

# Risk Rating 2.0

Pennsylvania Association of REALTORS® | September 2021



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## Risk Rating 2.0: Bottom Line Up Front

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- Rates are changing to reflect flood risk more accurately.
- Rates will be specific to each individual property's geographic location and building characteristics.
- Some existing policy holders will see rate decreases while others will see rate increases
- Timeline:
  - October 1, 2021: Risk Rating 2.0 takes effect for **new** policy holders.
  - April 1, 2022: Risk Rating 2.0 takes effect for **existing** policy holders.



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## Let's see a show of hands...

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- How many people are aware of Risk Rating 2.0?
- How often does flood insurance come up in your business?
  - Almost always
  - Frequently
  - Rarely
- Do you have the information you need to talk with your clients about flood insurance?



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# The NFIP Today

# Understanding Flood Risk – Myths & Facts

## Myth #1

- Myth: “I don’t live in a flood zone.”
- Fact: Everyone lives in a flood zone.
  - Floods are the #1 natural disaster in the United States
  - If it can rain, it can flood
  - Flood risk does not stop at a line on a flood map



Just a few inches can cause tens of thousands of dollars in damage



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# Understanding Flood Risk – Myths & Facts

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## Myth #2

- Myth: “I’m already covered—my homeowners policy covers flooding.”
- Fact: Most insurance policies do not cover flooding; only flood insurance covers flood damage.



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# Understanding Flood Risk – Myths & Facts

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## Myth #3

- Myth: “If a flood happens, disaster assistance will cover me.”
- Fact: Disaster assistance facts:
  - Only available if the President declares a Federal disaster.
  - You must qualify.
  - Typically given in the form of a loan that must be repaid, with interest.



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# National Flood Insurance Program (NFIP)

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- Provides flood insurance to homeowners, renters, and business owners
- Written by insurance agencies through about 65 companies or direct with the NFIP (rates and coverage are the same for all agents)
- Created by Congress in 1968
- Administered by the Federal Emergency Management Agency (FEMA)
- Available in 22,200+ participating communities
  - *PA currently has 2,474 NFIP participating communities. That is more than 10% of the national total*



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# What is a Flood?

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Inundation of :

- Two or more properties, or
- Two or more acres of normally dry land

Caused by:

- Overflow of inland or tidal waters;
- Unusual, rapid accumulation or runoff of surface waters *from any source.....*



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# Value of Insurance in a Disaster

