# REAUTHORIZATION AND REFORM OF THE NATIONAL FLOOD INSURANCE PROGRAM

## HYBRID HEARING

BEFORE THE

SUBCOMMITTEE ON HOUSING,
COMMUNITY DEVELOPMENT,
AND INSURANCE

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTEENTH CONGRESS

SECOND SESSION

MAY 25, 2022

Printed for the use of the Committee on Financial Services

**Serial No. 117–87**

U.S. GOVERNMENT PUBLISHING OFFICE
47–882 PDF WASHINGTON : 2022

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# REAUTHORIZATION AND REFORM OF THE NATIONAL FLOOD INSURANCE PROGRAM

**Wednesday, May 25, 2022**

U.S. House of Representatives,
Subcommittee on Housing,
Community Development,
and Insurance,
Committee on Financial Services,
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 12:01 p.m., in room 2128, Rayburn House Office Building, Hon. Emanuel Cleaver [chairman of the subcommittee] presiding.

Members present: Representatives Cleaver, Velazquez, Sherman, Beatty, Axne; Hill, Posey, Huizenga, Zeldin, Rose, and Steil.

Ex officio present: Representative Waters.

Also present: Representative Casten.

Chairman Cleaver. We are here today in the shadows of the murder of 19 kids, most of them under 10 years of age, and I don't think it would be appropriate for us to begin this hearing without at least acknowledging what happened. And I am sure everybody here, like me, is concerned about their children or grandchildren, and that concern has to actually be turned into some kind of way in which we can stop this carnage that we are experiencing around the country.

And it is hard to go any further, but I now call the Subcommittee on Housing, Community Development, and Insurance to order.

Without objection, the Chair is authorized to declare a recess of the subcommittee at any time. Also, without objection, members of the full Financial Services Committee who are not members of this subcommittee are authorized to participate in today's hearing.

Today's hearing is entitled, "Reauthorization and Reform of the National Flood Insurance Program."

I now recognize myself for 4 minutes to give an opening statement.

This hearing is a continuation of efforts to get a bipartisan, I want to say again, a bipartisan agreement on a long-term reauthorization of the National Flood Insurance Program (NFIP). Flooding is the most frequent severe weather threat and costliest natural disaster facing the nation. Ninety percent of all natural disasters in the United States involve flooding, and high-risk flood areas are not the only ones at risk; about 25 percent of flood insurance claims come from moderate- to low-risk areas.

Several factors contribute to the cost of flood disasters, including increased exposure of assets and the number of assets at risk, vulnerability of assets and the location of those assets, and frankly, the impact of climate change. In particular, some data indicates that climate change is supercharging the frequency and intensity of certain types of extreme weather events. Most notably, the potential for extremely heavy rainfall is becoming more and more common and exacerbating hurricanes and flooding areas.

As highlighted by the United States Environmental Protection Agency's report, "Climate Change and Social Vulnerability," the impacts of climate change fell broadly to differing degrees, but racial and ethnic minority communities are particularly vulnerable to the greatest impacts of climate change. It is often the case that people least able to prepare and cope with flooding events are disproportionately exposed. I am in my office here in Kansas City, Missouri, and only maybe 50 yards from Brush Creek, which came over its bank a few years ago and drowned 25 people, and then a year-and-a-half later, another 10 individuals. So, flood insurance is critical to safeguarding the financial stability of American investments and ensuring that American families, businesses, and communities can recover from these unfortunate events.

In times of significant loss, insurance companies are set up as financial first responders in helping customers recover from significant loss and achieve greater financial stability, so they must be affordable and accessible for those who need it. The NFIP is the principal provider of primary flood insurance in the United States, covering nearly 5 million households and businesses across the country, for a total of over $1.3 trillion in flood insurance coverage. Today, communities participate in them, and they cover an estimated 93 percent of the United States population.

And we all are aware that the last long-term reauthorization of the NFIP occurred when Congress passed the Biggert-Waters Flood Insurance Reform Act of 2012. I was here at the time and looked at that and marveled over the fact that Representative Biggert, a Republican, and Representative Waters, a Democrat, were able to get together to create this reform, which was subsequently amended by the Homeowner Flood Insurance Affordability Act of 2014.

Since the end of Fiscal Year 2017, the NFIP has had 19—19—short-term reauthorizations and has even experienced brief lapses in the program, leaving American families unprotected. When NFIP is then unable to enter into new flood insurance contracts, the housing marks phases without widespread market instability due to the stalling of mortgage processing for homes that are statutorily required to have flood insurance.

