



NFIP Risk Rating 2.0: Threatening Communities

Issue Overview for H-GAC

By

Greater Fort Bend EDC

July 8, 2021

Opening the Floodgates – **The Danger Zone**

USACE Levee Safety, FEMA Risk Rating 2.0 and Other Far-Reaching Federal Policy





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In the news

The Patriot Ledger

Coastal Connection: Risk Rating 2.0 will change the entire flood industry

Joe Rossi Guest columnist

Published 10:45 a.m. ET Jul. 7, 2021

WSJ | OPINION

A Step Toward Flood Insurance Fairness

Better pricing will help taxpayers unless Congress interferes

By [The Editorial Board](#)

June 24, 2021 6:32 pm ET



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FEMA – NFIP

Risk Rating 2.0

- March 2019 – Introduced by David Maurstad, NFIP Sr. Exec. at National Flood Assoc. in AZ (RR 2.0 began 5 years ago)
- Oct. 1, 2020 – Targeted implementation date (delayed during election year)
- Oct. 1, 2021 – NOW set to go into effect

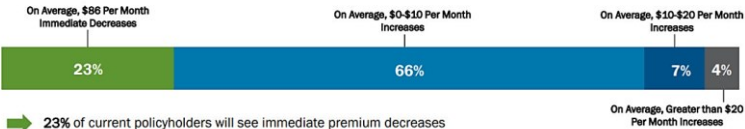
FEMA estimates:

- Nationwide - 77% will pay higher flood insurance rates
- **Texas – 86% of 768,600 NFIP policyholders will pay more**
- **HGAC – 88.9% of will see an increase in NFIP premiums**

FEMA Risk Rating 2.0 – An Assessment

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



Federal Emergency Management Agency

- **Five-year effort to produce internally developed methodology described as “ . . . the generational change we need . . . ” per [David Maurstad](#)**
 - **But no adherence to the *Administrative Procedure Act***
 - **No rulemaking**
 - **No analysis of impacts**
 - **No solicitation or consideration of public input**
- **\$1.3 trillion total NFIP exposure with \$3.5B in annual premium revenues from 5M ratepayers**
- **Involves use and dissemination of [influential](#) information having “clear and substantial impact on important public policies and private sector decisions,” including rate-making**
 - **But no adherence to the *Information Quality Act* to maximize the quality, objectivity, utility, and integrity of info disseminated by Federal agencies**
 - **No independent peer review of RR 2.0 rate-making data and analysis, including third-party data and models**
- **Will “enable FEMA to deliver rates that are actuarially sound, equitable, easier to understand and better reflect a property’s flood risk,” according to [FEMA](#)**
 - **But no disclosure of property flood probabilities**
 - **No delineation of observed v. assumed flood risks and confidence intervals**
 - **No explanation of leveed area treatment**

FEMA Risk Rating 2.0 -- Conclusions

Of more than 5 million in-effect policies, 77% will see some increase, while 4% will experience a per-month cost increase that's greater than \$20.

State	Total policies in effect	Percentage with decrease	Percentage with any increase	Percentage with an increase greater than \$20 a month
Florida	1,727,900	20%	80%	4%
Texas	768,600	14%	86%	3%
Louisiana	495,900	20%	80%	3%
New Jersey	217,200	21%	79%	5%
California	215,000	27%	73%	4%
South Carolina	208,600	26%	74%	3%
New York	171,100	32%	68%	7%
North	139,800	26%	74%	3%

<https://www.valuepenguin.com/new-risk-rating-flood-insurance-rate-increases#rates>

- **Actuarial soundness, rate fairness, program solvency, and public acceptance are essential NFIP features – but the public requires more than unsupported FEMA promises.**
- **Delay RR 2.0 implementation until one year after FEMA has disclosed all new rates and all data, methods, models, and assumptions to allow the public to test agency methodologies and verify the accuracy and fairness of future rates and procedures.**
- **Is increasing NFIP revenue fair and smart policy? Whether by RR 2.0 or legislation, we cannot know unless—**
 - **FEMA discloses its data and assumptions underlying RR 2.0**
 - **FEMA discloses across-the-board, historic NFIP revenue, cost and expense totals, including—**
 - **Rate payment revenues collected over life of program**
 - **Claim payment totals made over life of the program**
 - **Accumulative NFIP operating costs, including agency payments to WYOs, contractor costs, and debt interest payments.**