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WV June Flooding 2016



Richwood, WV

VA Hurricane Matthew 2016



Virginia Beach, VA

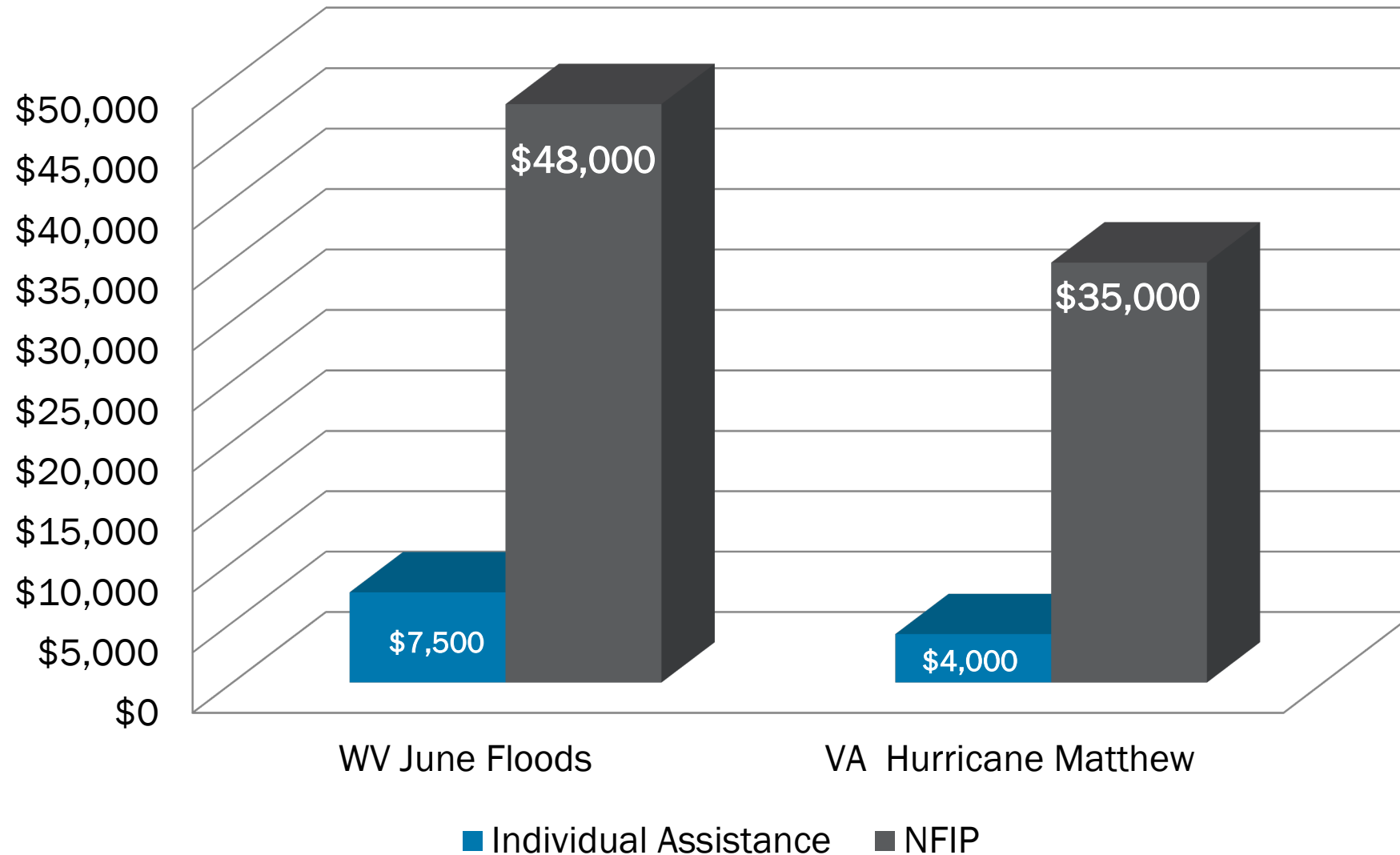


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## More Money for Insured Survivors



# Pennsylvania State Facts & Trends

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- Most policies are for structures built before the NFIP started:
  - 35,589 pre-FIRM contracts
  - 13,886 post-FIRM contracts
- Decline in Policies:
  - 49,475 NFIP policies in the State as of August 31
  - Decrease of 1,883 (3.7%) over the past year.
    - *Decrease of 21.8% in last 5 years*
- Preferred Risk Policies:
  - 16,428 – about 33% of State total. Consistent with the national trend (36%)
- Luzerne County has the highest number of policies – over 5,500.
  - This is more than 1.5x the next highest county (Bucks).

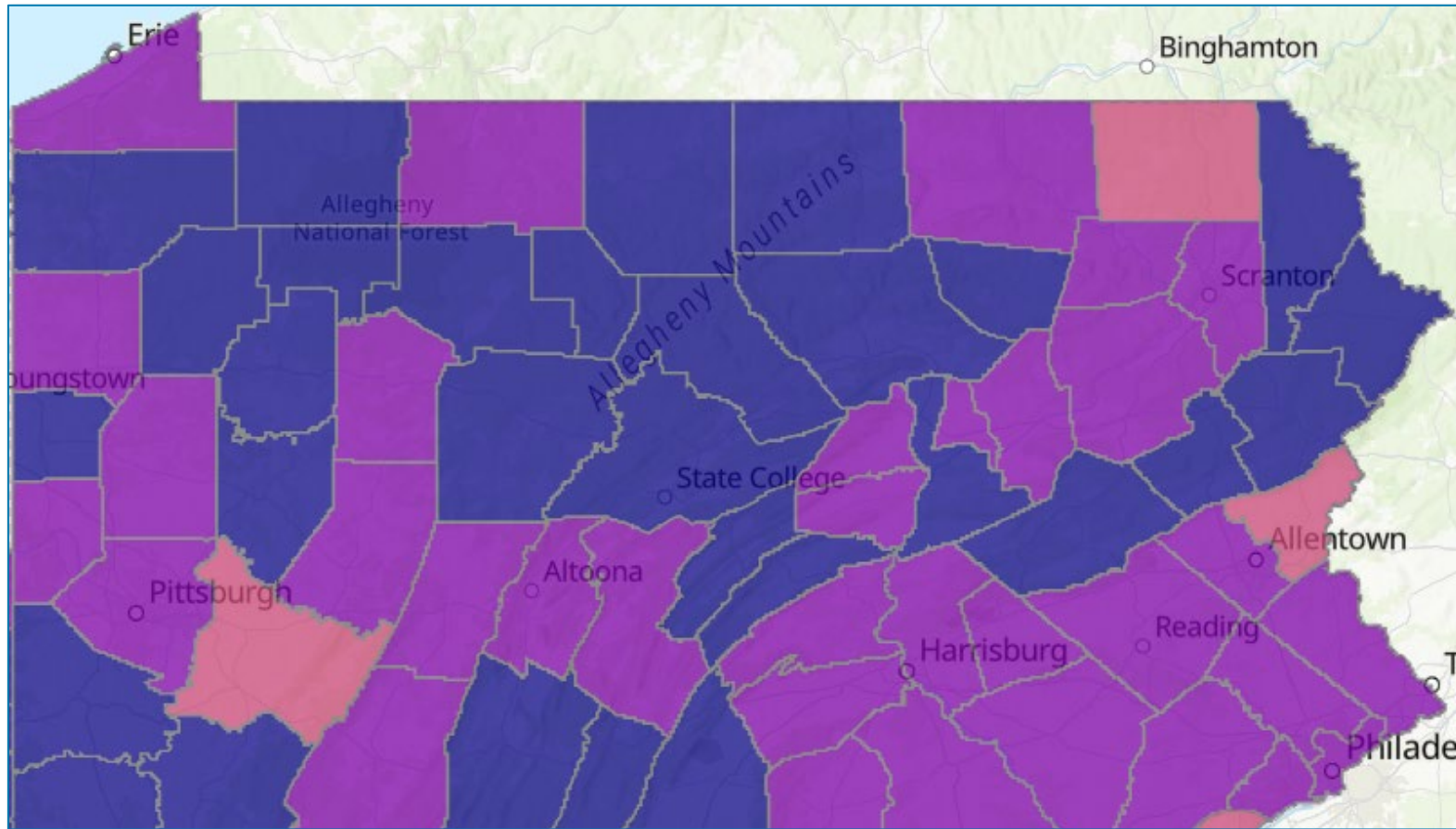


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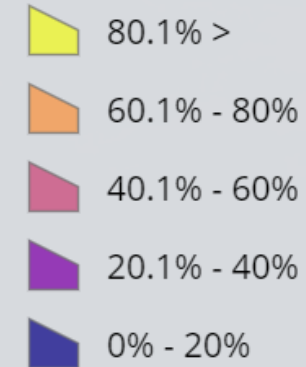
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# Percent of Homes with NFIP Coverage in SFHA



## SFHA Penetration - Residential NFIP SFHA Penetration

### Estimated SFHA Penetration



National average is 30%. That means a lot of people are vulnerable.



