

NATIONAL ASSOCIATION OF REALTORS®

EYE ON THE HILL

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April 2006

TURNING THE TIDE: THE NATIONAL FLOOD INSURANCE PROGRAM

Congress is debating the future of the National Flood Insurance Program (NFIP). The NFIP is a successful program. It has been paid for by insurance premiums, not taxpayer dollars, and has paid out over \$12 billion dollars in claims from 1968 until 2004. Currently, almost 5 million people in this country, in more than 20,000 communities in all 50 states, hold flood insurance policies. However, there is a problem. The NFIP was going to run out of money in March of 2006. Why? The answer can be summed up with three names which we now know all too well.

Katrina, Rita, and Wilma.

The NFIP was not prepared to deal with effect of these three hurricanes. Estimates of the claims that the NFIP will pay from these three storms is now over \$25 billion dollars. This equals ten times the premiums collected by the NFIP in 2005 and more than two times the amount of claims that the NFIP paid out over its entire 37 year history. The program ran out of cash and was expected to exceed its borrowing authority to pay additional claims in March. So how will past claims be paid and future property be protected from the risk of loss due to flooding?

Well, there is good news and there is bad news.

The good news is that on March 23, 2006 President Bush signed NAR-backed legislation providing the NFIP with increased borrowing authority of nearly \$21 billion dollars. We worked closely with Congress to approve legislation that allows the NFIP to continue paying claims on previous flood losses as well as continuing to help those whose property is damaged by new flooding.

The bad news is that the program will run out of money, again, sometime in May of 2006. Furthermore, members of both the U.S. Senate and the House of Representatives are saying that they will not agree to additional increases in the NFIP borrowing authority unless significant changes and reforms to the flood insurance program are made.

Against that backdrop NAR is actively participating in the discussions regarding the future of the NFIP. NAR believes that being able to provide affordable and adequate flood insurance for properties in flood prone areas is essential for

economic growth and development. Some of the actions that NAR is advocating for a new flood insurance program include:

- Urging Congress to fully fund the efforts of the Federal Emergency Management Agency (FEMA) to modernize their flood mapping program. Updated flood maps would allow more efficient property transfers for property owners and less administrative cost for the NFIP, thereby strengthening the program.
- Supporting the idea that the NFIP should charge higher premiums to owners of repetitive loss properties who refuse the governments offers to mitigate their damages. These are properties that have had multiple claims paid for flood damage, even after the government has offered to either help make repairs to limit future damage or to purchase the property and use it for some other purpose. These property owners have the right to stay if they so choose, but the NFIP should require those individuals to pay a higher insurance premium to participate in the program.
- Opposing the argument that owners of vacation homes and rental properties that were constructed and located in flood zones prior to the implementation of the NFIP should no longer receive a subsidized rate for their insurance premiums. When the program was designed, properties already constructed in flood zones were given a subsidized rate so as to not be financially harmed by the start of the NFIP. There is now discussion in Congress that any reform of the NFIP should end this subsidy and require the owners of these properties to pay the full premium price. A provision such as this could make it difficult for property owners in these areas to maintain their existing flood insurance coverage, could have a chilling effect on the property values in these areas, and could also make it more difficult to find affordable housing for those who choose to live there.

These NFIP reforms are provisions now being considered by Congress. The House Committee on Financial Services has taken the first step and approved on March 16 a comprehensive NFIP reform bill, H.R.4973 The Flood Insurance Reform and Modernization Act of 2006, sponsored by Rep. Richard Baker (R-LA). The Senate Banking Committee has held several hearings and is developing a bill for consideration by the end of April. NAR is working closely with the House and Senate to make certain that the NFIP is redesigned in such a way that it can continue to provide the protection property owners in the United States need and want.