FEMA Risk Rating 2.0 - Equity In Action

First Year Change by State and County - Percent of SFH Policies

County	Green bar				Blue Bar	Dk. Blue Bar	Grey bar	
	< -\$100	-\$100 to \$-50	-\$50 to \$-10	-\$10 to \$0	\$0 to \$10	\$10 to \$20	\$20 to \$30	> \$30
Austin	2.3%	2.9%	4.1%	6.3%	81.4%	2.3%	0.5%	
Brazoria	2.7%	2.4%	2.9%	1.4%	86.7%	3.3%	0.4%	0.1%
Chambers	0.6%	0.6%	0.6%	1.0%	95.7%	1.1%	0.2%	0.1%
Colorado	2.6%	4.9%	6.1%	5.2%	77.3%	2.9%	0.3%	0.3%
Fort Bend	0.3%	0.3%	0.5%	3.2%	95.1%	0.4%	0.1%	0.0%
Galveston	5.1%	1.7%	1.9%	0.7%	82.1%	6.0%	1.5%	0.5%
Harris	1.2%	1.8%	2.9%	3.1%	87.0%	3.0%	0.9%	0.2%
Liberty	3.5%	3.2%	4.4%	8.3%	79.6%	0.8%	0.1%	0.0%
Matagorda	11.8%	5.1%	4.8%	2.7%	67.8%	5.3%	1.3%	0.8%
Montgomery	1.2%	0.9%	1.1%	8.2%	87.5%	0.8%	0.2%	0.1%
Walker	3.0%	3.9%	3.6%	15.2%	68.7%	4.4%	0.8%	0.3%
Waller	2.6%	2.1%	2.3%	13.9%	76.8%	2.0%	0.2%	0.2%
Wharton	6.0%	10.2%	12.4%	4.0%	64.1%	2.4%	0.7%	0.2%
HGAC Total	2.1%	2.1%	2.9%	4.0%	84.6%	3.3%	0.8%	0.2%



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RR 2.0

CONCERNS

- No preview of actual new rates
- No good info on the black-box methodologies
- No comment period before becoming effective

- Need to know more – APA rulemaking
- Non-leveed and leveed areas treated differently
 - non-leveed areas use 5 models and historical comparisons to determine the risk
 - leveed areas, use only one model, no historical comparisons



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Home price of \$500K

20% down and a \$400K mortgage at 3%

- Principal and Interest (PI)
 - \$1,686/mo. 30-year
 - \$2,762/mo. 15-year
- Escrows for taxes, insurance, etc.

The annual NFIP premium has a preferred rate of \$572

- \$250K building
- \$100K contents



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Changing rates

\$572 preferred rate

RR 2.0 provides a new rate

Congress limits yearly increase to 18% glide slope up to full rate

Over 7 years, at 18% per year = \$1,686!!! **3 times today's rate!**

Over 10 years that would be \$2,993!!! **5.2 times today's rate!**



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Glide Slope

This provides for a gradual increase per year until your new rate gets to actuarial rates



- 18% per year increase (max).
- **25% for nonprimary (rental) or 2nd residences**





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Rising Premiums

The Patriot Ledger

Coastal Connection: Risk Rating 2.0 will change the entire flood industry

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Published 10:45 a.m. ET Jul. 7, 2021

- Equity in Action will also bring more equity to [National Flood Insurance Program](#) policyholders by basing rates off of the building's replacement cost. The higher the building's replacement cost, the more expensive the premium, and vice versa.
- The bill, among its other elements, proposes to lower the annual increase cap on [National Flood Insurance Program](#) premiums from 18% to 9%. Since FEMA notes that policy premiums will increase up to the maximum statutory cap under Equity in Action, this was a clear reaction from Congress.



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Cause & Effect

Story of 2 homes.
What could happen...



A buyer is looking at both homes



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New rate

(RR 2.0 or expanded SFHA)

Current NFIP Flood Insurance \$572/year

vs.