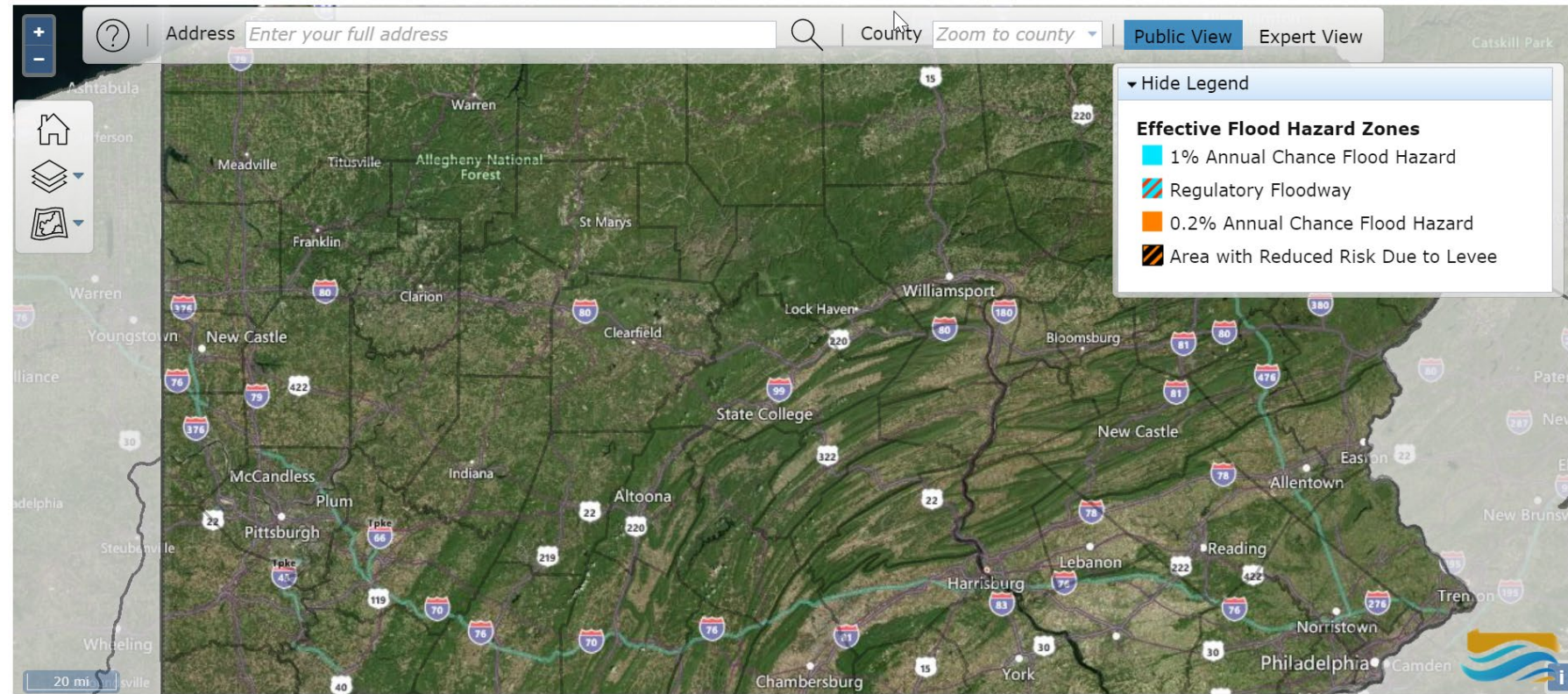
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# Pennsylvania Flood Risk App ([www.pafloodrisk.psu.edu](http://www.pafloodrisk.psu.edu))

- New Pennsylvania specific mapping application to view flood risk



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# Pennsylvania Flood Risk App ([www.pafloodrisk.psu.edu](http://www.pafloodrisk.psu.edu))