According to estimates from the National Association of REALTORS, around 40,000 home sales are lost or interrupted every month that the NFIP's authority lapses. The NFIP authorization is currently set to expire on September 30, 2022. However, the NFIP is not just an insurance program. The program does provide a list of primary flood insurance, but also seeks to mitigate and reduce the nation's comprehensive flood route. The NFIP accomplishes this through floodplain management, floodplain mapping, and flood mitigation. Given compounding flood risks, there is an increased need to focus on where we build, how we build, and how we invest in infrastructure that is designed for the 21st Century climate.

On November 15, 2021, President Joe Biden signed the Infrastructure Investment and Jobs Act, which included $3.5 million for flood mitigation and $500 million in grants to States for revolving loans, for hazard mitigation through a new risk program called Safeguarding Tomorrow through Ongoing Risk Mitigation. Under the bold leadership of our Full Committee Chair, Chairwoman Maxine Waters, on November 19, 2022, the House passed the Build Back Better Act.

I am going to stop, because I am going over my time.

I now recognize the ranking member of the subcommittee, Mr. Hill, for 5 minutes.

Mr. HILL. I thank my friend, the chairman, and if I need a minute-and-a-half later today, I hope you will yield it to me.

Chairman CLEAVER. Yes, sir.

Mr. HILL. Let me share in the heartfelt concern you expressed about this horrible tragedy in Uvalde, a wonderful community, a place I have visited many times. All of our most prized assets are kids, and it is heartbreaking. So, I hope we can continue to find ways to support our schools, and support our families, so thank you for mentioning that, Mr. Chairman.

I appreciate you holding this hearing on a topic that we know is important, but we never seem in this Congress to ever want to discuss, and that is, how do we fix the National Flood Insurance Program?

Since I first came to Congress back in 2015, under Chairman Hensarling's leadership, we worked in a bipartisan way on strengthening the flood mitigation programs and how to strengthen and make more realistic and appropriate our national flood programs. In fact, under Chairman Hensarling, the committee held flood-related hearings in June 2015, November 2015, twice in January of 2016, twice in March of 2017, and then again in 2017.

And that makes sense, because it is a well-known fact that floods are the most common, as you noted, Mr. Chairman, and most expensive natural disaster that communities face here in our country. What is less well-known is that floods are also the deadliest natural disaster in the U.S., responsible for 57 deaths in 2020, and an average of 94 deaths each year over the past decade. And that is unacceptable for our country and a real challenge to our families in our communities.

And that is why I am pleased that the Majority started things off on the right foot under Chairwoman Waters with the first flood reform hearing that we held back in March of 2019. Sadly, since that time, that, unfortunately, was the last flood reform hearing we had until today, more than 3 years and 2 months later. Quite frankly, that is just not going to cut it if we are really serious about bipartisan legislative reform. The other reason why we don't talk about flood is that this committee is not even really in control of NFIP's reauthorization process anymore.

Instead of doing the hard work here on a bipartisan basis, and reforming and reauthorizing the National Flood Insurance Program to ensure its long-term, financially-sustainable position, the Majority has left the program on autopilot through a series of short-term extensions in appropriations bills. This is to the detriment not only of NFIP policyholders, but American taxpayers and members of this committee from both sides of the aisle. Since the last full NFIP reauthorization expired back in September of 2017, the program has been extended on a short-term basis a shocking 21 times, every time without a single reform attached. That includes an incredible 11 times under Chairwoman Waters, who has yet to take an NFIP reform bill to the House Floor under her tenure.

More importantly, the appropriators have carried out authorizations so often on their legislative vehicles, that I am surprised they are not charging us a freight charge. All of this, of course, is a shame because there was a time when it looked like we were on the verge of a breakthrough, when this committee unanimously reported a 5-year reform and authorization bill in June of 2019, let me remind our listeners, a unanimous vote in committee. But Chairwoman Waters never got that bill to the House Floor, and then abandoned the good faith efforts and bipartisan work product by including now partisan flood reforms with zero Republican input that were in the Build Back Better bill, and we know how that ended.

So, fixing the NFIP is not easy, but it is important, and that includes supporting FEMA's Risk Rating 2.0 methodology by providing greater private flood insurance options for policyholders. The best way to deliver lower flood insurance rates is to lower flood risk, and Risk Rating 2.0 is the only reform that lowers annual premiums by matching rates to the actual risks faced by individual policyholders. Policyholders who disagree with those changes deserve to have options other than NFIP, which is why I have been a large supporter of making sure that we have better rates, and better terms from non-governmental flood insurance providers.

There are many areas in which Democrats and Republicans can agree, like supporting enhanced pre-flood mitigation, ending discounts for properties each and every year, eliminating fraud in the claims process, and considering a targeted means-tested affordability program that helps out low-income policyholders. There is a lot of room for bipartisan work, and I look forward to working with my friend, Mr. Cleaver, and I yield back.

Chairman CLEAVER. Thank you, Ranking Member Hill.

