GET THE FACTS ABOUT RISK RATING 2.0

Flood
Cyndee Haydon

2022 NAR Vice Chair, Insurance Committee
NATIONAL ASSOCIATION OF REALTORS®
AGENDA

▪ Overview and Welcome

▪ Current FEMA Insurance Rating System

▪ Risk Rating 2.0 – What REALTORS Need to Know

▪ Member Resources

▪ Thank you!
NFIP - National Flood Insurance Program

$96 Billion Paid Out

$60 Billion Collected since the 1970s

COST

- 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

**Construction Date**
- Building Replacement Cost
- Building Elevated

**Property Address**
- 3318 FORT MCALLISTER RD
- RICHMOND HILL, GA 31324-4005

**Coverage/Premium Information**
- **Building**
  - Limits: $250,000.00
  - Deductible: $1,000.00
  - RPH Basic: 25.00
- **Contents**
  - Limits: $100,000.00
  - Deductible: $1,000.00
  - RPH Basic: 25.00

**Building is elevated**
- $97,574.00

**IMPORTANT NOTES**

*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.
Selling real estate since Biggert Waters

**Fear** - How high will it go?

**Uncertainty** - When and how will it happen?

**Doubt** - Can Clients really afford to live here long term?

And now add increased Climate events and sea level rise
NAR has worked 10 years with FEMA on a Long Term, Equitable solution

2012 - Biggert Waters

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 with 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: Repetitive Loss Properties

Herbert Street
Goldsboro, North Carolina

<table>
<thead>
<tr>
<th>PROPERTY FLOOD PROFILE</th>
<th>Hurricane Matthew</th>
<th>Hurricane Florence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flood Elevation (NAVD88 ft)</td>
<td>69.5 ft</td>
<td>71.6 ft</td>
</tr>
<tr>
<td>1% Base Flood Elevation</td>
<td>25</td>
<td>90</td>
</tr>
<tr>
<td>Building Type</td>
<td>Single-Family</td>
<td>Single-Family</td>
</tr>
<tr>
<td>Flood Elevation in Structure</td>
<td>4.3 ft</td>
<td>6.6 ft</td>
</tr>
<tr>
<td>Estimated Cost to Repair Structure **</td>
<td>$44,303</td>
<td>$55,252</td>
</tr>
<tr>
<td>Estimated Cost for Content **</td>
<td>$22,155</td>
<td>$27,626</td>
</tr>
<tr>
<td>Estimated Total Recovery Cost</td>
<td>$66,464</td>
<td>$82,878</td>
</tr>
<tr>
<td>Estimated Annual NFIP Insurance Rate*</td>
<td>$1,530 - $2,290</td>
<td></td>
</tr>
<tr>
<td>Gauge Location</td>
<td>Neuse River at Goldsboro</td>
<td></td>
</tr>
</tbody>
</table>

* The estimated NFIP insurance premium utilized the legacy NFIP methodology and North Carolina provided structure-specific information to generate the rate.

** Rates were calculated by North Carolina Risk Management utilizing ACOE Wilmington District damage curves and RS Means.

Source: John Dorman, Assistant State Emergency Management Director for Risk Management, North Carolina
Problem 4: 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
Problem 5: Elevation certificate requirements

- Required for some homes, but not all
- Depends on several factors: flood zone, year of construction, year of initial map
- Process / decision / cost that most homeowners don’t fully understand
- Depends on many parties all doing their jobs adequately and seamlessly in short timeframe

Source: Milliman
Risk Rating 2.0 is product of collaboration and science

**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
Risk Rating 2.0 prices each home individually rather than by flood zone.

**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**

Source: FEMA
Risk Rating 2.0 adopts modern insurance industry technologies, practices and standards

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

Source: FEMA
Cyndee Haydon

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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
Leverages Modern Insurance Technology, Standards and LIDAR data

Provides Actuarially Sound Rates that are Equitable and Easy to Understand
Risk Rating 2.0 Facts

- New Maximum Rate is $12,125/yr (a 73% decrease)
- 23% see Immediate Decrease and most will pay about the same
- Uses property specific factors including buildings unique elevation, distance to water and cost to rebuild
- Seller can still transfer their policy to the buyer
- Buyers can get quotes immediately - Don't need Elevation Certificate
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 $100/mo increases; only 3200 nationwide vs 45,000 under old rating structure
- 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 now can shop private market and not worry about coming back to NFIP
What’s Not Changing

• Residential & Commercial Policy Coverage stays the same - $250,000 property / $100,000 contents;

• Buyer can still assume/transfer the Seller’s policy so no big jumps on day 1.