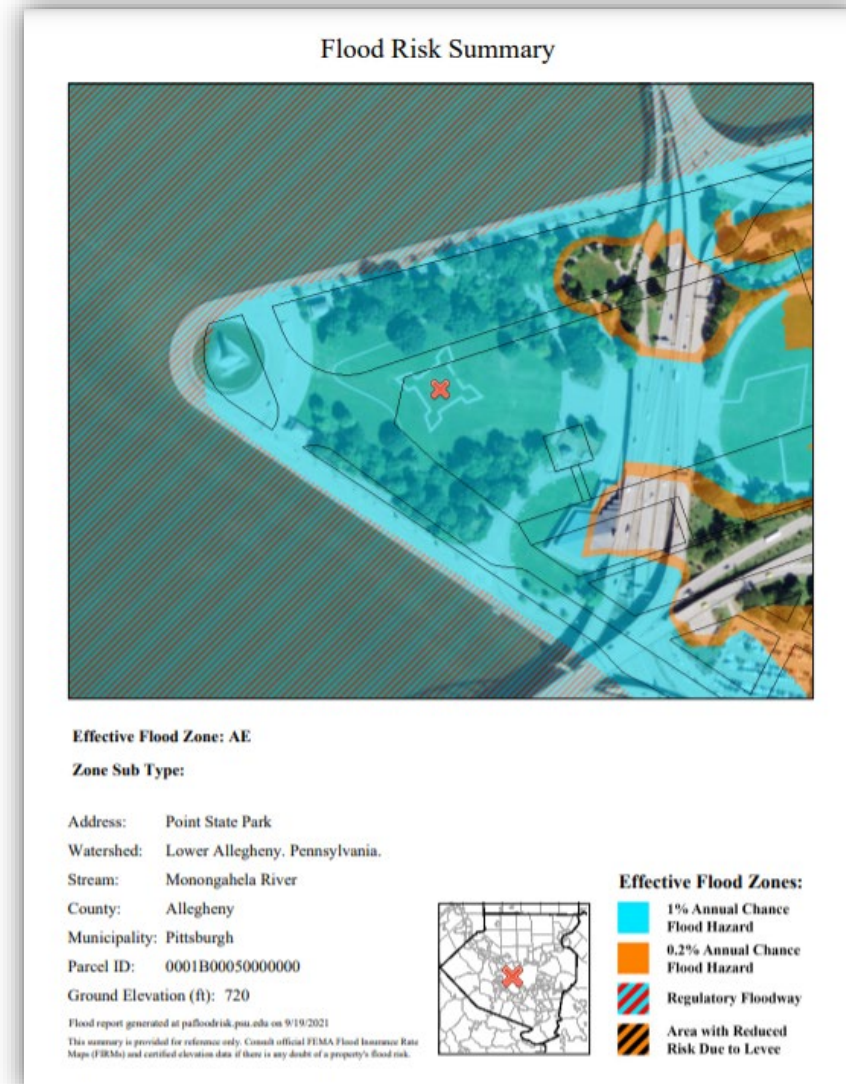
- Works similar to other mapping applications
- Risk Summary Report feature (pdf):
  - Location/Address
  - Flood Zone / Sub Type
  - Parcel ID (if available)
  - Ground Elevation



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# Transforming the NFIP: Risk Rating 2.0



*“Based on FEMA’s nationwide analysis, Risk Rating 2.0 will help ensure NFIP policyholders pay a rate proportionate to their property risk. The new initiative will also help FEMA identify and target mitigation grant dollars to the highest risk properties.”*

NAR includes 1.4 million brokers, salespeople, property managers, appraisers, counselors, and others engaged in all aspects of the real estate industry.

# Why Risk Rating 2.0: Equity in Action

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**RESPONSIBILITY:** FEMA has the statutory mandate to set actuarially sound rates and clearly communicate risk.



**EQUITY:** Individuals will no longer pay more than their share in flood insurance premiums based on the value of their homes. Roughly 2/3 of policyholders with older pre-FIRM homes will see a premium decrease.



**SUSTAINABILITY:** Risk Rating 2.0: Equity in Action sets the NFIP on a path to become more financially resilient.



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# Moving from Zone to Individual Rating

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## Current Rating System

Same zone = same price



## Risk Rating 2.0

Same zone but price reflects distance to river



# Flooding doesn't stop at a line on a map

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## Current Rating System

Insurance price changes **dramatically** at map line



## Risk Rating 2.0

Insurance price changes **gradually** at map line



# Risk Rating 2.0 is Fairer

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- Different size homes with the same flood risk.
- Current system:
  - Insurance premium = same cost for the same amount of coverage.
  - Insurance payout after flood = much bigger for the new home because the flood causes more damage to a larger home.
- Under Risk Rating 2.0:
  - Insurance premium = lower premium for the same coverage if you have a smaller home (replace cost value is factored into premium)
  - Insurance payout after a flood = payout is more proportional to premium.

Large home

Small home



Photo source: [keepthrifty.com](https://www.KeepThrift.com)

