WATERLOG
EXPERTS IN COASTAL RESILIENCY

September 12, 2019

Legislative Update on the NFIP and Risk Rating 2.0

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In collaboration with

MCC
MASSACHUSETTS COASTAL COALITION

September 2019

A Coastal Strategies Publication

COASTAL STRATEGIES
EXPERTS IN COASTAL RESILIENCE

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Legislative Update

With September 30th just around the corner, and with less than 15 legislative days left when Congress returns from summer recess, another short-term extension of the NFIP is almost certain. Most are certain that this will be an extension to years end.

After extending the NFIP to September 30th, 2019, the House Financial Services Committee passed unanimously to approve a flood reform and reauthorization bill. Within that bill are several key reform pieces:

- 5-year reauthorization of the NFIP
- State revolving mitigation loan program
- Increase mapping and NFIP data available to the public
- Funds mitigation funding at $2B annually
- Access to claims information for NFIP and private flood policies
- Repeal of HFIAA policy surcharges

Additionally, the House bill includes the Private Market Parity Act language, which allows those who leave the NFIP for a private policy, to return with no penalty such as the loss of grandfathering.

This bill was passed unanimously through committee mostly because of the lack of controversial measures found in past flood insurance reform efforts.

However, on Tuesday July 16th, the Senate, unhappy with the House bill, released the NFIPre bill. The NFIPre bill includes some similar provisions to the House bill, but is different as it includes:

- Capping annual increases on flood policies at 9%
- Sets aside 10% of disaster assistance allocated to FEMA's Disaster Relief Fund (DRF) for mitigating the highest risk properties
- Temporarily freezes interest payments on the NFIP debt

However, the bill also contains some controversial measures that have been long standing issues with members of the House such as capping Write Your Own (WYO) compensation at 22.46%. The Senate bill also does not include some of the House provisions such as the private flood parity act language.

A version of the NFIPre was introduced in the House as well. With two conflicting bills, there has not been a full vote of the US House or Senate on either bull. With September 30th looming, there appears to be a stalemate with no clear path forward.

Risk Rating 2.0

As we near April of 2020, politicians and stakeholders have turned their attention to an issue bigger than legislative reform; Risk Rating 2.0. Risk Rating 2.0 is a redesign on how FEMA will rate structures. As of right now, the timeline is to release rates in April 2020, and implement the rates in October of 2020. There is a lot of political pressure for FEMA to release more information on Risk Rating 2.0, but also a lot of misinformation about it as well. There are concerns by many that Risk Rating 2.0 will become Biggert-Waters 2.0.

Risk Rating 2.0 →

Risk Rating 2.0

With new technology, rates will be modeled in advance in order to prevent the severe rating consequences we saw in 2012. Risk Rating 2.0 is also not being done in a vacuum. Some of the brightest minds in the country have been hired to work on Risk Rating 2.0, and a rigorous internal communication strategy has been developed to make sure findings are communicated amongst the industry. Questions remain about how Risk Rating 2.0 will affect premiums and discounts such as grandfathering. The rating structure is not finalized; therefore, rates don't exist yet nor do final decisions on grandfathering and other aspects of the current program. Importantly, however, FEMA must stay within the current legislative framework for the flood program, which caps increases and provides other safeguards.

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