

## Risk Rating 2.0 Fact Sheet

Updated April 9, 2021

### What is Risk Rating 2.0?

- Risk Rating 2.0 is an effort by the Federal Emergency Management Agency (FEMA) to redesign how a property's flood risk and flood insurance rates are determined under the National Flood Insurance Program (NFIP).
- Once Risk Rating 2.0 is fully implemented, FEMA claims that NFIP flood insurance rates for most existing policies will decrease or have an increase of \$10 or less per month, while eleven percent of premiums will increase by more than \$10 per month.

### Why is FEMA doing this?

- Historically, NFIP premiums have not been equitable, as policyholders with lower-valued homes have been paying more than their share of the risk.
- The new rating methodology was developed to deliver flood insurance rates that are more equitable, easier to understand, and better reflect a property's unique flood risk.
- Implementation of Risk Rating 2.0 will better ensure equity so that individuals will no longer pay more than their fair share for flood insurance.
- The program will make flood insurance easier to price and sell for agents and easier to understand for consumers, which may result in the purchase of more policies and additional protection for homes that have flood risks.
- Risk Rating 2.0 will also help set the NFIP on a path to becoming more financially resilient.

### When will Risk Rating 2.0 take effect?

- Risk Rating 2.0 will be implemented in two phases – one for new policies and one for existing policies.
- **PHASE I:** For new policies, the rating method will become effective on **October 1, 2021**, for all new policies purchased on or after that date, including those for single-family, multi-unit home, and commercial properties.
- **PHASE II:** For existing policies, the new rating method will become effective on **April 1, 2022**.
- Also beginning on October 1, there will be an option for homeowners who have policies with renewal dates between October 1, 2021 and March 31, 2022 to renew under either the old methodology or Risk Rating 2.0 so that they may take advantage of immediate decreases in their premiums.

### How will Risk Rating 2.0 impact policy rates?

- FEMA conducted a national rate analysis, which shows that, on average,
  - 23% of current policyholders will see immediate premium decreases of \$86 per month
  - 66% of current policyholders will see increases of \$0-\$10 per month
  - 7% of current policy holders will see increases of \$10-\$20 per month
  - 4% of current policy holders will see increases of \$20 or more per month
- By comparison, under the current methodology, policyholders on average see premium increases of 11.3% per year or \$8 per month.

- The 4% of current policy holders that will see the largest increases under the transition to Risk Rating 2.0 primarily represent high value homes in high risk areas that were being subsidized under the current methodology by lower value homes.
- FEMA has also released state-specific rate analyses that include statistics on existing NFIP policies and the expected premium cost changes expected from Risk Rating 2.0, which can be found here [FEMA State Profiles](#).
- According to FEMA, policy holders currently paying the highest rates will see dramatic decreases after the transition to Risk Rating 2.0.
  - Current maximum policy cost for a single-family home = \$45,925
  - Risk Rating 2.0 maximum policy cost for a single-family home = \$12,125
- Additionally, FEMA has stated that builders will be able to reduce the cost of flood insurance for future homeowners if they follow certain building practices.

### What is not changing under Risk Rating 2.0?

- All rate caps on annual premium increases required by law will remain in place.
  - In general, this means that annual increases will be capped at 18% and premiums will increase only until the full risk rate has been reached.
- Existing premium discounts, such as newly mapped rates, will remain in place.
- The ability to transfer policy discounts to new homeowners will remain in place.
- Flood Insurance Rate Maps (FIRMs) will continue to be used for determining mandatory purchase and regulatory requirements, as well as any floodplain management mandates.
- The availability of premium discounts for Community Rating System (CRS) participation will not change.

### What information is still pending?

- Additional clarification regarding how FEMA is accounting for levees in Risk Rating 2.0, including how those assumptions impact areas around federally accredited and unaccredited levees.

### What are the next steps?

- FEMA has agreed to work with NAHB to develop sector specific information and guidance documents to better inform and educate the home building industry on Risk Rating 2.0.
- NAHB has specifically requested resources on the building practices that can result in rate credits under the new methodology, and will make that information available as soon as it is released.
- For more information, see FEMA's [FEMA Press Release](#) and [FEMA Fact Sheet](#).