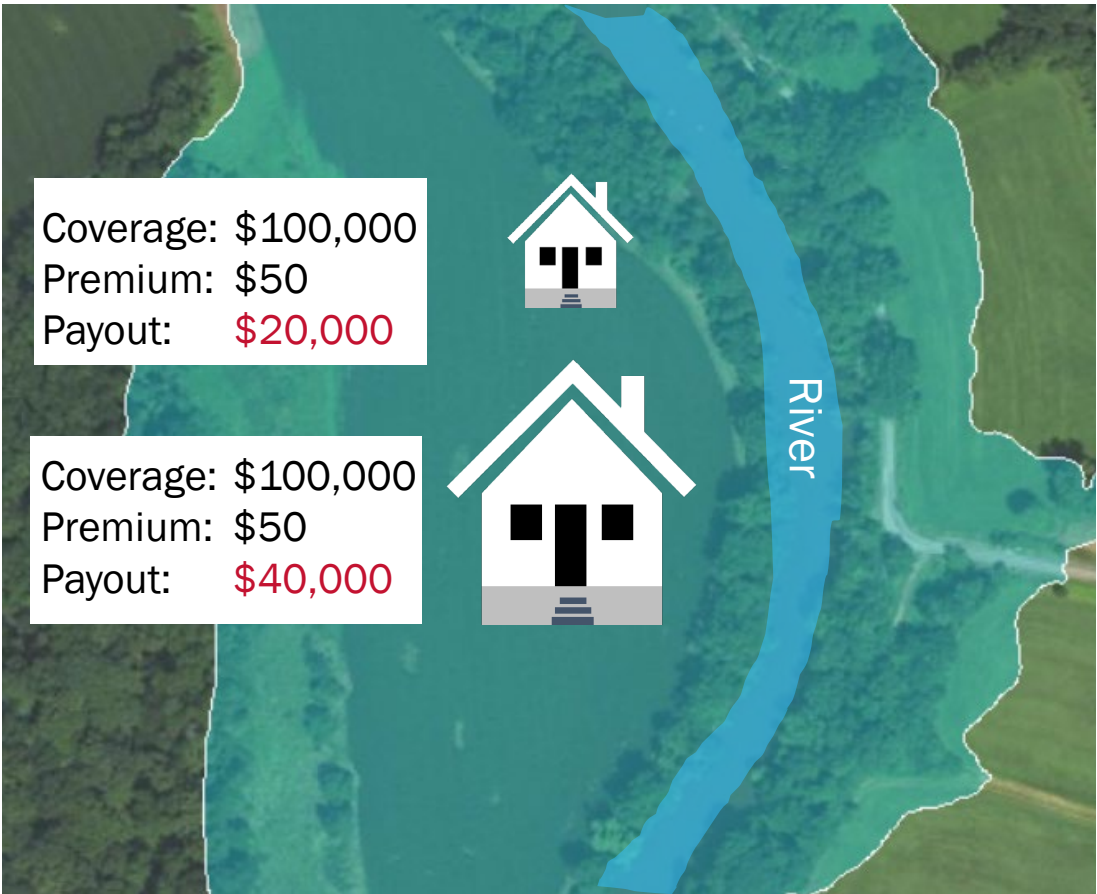


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# Replacement Cost Value is Part of RR2.0

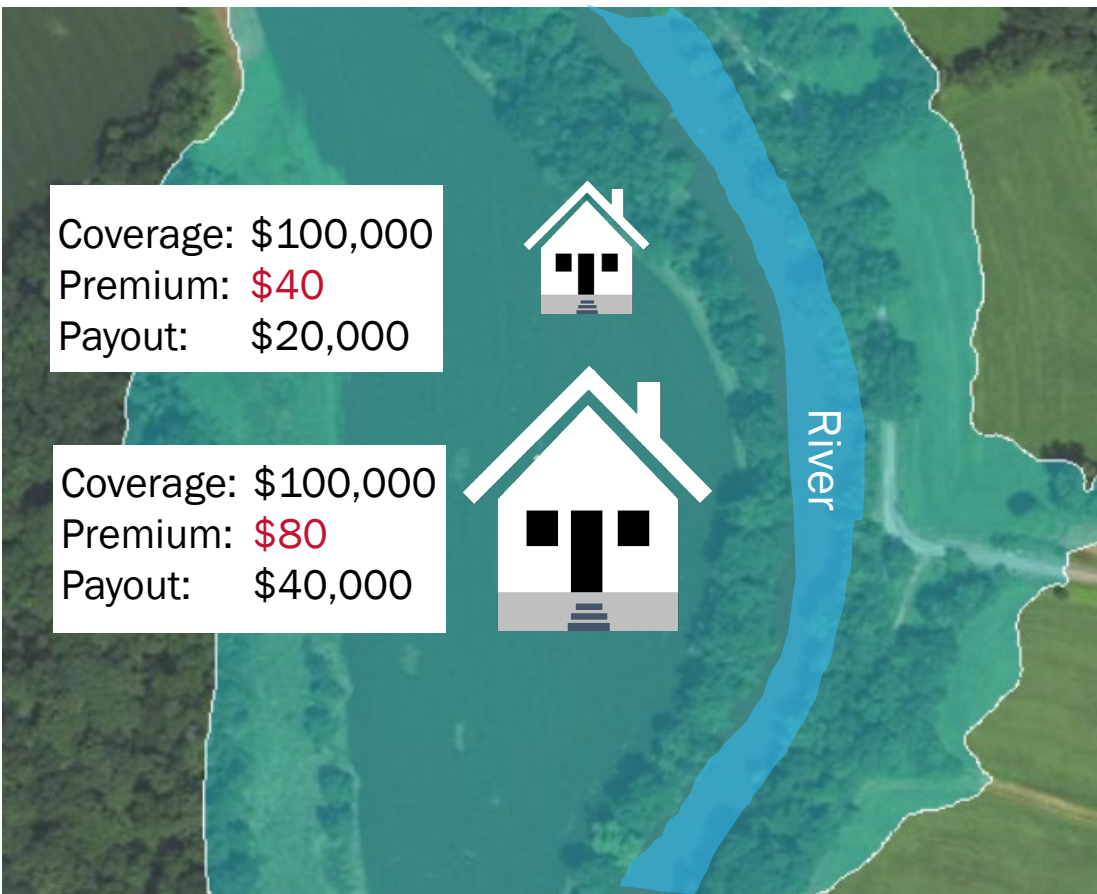
## Current Rating System

Replacement cost is **not** factored into the premium



## Risk Rating 2.0

Replacement cost is **factored** into the premium



*Note: numbers are not based on actual premiums. They are for illustrative purposes only.*

# No Elevation Certificates Necessary

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**Scenario: Homebuyer is purchasing a home in the SFHA built after the Flood Insurance Rate Map (post-FIRM):**

- Homebuyer is required to purchase flood insurance. Mandatory purchase comes up near settlement date.
- Buyer calls agent about flood insurance.
- Current System:
  - Buyer often scrambles to get elevation certificate by closing.
  - Or, insurance agent provide a provisional rate at higher premium until buyer gets elevation certificate.
- Risk Rating 2.0:
  - Buyer provides home address. Insurance agent provides a quote.
  - Buyer does not have to purchase an elevation certificate, nor pay higher provisional rates.