RR 2.0 or SFHA rate of about \$3,000/year



If the homes were the same price and had the same amenities, which one would you buy?



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Take-a-way

Mortgage or No Mortgage – this matters

Mandatory flood Insurance from designation as an SFHA will lower property values



Within H-GAC area there are communities with levees or dams that could be significantly impacted by the changes RR 2.0 and use of Army Corps data are poised to bring about, and this could have greater impact than to just individual homes



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Risk Rating 2.0

REQUEST

- Delay FEMA's implementation of Risk Rating 2.0 until
 - info and methods used to establish new rates is made know, and,
 - public given opportunity to meaningfully comment through rulemaking



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NFIP reform

Levee-Impacted Zone (aka Sec 209)

- Congress is considering a Levee-Impacted Zone on FEMA flood maps in the upcoming reauthorization of the NFIP
- FEMA Administrator would be given discretion to determine whether new zone would be a Special Flood Hazard Area (SFHA), if so:
 - Minimum floodplain management requirements apply
 - Flood insurance Mandatory Purchase Requirement (MPR)



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FEMA – NFIP Levee-Impacted Zone



CONCERNS

- **Represents hard turn on decades-long policy for leveed areas —toward all levee protected area being included as SFHA**
- **Allows for FEMA to affect accreditation/de-accreditation of levees through use of data produced by Levee Safety Program**
- **Provides FEMA too much discretion**
- **Replaces a definitive, quantifiable levee performance standard w/ ambiguous levee assessment directives ill-suited to FEMA**
- **No regulatory or economic analysis performed**



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FEMA – NFIP Levee-Impacted Zone



REQUEST

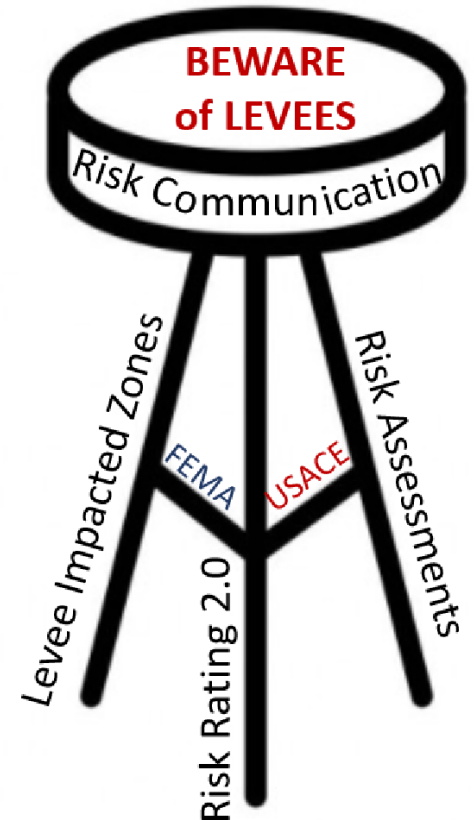
1. For all levee-protected areas, the use of APA rulemaking to establish a new rate structure so as to ensure the use of sound methodology, quality source data, and allow for proper vetting through public notice and comment, and,
2. For levees FEMA-accredited or provisionally accredited, prevention of the mandatory purchase of minimum floodplain management requirements in the leveed area, and,
3. For levees not accredited, continued use of the FEMA “Levee Analysis and Mapping Procedure (LAMP)” developed as an alternative to the without-levee analysis for purposes of flood maps and rate setting.



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Levee Issues

1. FEMA seeking to implement new method for determining insurance premiums under the NFIP, aka Risk Rating 2.0
2. FEMA's National Flood Insurance Program (NFIP) expiring September 30, 2021; Congress needs to reauthorize
3. US Army Corps of Engineers Levee Safety Program producing risk assessments (LSAC) for FEMA use in the NFIP



“Simple” USACE Risk Assessments – Feeding FEMA

U.S. ARMY CORPS OF ENGINEERS LEVEE PORTFOLIO REPORT



A Summary
Benefits A
the USACE

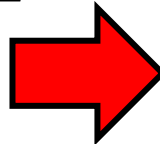
PREPARED BY
U.S. ARMY CORP
LEVEE SAFETY P

MARCH 2018

Risk assessments within the Levee Safety Program provide a systematic, evidence-based approach for estimating and describing the likelihood and consequences of existing and future risk associated with levee systems. Risk assessments consider what can go wrong, how it can happen, the consequences if it happens, and how likely it is to happen. To support decisions in the management of the portfolio, a Levee Safety Action Classification (LSAC) is assigned as a final step in developing a risk characterization for each levee system. LSACs range from Very High risk (immediate action recommended) to Very Low risk (maintain routine activities).

