

National Flood Insurance Program Risk Rating 2.0: Frequently Asked Questions

Updated March 17, 2023

This Insight answers some frequently asked questions about Risk Rating 2.0, which came into effect fully on April 1, 2022, changing the way the National Flood Insurance Program (NFIP) calculates flood insurance premiums. For additional information, see CRS Report R45999, *National Flood Insurance Program: The Current Rating Structure and Risk Rating 2.0*, by Diane P. Horn.

What Is Risk Rating 2.0?

Risk Rating 2.0 is a new pricing methodology and represents the biggest change to the way the NFIP calculates flood insurance premiums since the program began in 1968. Premiums calculated under Risk Rating 2.0 reflect an individual property's specific flood risk and more types of flood risk, as opposed to being placed in a general risk category based on location and property type.

Why Is the NFIP Introducing Risk Rating 2.0?

The NFIP updated its rating methodology to calculate flood insurance premiums for individual properties based on actual flood risk. This is intended to produce **rates that are more equitable**, and to inform policyholders of their true flood risk.

When Does Risk Rating 2.0 Start?

New NFIP policies written on or after October 1, 2021, used the new methodology. Since April 1, 2022, all policies are priced using Risk Rating 2.0 methodology and will move to Risk Rating 2.0 pricing on renewal.

Congressional Research Service

<https://crsreports.congress.gov>

IN11777

How Have Flood Insurance Premiums Been Calculated Previously?

The NFIP's rating structure followed the general insurance practices in place when the NFIP was established and has not fundamentally changed since the 1970s. It used several basic characteristics to classify properties and assign rates. Structures were evaluated by location within a flood zone on a [Flood Insurance Rate Map](#) (FIRM), [occupancy type](#), and elevation relative to the [Base Flood Elevation](#) (BFE). This rating system did not take into account the individual flood risk or the cost to rebuild, and considered only two sources of flood risk: river flooding and coastal flooding.

How Are Premiums Calculated Under Risk Rating 2.0?

Premiums are calculated based on specific features of an individual property, including distance from water, type of flooding, flood frequency, structure foundation type, height of the lowest floor relative to BFE, and the structure's [replacement cost value](#). Risk Rating 2.0 also adds [pluvial](#) flood risk—flooding from heavy rainfall.

Will Subsidized Premiums Increase Under Risk Rating 2.0?

Risk Rating 2.0 continues the phase-out of NFIP subsidies, which began with the [Biggert-Waters Flood Insurance Reform Act of 2012](#) (BW-12) and continued with the [Homeowner Flood Insurance Affordability Act of 2014](#) (HFIAA). Properties currently [grandfathered](#) will see their premiums move towards a full risk-based rate under Risk Rating 2.0. New policies and those renewed under Risk Rating 2.0 will not be grandfathered but will be limited by statutory rate increases. All new policies will pay the full risk-based rate.

How Much Can Premiums Increase Annually?

The NFIP is not able to increase rates beyond statutory limits set in HFIAA, which allow premium increases of up to 18% annually for primary residences. Other categories of property are required to have their premium increased by 25% per year until they reach full risk-based rates, including (1) non-primary residences; (2) non-residential properties; (3) business properties; (4) properties with [severe repetitive loss](#); (5) properties with substantial cumulative damage; and (6) properties with [substantial damage](#) or [substantial improvement](#) after July 6, 2012. In the first year of Risk Rating 2.0, premiums are capped at \$12,125 for single-family homes.

My Premium Is Going Down Under Risk Rating 2.0. When Can I Move to the Lower Rate?

Any policyholders who renew their policies on or after April 1, 2022, will do so under Risk Rating 2.0. Premium decreases under Risk Rating 2.0 are effective upon renewal.

Are There Discounts for Flood Mitigation Activities?

Policyholders can receive [mitigation credits](#) for elevating a property, elevating machinery and equipment above the lowest floor, and installing [flood openings](#) below BFE. All policyholders in communities in the [Community Rating System](#) (CRS) are to receive discounts of 5%-45%, based on the community's CRS score.

How Have Average NFIP Premiums Changed in Recent Years?

Since HFIAA, NFIP average premiums have increased between 6% and 11% per year (see [Table 1](#)).

Table 1. Percentage Increases in Selected NFIP Premiums, 2015-2021

Rate Category	2015	2016	2017	2018	2019	2020	2021
Pre-FIRM Subsidized	14.0%	5.0%	5.0%	5.0%	7.3%	7.9%	7.7%
V zone	9.0%	10.0%	7.0%	11.0%	6.0%	5.9%	0.3%
A zone	12.0%	9.0%	1.0%	1.0%	4.0%	4.1%	1.7%
X zone	11.0%	3.0%	2.0%	1.0%	1.0%	3.5%	1.4%
Average	9.9%	9.0%	6.3%	8.0%	8.2%	11.3%	10.2%

Source: Compiled by CRS from annual [WYO Company Bulletins](#).

Note: Rate increases for 2021 do not include changes from Risk Rating 2.0.

Does Being Mapped into a Different Flood Zone Affect Premiums?

No, [flood zones](#) are no longer used in calculating a property's premium under Risk Rating 2.0. Instead, premiums are calculated based on the specific features of an individual property. FIRM's are still used for the [mandatory purchase requirement](#) and [floodplain management](#).

Does Risk Rating 2.0 Change Requirements to Buy Flood Insurance?

No, if a property is in a [Special Flood Hazard Area](#) (SFHA), the owner is required to buy flood insurance to secure a federally-backed mortgage. Lenders use FIRM's to make this determination.

Can New Premiums Under Risk Rating 2.0 Be Appealed?

No appeal procedure has been established for changes under Risk Rating 2.0. Policyholders can [appeal against NFIP flood maps](#), but this will not change insurance premiums.

How Are NFIP Premiums Changing in My State Under Risk Rating 2.0?

FEMA has posted [state profiles](#) showing changes under Risk Rating 2.0, and data at the [county](#) and [zip code level](#) can be downloaded. The [Association of State Floodplain Managers](#) has posted an interactive [map showing projected premium changes](#) under Risk Rating 2.0 at the [state](#) and [zip code](#) level.

Are Premiums Under Risk Rating 2.0 Affected by Changing Flood Risk Under Climate Change?

Premiums for a single year will not increase due to future climate change. However, if flood risk increases over time, premiums will increase to reflect the [increased risk](#).

Author Information

Diane P. Horn
Specialist in Flood Insurance and Emergency
Management

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.