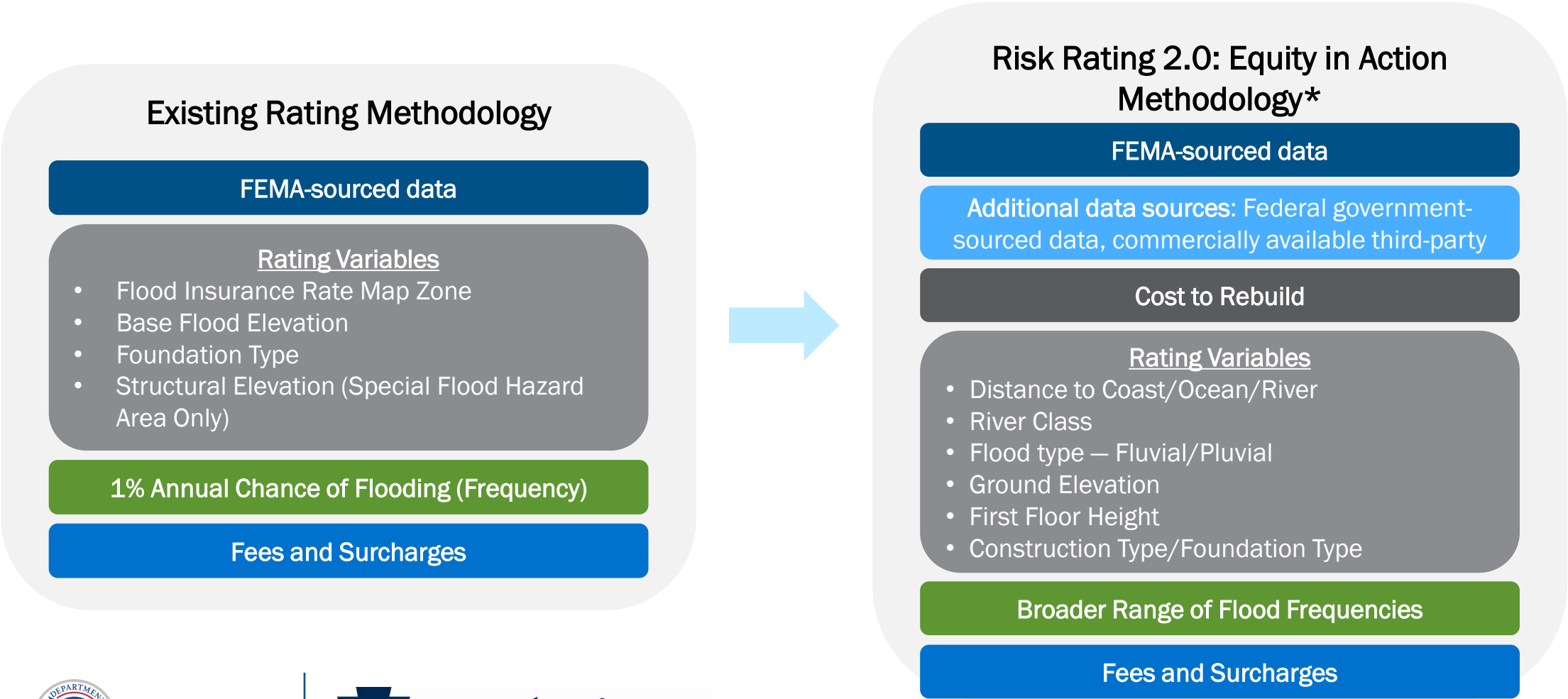


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# New premiums will reflect a property's unique flood risk



\*Additional variables are not shown here



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# Phased Implementation

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## October 1, 2021

- All **NEW** policies will be rated with RR2.0 Full Risk Rates.

### RR2.0 Applies to All Policy Types



Existing single-family home policies

## April 1, 2022

- All customers will know their **RR2.0 Full Risk Rate**
- Policyholders with cost increase will start to see gradual increases to full Risk Rates.
- Any existing policy that costs **LESS** under RR2.0 will receive **the reduced rate**.