• Still have 18% or 25% maximum increases for existing policies when transferred

• Still required to have flood insurance if in a Special Flood Hazard Area like AE & VE and have a federally backed mortgage

• Community Rating System (CRS) discounts of 5-45% still apply

• Elevation certificates are now optional and can be used if it will help get more favorable rates
Selling real estate after Oct 1, 2021

- Buyers and Sellers will now know home's true actuarial rate.
- Discloses and Empowers Buyers and Sellers with the data.
- Allows Buyers to decide if they are comfortable with total and future cost of ownership.
- NFIP isn't only rising insurance cost facing Florida.

Remember - Buyers can assume Seller's NFIP Policy.
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.

- 23% of current policyholders will see immediate premium decreases
- An additional 66% of current policyholders will see, on average, $0 - $10 per month increases
- 7% of current policyholders under Risk Rating 2.0 will see, on average, $10 - $20 per month increases
- And 4% of current policyholders under Risk Rating 2.0 will see, on average a $20 or more per month increase

For more info go to www.fema.gov/NfipTransformation
NFIP Policies in Force in FL | Properties in FL Not Covered by NFIP Policy | Average NFIP Claim Payout in the Past 10 Years | Average Individual Assistance Claim Payout in the Past 10 Years
--- | --- | --- | ---
1,727,900 | 5.9 million | $28,100 | $5,100

Risk Rating 2.0 in Florida

Immediate Decreases
342,142 Policies

On Average, $0 - $10 Per Month
($0 - $120 Per year) Increases
1,178,074 Policies

20% 68% 8% 4%

On Average, Greater Than $20 Per Month ($240 Per Year) Increases
73,113 Policies

FEMA

March 2021 1
NFIP Policies in Force in FL by Rate Class

- Pre-FIRM Subsidized: 165,771
- Preferred Risk Policy: 462,538
- Newly Mapped
- High Risk Coastal Zones
- Full Risk

Total: 1,058,170
FEMA Risk Rating 2.0

FEMA is building on years of investment in flood hazard information by incorporating private sector data sets, catastrophe models and evolving actuarial science.

With Risk Rating 2.0, FEMA now has the capability and tools to address rating disparities by incorporating more flood risk variables. These include flood frequency, multiple flood types—river overflow, storm surge, coastal erosion and heavy rainfall—and distance to a water source along with property characteristics such as elevation and the cost to rebuild.

Miami Dade County

Flood Insurance Changes with Risk Rating 2.0

- Immediate Decrease in Insurance Policy Cost: 13%, 19,615 properties
- Increase in Insurance Policy Cost by $0 to $120 per year: 76%, 111,783 properties
- Increase in Insurance Policy Cost by $120 to $240 per year: 6%, 8,953 properties
- Increase in Insurance Policy Cost by greater than $240 per year: 4%, 6,136 properties

147,467 Total Single Family Homes with NFIP Policies

Created by No Flood Florida with data provided by FEMA's Risk Rating 2.0, May 2021.
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Palm Beach County

Flood Insurance Changes with Risk Rating 2.0

- 66,721 Total Single Family Homes with NFIP Policies
- 18% Immediate Decrease in Insurance Policy Cost (12,150 properties)
- 77% Increase in Insurance Policy Cost by $0 to $120 per year (51,265 properties)
- 3% Increase in Insurance Policy Cost by $120 to $240 per year (2,206 properties)
- 2% Increase in Insurance Policy Cost by greater than $240 per year (1,100 properties)

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**Pinellas County**

Flood Insurance Changes with Risk Rating 2.0

- Immediate Decrease in Insurance Policy Cost: 15% for 8,585 properties.
- Increase in Insurance Policy Cost by $0 to $120 per year: 46% for 26,478 properties.
- Increase in Insurance Policy Cost by $120 to $240 per year: 24% for 13,701 properties.
- Increase in Insurance Policy Cost by greater than $240 per year: 15% for 8,717 properties.

