property-specific risk questions.

MYTH:

FEMA created Risk Rating 2.0 without input from stakeholders like NAR.

FACT:

NAR collaborated directly with FEMA in the development of this new methodology. Risk Rating 2.0 is the culmination of thousands of NAR member hours and research dollars.

Following the Biggert-Waters Flood Insurance Reform Act of 2012, NAR formed a member insurance committee to investigate the sudden, excessive rate hikes. NAR convinced Congress to delay the rates for a decade while we hired independent actuaries and worked with FEMA to diagnose the problem and propose solutions.

In creating Risk Rating 2.0, FEMA adopted most of NAR's committee recommendations – making this new methodology a big win for REALTORS® and consumers.