Existing multi-unit home policies



Existing commercial property policies



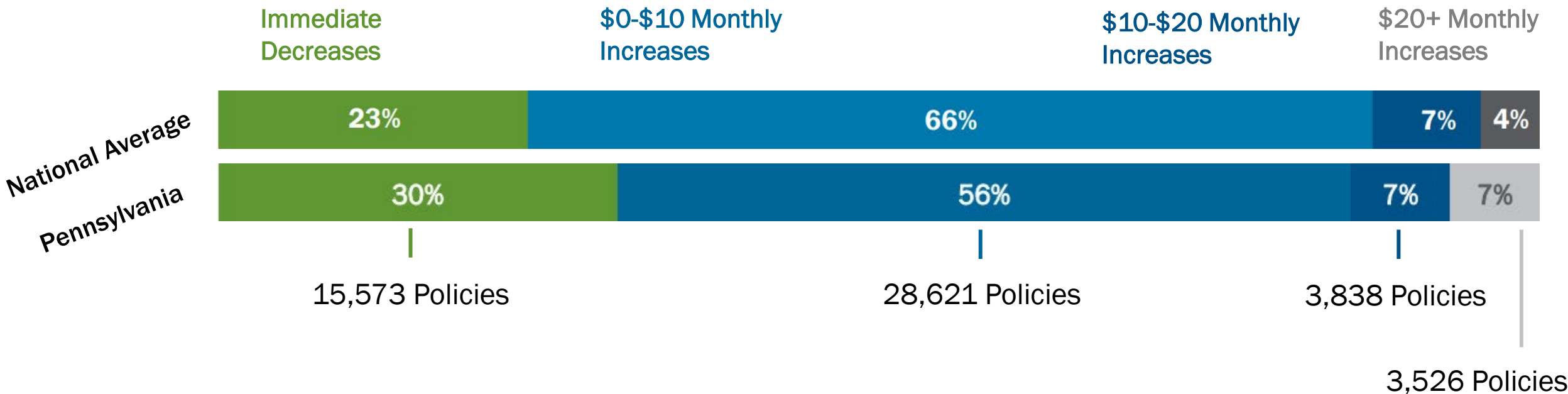
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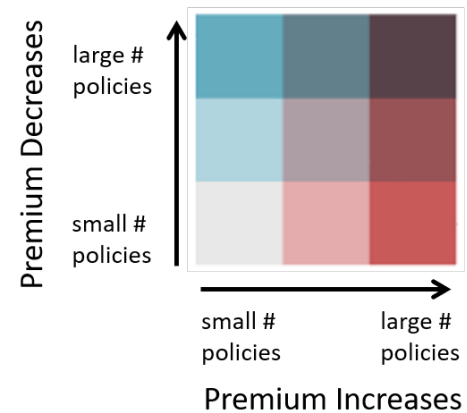
# Risk Rating 2.0: Pennsylvania vs National Average

In PA, 93% of current policy holders in PA will either see premiums decrease or increase by \$20 or less per month.



# Risk Rating 2.0 Changes in Pennsylvania

Count of policies with monthly increases of \$10 or more by zip code compared with decreases of \$10 or more.



## Risk Rating 2.0: Equity in Action — What Is Not Changing

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- Statutory **rate caps** on annual premium increases
- Availability of **premium discounts**
- **Transfers of policy discounts** to new homeowners
- **Use of Flood Insurance Rate Maps (FIRMs)** for mandatory purchase and Floodplain Management
- Availability of **premium discounts** for Community Rating System (CRS) participation



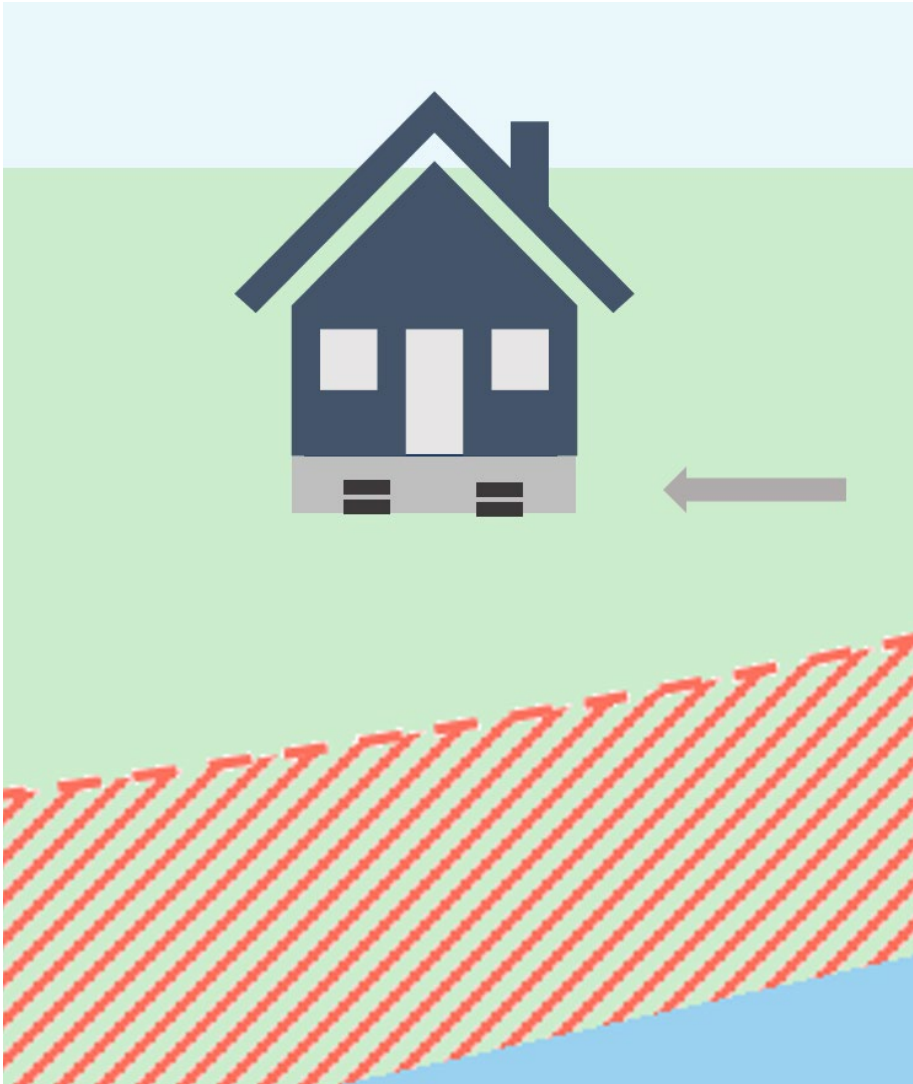
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# Mitigation Credits: Flood Openings

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## Legacy Pricing:

- Taken into consideration for rating in **A zones only**.