57,401 Total Single Family Homes with NFIP Policies

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Hillsborough County

Flood Insurance Changes with Risk Rating 2.0

- 15% Immediate Decrease in Insurance Policy Cost: 6,920 properties
- 63% Increase in Insurance Policy Cost by $0 to $120 per year: 29,918 properties
- 15% Increase in Insurance Policy Cost by $120 to $240 per year: 7,098 properties
- 8% Increase in Insurance Policy Cost by greater than $240 per year: 3,834 properties

Total Single Family Homes with NFIP Policies: 47,700

Created by No Flood Florida with data provided by FEMA’s Risk Rating 2.0, May 2021
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Duval County
Flood Insurance Changes with Risk Rating 2.0

- Immediate Decrease in Insurance Policy Cost:
  - 7% Immediate Decrease on 1,748 properties

- Increase in Insurance Policy Cost by $0 to $120 per year on 23,892 properties
- Increase in Insurance Policy Cost by $120 to $240 per year on 566 properties
- Increase in Insurance Policy Cost by greater than $240 per year on 186 properties

26,392 Total Single Family Homes with NFIP Policies

Created by No Flood Florida with data provided by FEMA’s Risk Rating 2.0, May 2021
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Bay County

Flood Insurance Changes with Risk Rating 2.0

- Immediate Decrease in Insurance Policy Cost: 2,869 properties (22%)
- Increase in Insurance Policy Cost by $0 to $120 per year: 9,174 properties (70%)
- Increase in Insurance Policy Cost by $120 to $240 per year: 671 properties (5%)
- Increase in Insurance Policy Cost by greater than $240 per year: 331 properties (3%)

13,045 Total Single Family Homes with NFIP Policies

Created by No Flood Florida with data provided by FEMA’s Risk Rating 2.0, May 2021
Risk Rating 2.0 Timeline

Starts Oct 1, 2021
New Business Policies

Starts April 1, 2022 for Renewal/Existing Policies

NFIP and Risk Rating 2.0 Resources:

Risk Rating 2.0 NFIP Transformation
www.fema.gov/NFIPtransformation

Risk Rating 2.0 Graphs for Florida Counties

Definitions

Risk Rating 2.0 for all States (County and zip code)
A Few Early Examples:
$260,000 Seminole home not on water (1960)

- NFIP today
  - Never stops increasing 18%+/yr
  - $2040 - Current NFIP with no contents
  - $3,377 - Current NFIP with $100K contents

- Risk Rating 2.0 – Oct 1 2021
  - No automatic annual increases
  - $1,683 – NFIP with no contents ($357 savings = @$30/mo) = 0.64%
  - $2,038 – NFIP with 100K contents ($1339 savings = @112/mo) 0.60%
A Few Early Examples:
$1,000,000 Treasure Island Home 100ft from VE

- NFIP today
- Risk Rating 2.0 – April 1 2022

Never stops increasing 18%+/yr

- No automatic increases
- Buyers can no plan for future

$2488 - Current NFIP with no contents

- $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!
What Realtors® Need To Know

• If you have contracts scheduled to close before Oct 1 – have buyer’s insurance agent review and evaluate impact to buyer of any delays past
• Encourage clients to get all insurance options early in process
• Encourage clients to consult insurance agent(s) with Flood policy knowledge.
• Both sides need to ask – Does the seller have a flood policy?
• Remember if Seller has existing policy the Buyer has the option to assume/transfer policy. Have them work with their agent to understand process and options.
• Don’t assume - remember your license and training
Realtors® Bring Value to Your Clients and Sphere

- Ask them if they have heard about the 2 changes happening with New Flood Maps and New FEMA Flood Insurance Policy Pricing and offer to update them

- Share the 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 value updating clients and sphere

- You can help connect them with good agent where they can get all their options - maybe private is better for them