

Reauthorization of the National Flood Insurance Program

Floods are the number one natural disaster in the United States in terms of lives lost and property damaged. The National Flood Insurance Program (NFIP) provides over 5 million property owners with insurance to protect their homes and businesses from losses due to flooding, and serves as an integral component of recovery for communities across the country after major flooding events. MBA urges Congress to move swiftly to provide long-term reauthorization of the NFIP.

OVERVIEW

- To supplement the lack of availability of flood insurance in the private market, the NFIP was established in 1968 and plays a key role in our nation's efforts to prevent and recover from flood disasters.
- Flood insurance is mandatory for any property located in a high risk area with a mortgage from a federally-backed or -regulated lender. For the past 40 years, the NFIP has served as the primary provider of flood insurance for homeowners. While the private flood insurance market has played a strong role in the large commercial and multifamily sectors, it is just beginning to grow in the residential sector.
- Until 2005, the program was largely able to cover its annual losses. The NFIP covered claims with insurance premiums collected by the program or by occasionally borrowing and repaying funds from the Treasury Department. However, Hurricanes Katrina, Rita and Wilma in 2005, Superstorm Sandy in 2012, Hurricane Matthew in 2016, and Hurricanes Harvey, Irma, and Maria in 2017 presented losses of such magnitude that the program is nearly \$25 billion in debt.
- With a \$30.4 billion borrowing authority, Congress and the President saw fit to forgive \$16 billion in October 2017 to free up borrowing power needed to recover from Harvey, Maria, and Irma.
- The program, as currently structured, is clearly unsustainable. Any reform effort must maintain a balance between reducing taxpayer exposure, improving the financial solvency of the NFIP and addressing affordability concerns.

IMPACT

- Since its expiration on September 30, 2017, the NFIP has been extended multiple times with several program lapses. The program's authorization is currently set to expire on May 31, 2019. Additional short-term extensions are likely before any comprehensive reauthorization and reform legislation is passed.
- Nationwide availability of affordable flood insurance is an important part of sustainable homeownership and building communities. Without reauthorization, the NFIP cannot issue new policies or renew existing ones. According to some estimates, a lapse in authorization could jeopardize an estimated 1,300 home sales each day or about 40,000 transactions per month.

MBA'S POSITION / NEXT STEPS

- **Long-term reauthorization:** A long-term extension of 7-10 years is vital to provide needed certainty to homeowners and small businesses that depend on the program for flood damage protection, to protect our residential and commercial real estate markets and to provide stability for the companies and agents that sell and administer the NFIP policies to millions of consumers across the country.
- **Development of private flood insurance market:** In order to ensure a stable, affordable and sustainable flood insurance market, a private market for flood insurance must be allowed and encouraged to develop. Increasing private sector involvement also could benefit consumers by expanding available insurance coverage options, lowering costs and increasing the number of at-risk properties that are insured. On January 24, 2019, Federal banking regulators issued a final rule that implements the private flood insurance provisions of the Biggert-Waters Flood Insurance Reform Act of 2012. The final rule, scheduled to take effect of July 1, 2019, permits regulated lending institutions to accept flood insurance provided by private insurers and will further develop the private market for flood insurance.
- **Exemption for large commercial transactions:** Large commercial transactions involving business-to-business loans on commercial real estate (i.e., apartment buildings, office buildings, hotels, retail malls and strip centers, warehouses, industrial buildings, etc.) *should be exempted* from the mandatory purchase requirements of the NFIP. The current limit of \$500,000 for commercial properties is insufficient based on the value of the properties in question. Additionally, characteristics that are customary in the insurance markets (i.e., replacement cost coverage, use of blanket policies contents, immediate coverage (no 30 day waiting period), higher storm surge limits, loss of rents, etc.) are not provided for under the NFIP program.
- **Provide clear, comprehensive and updated guidance to industry:** There have been significant legislative changes over the past several years, but no updated guidance has been issued by the banking agencies or the Federal Emergency Management Agency (FEMA). For example, the Interagency Flood Questions and Answers, which address many specific lender compliance questions, have not been updated since 2011—prior to the Biggert-Waters Act or Homeowner Flood Insurance Affordability Act changes in 2014. And in 2013, FEMA rescinded the Mandatory Purchase of Flood Insurance Guidelines, which were widely relied on by the industry for comprehensive guidance on flood insurance. We urge Congress to require FEMA and the banking agencies to work together to update and republish the Guidelines, and maintain them on a regular basis.