## New Pricing:

- Taken into consideration in **all flood zones**. Specific credit varies based on the foundation type and first floor height.
- All enclosures and crawlspaces that are below the first floor need to have compliant flood openings to receive the credit.

# Mitigation Credits: Machinery & Equipment Elevated

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## Legacy Pricing:

- May be considered to determine the Lowest Floor Elevation, which can impact the rate.



## New Pricing:

- No surcharge applied; instead, determined for a 5% Discount applied when all M&E is located above the first floor: \*
  - Slab on Grade: M&E must be located above the first floor. For single-story homes, must be elevated in the attic. Taken into consideration in **all flood zones**. Specific credit varies based on the foundation type and first floor height.
  - Basement: M&E must be located on the first floor.
  - Crawlspace: M&E must be located in the attic (single-story homes) or on the second floor.
  - All other foundation types: M&E must be located above the first floor.

\*Subject to change.

# Mitigation Credits: Community Rating System

## Legacy Pricing:

- CRS discount differs if a structure is inside or outside the SFHA. Discount is more if the property is in the SFHA and less if it is outside of it.

## New Pricing:

- CRS discount applies to all structures in a qualifying community – regardless of whether the structure is inside or outside of the Special Flood Hazard Area (SFHA).
- The discount will be a flat percentage based on the CRS class with no difference for flood zone.



Region 3 CRS Plaque Presentation



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# Risk Rating 2.0: Equity in Action — Affordability Framework

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- Using the **2018 Affordability Framework** as a guide, continue to explore ways to improve ongoing affordability issues within the limits of FEMA's statutory authority
- Ensure new rates under Risk Rating 2.0: Equity in Action **comply with all statutory rate increases** established by Congress
- **Engage with Congress** to reduce barriers to purchasing flood insurance



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# Risk Rating 2.0: Equity in Action — Learn More

Explore more about Risk Rating 2.0: Equity in Action by visiting [www.fema.gov/nfiptransformation](https://www.fema.gov/nfiptransformation).

## Available Products and Resources

- [Risk Rating 2.0: Equity in Action Fact Sheet](#)
- [Video: Defining a Property's Unique Flood Risk](#)
- [National Rate Analysis](#)
- [State Profiles](#)
- [ZIP Code-Level Data](#)
- [County-Level Data](#)
- [Methodology Data Source](#)
- [Premium Calculation Worksheet Examples](#)
- [Appendix D Rating Factors](#)

For additional questions, please contact [FEMA-RiskRating2-Action@fema.dhs.gov](mailto:FEMA-RiskRating2-Action@fema.dhs.gov).



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# Key Takeaways for Realtors®

## Risk Rating 2.0 & Home Sales

- A prospective buyer can obtain a flood insurance quote to assist with their overall financial considerations
- The cost of a “Mandatory Purchase” flood insurance policy can be determined earlier in the loan underwriting process.
- A seller may still transfer title of their flood insurance policy to a buyer. This will avoid potential loss of discounts.
- Elevation certificates are no longer required for insurance rating.



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# What to do:

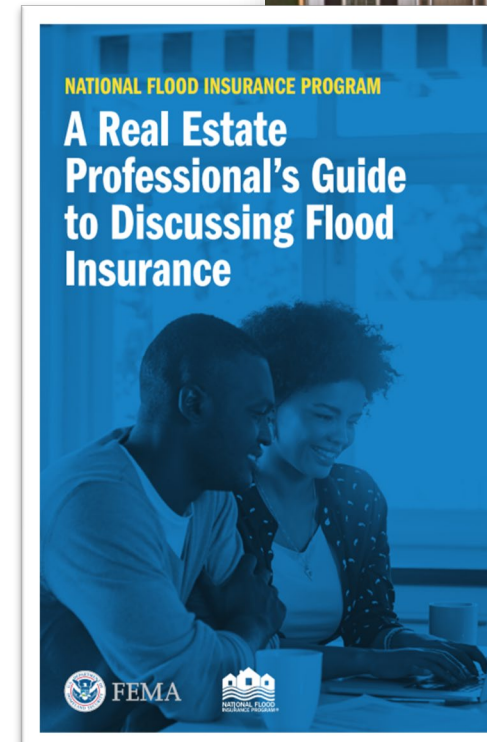
- **Identify the flood risk**
  - Check online at [MSC.FEMA.gov](https://MSC.FEMA.gov) or community website
  - Check with community if new flood maps are planned, and if so, when they may be effective
  - First Street Foundation – mapping on real estate websites like Redfin
- **Share information early**
  - Encourage your sellers to disclose flood risk and share policy and elevation certificate
- **Stress the value of flood insurance**
  - Important to financial security
  - Talk options with their insurance agent



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Visit:  
[agents.floodsmart.gov](https://agents.floodsmart.gov)

# Contact Information

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Bill Bradfield  
PA State NFIP Program Coordinator  
Pennsylvania Emergency Management Agency  
[wbradfield@pa.gov](mailto:wbradfield@pa.gov)

Maggie Dunn  
Outreach Coordinator, Mitigation  
FEMA R3  
[margaret.dunn@fema.dhs.gov](mailto:margaret.dunn@fema.dhs.gov)



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**Thank you.**