The second tool is the Levee Screening Tool, a simplified, risk assessment tool that USACE currently uses to conduct screening-level risk assessments. USACE is making

For most of the USACE levee portfolio, screening-level risk assessments were the primary source of information to determine risk drivers associated with breach prior to levee overtopping.



Zoom call with David Maurstad and Andy Neal, FEMA HQ (April 14, 2021)

Levee Methodology Progress

There are 661,668 levee policies in the NFIP book of business as of 2020

When we began this initiative, we only had reliable information to evaluate risk behind 18% of levees in the country, which account for 67% of all buildings behind levees.

Through a partnership with USACE, we have increased our ability to evaluate risk behind 42% of levees in the country, which account for 90% of buildings behind levees.



FEMA

Federal Emergency Management Agency

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Army Corps

Levee Safety Program

Focused on Risk Awareness

- Miscasting viable levees as risky
- Ratings driven by potential consequences, rather than levee reliability



and...



Not about Safe Levees

Army Corps should:

- Identify structural problems
- Develop feasible solutions
- Provide cost estimates



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Greater FB County EDC

1. Delay FEMA's implementation of Risk Rating 2.0
2. Amend Sec. 209 – New Zone for Levee-Impacted Areas in NFIP reauthorization (not SFHA)
3. Focus congressional funding to Army Corps on safe levees, not risk assessments (aka LSAC ratings)





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Final Thoughts

Support efforts

1. Delay RR 2.0 implementation until more is made known through rulemaking
 - Adopt a resolution requesting delay
 - Engage with congressional members
2. Make sure structurally protected areas are not miscast and negatively impacted in the NFIP
3. Ensure FEMA, and the Army Corps, are treating levees now, and dams later, fairly in the NFIP



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Risk Rating 2.0 Problems

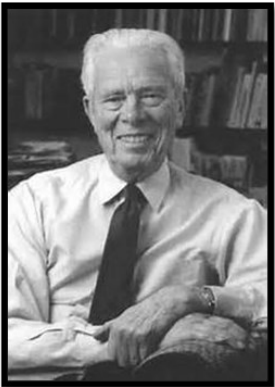
<u>Limited/No Transparency</u>	<u>Unknown Data Reliability</u>	<u>Limited/No Public Input</u>
Undisclosed flood elevations & flood frequency curves	No known independent review of data or models	No solicitation or consideration of public input
Undisclosed avg annual losses & confidence intervals	Premium computations are nonreproducible	No known analyses on residential and commercial property values, taxable market values, local government services, local tax rates
Undisclosed model results & confidence intervals	No known compliance with the Information Quality Act and applicable OMB guidelines	No use of Administrative Procedure Act rulemaking procedures
Undisclosed influence of assumed (nonempirical) data on rates	No availability of economic or regulatory impact analyses	
Undisclosed changes to levee accreditation (if any), or impacts to limits of mandatory purchase requirements	No availability of analysis on positive or negative effects on NFIP revenues and solvency	
Undisclosed rates for both leveed and non-leveed areas		



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Thank You

“Use of flood plains involving periodic damage from floods is not, in itself, a sign of unwarranted or inefficient development. It may well be that the advantages of flood plain location outweigh the intermittent cost of damage from floods. Further, there are some kinds of activity which can only be conducted near a watercourse.”



Presidential Task Force on Federal Flood Control Policy
89th Congress, 2d Session House Document No. 465

Gilbert F. White, Chair, August 1966

www.loc.gov/law/find/hearings/floods/floods89-465.pdf