The Chair now recognizes the Chair of the Full Committee, the gentlewoman from California, Chairwoman Waters. Is the Chair available at this time?

[No response.]

Chairman CLEAVER. We may have to come back at a later moment.

Today, we welcome the testimony of our distinguished witnesses: Carolyn Kousky, who is the executive director of the Wharton Risk Center; Karen McHugh, who is the NFIP coordinator for the State of Missouri; Ariel Rivera-Miranda, who is the founder and agency principal of Deer Insurance; and Roy Wright, who is the president and CEO of the Insurance Institute for Business and Home Safety.

Witnesses are reminded that their oral testimony will be limited to 5 minutes. You should be able to see a timer that will indicate how much time you have left. I would ask that you be mindful of the timer so that we can be respectful of both the witnesses' and the committee members' time.

And without objection, your written statements will be made a part of the record.

Dr. Kousky, you are now recognized for 5 minutes to give an oral presentation of your testimony.

## STATEMENT OF CAROLYN KOUSKY, EXECUTIVE DIRECTOR, WHARTON RISK CENTER, UNIVERSITY OF PENNSYLVANIA

Ms. KOUSKY. Chairman Cleaver, Ranking Member Hill, and esteemed members of the committee, thank you for the invitation to speak to you today. I am the executive director of the Wharton Risk Center at the University of Pennsylvania. The National Flood Insurance Program has long been a focus of work at the center and my own research, and it is this work and that of my colleagues which informs my testimony today.

Prior research has found that lower-income groups suffer disproportionately from disasters like floods and recover less quickly. A key driver of these inequitable recoveries is the lack of access to necessary financial resources for repairs and rebuilding. Severe floods take a huge financial toll on households. As they work to repair and rebuild, most Americans struggle with the needed funds, they don't have sufficient savings, credit can be burdensome or impossible to access, and Federal assistance is typically insufficient and too delayed. That leaves insurance, yet many at-risk households are uninsured against flooding. This is problematic because prior research has found that if individuals have insurance, they recover better and faster. When households have the needed funds for repairs and rebuilding, they can more quickly resume normal economic activities and have less need for public sector assistance programs. Yet, the people who need insurance the most are the least able to afford it.

Last month, FEMA completed the rollout of Risk Rating 2.0. This new pricing methodology harnesses modern data and modeling tools to better price flood risk at a given property. While there are certainly still some adjustments that are no doubt warranted, this modernization of rate setting is long overdue. It will undo many cross-subsidies across flood zones. It will also take a small step in improving affordability by undoing a regressive cross-subsidy from lower-valued to higher-valued homes because previously, the program did not adjust pricing for the value of the home or the share that was insured. While this is an important change, it is not a means-tested assistance program for flood insurance, and the need for such a program has been recognized for a decade and studied by many groups and it is time to enact it.

I will raise just a couple of design points. First, I would urge the committee to consider a tiered program that would provide assistance on a sliding scale and prevent there being an abrupt cut off to benefits.

Second, draft legislation has suggested limiting access to existing policyholders only. But as suggested in FEMA's Affordability Framework report, there are many households right now at risk of flooding who are not current policyholders precisely because they cannot afford to purchase a policy. These are the very households we should wish to help. As such, I believe the assistance program should offer help to any qualifying household regardless of current policy status. That will allow households that have been locked out of the program because of affordability concerns to access the financial benefits of insurance.

One possible objective is perverse incentives to build more safely or move into high-risk areas. And I do think that if we were considering rate suppression across all policyholders, that would be an important concern. There is not much evidence though, that when we limit our look at low-income populations, that premium support would have this perverse impact. Many of these households are trapped in risky locations and in unsafe housing because they can't afford the necessary retrofits or to move to safer ground. I think we need to couple risk-based pricing to send those signals to the market with explicit means testing for assistance. We also need to do more to promote the needed investments and risk reduction, and pricing alone won't achieve that.

One problem is a lack of risk awareness. Some NFIP rules are currently hindering full information on flood risk from reaching markets. Only current policyholders can request information on prior claims. There is nowhere to quickly look up premiums, and potential homebuyers are never told if a home they are purchasing is about to become a repetitive loss property. A simple online tool should provide all that information and more. It is financially material, and I don't think it should be kept hidden. Of course, for current homeowners in risky areas, we also need to make it easier for them to get help reducing their risk, to maintain property values, and lower insurance costs.

While the NFIP has many laudable initiatives to reduce flood losses, there is still more to do, and buyouts is one of those areas. The timing of buyouts take too long to get to homeowners. Households, especially those of limited means, can't wait the years it takes. Many will have to begin rebuilding to make their home safe for habitation using partial or full flood insurance payouts, only to have the home demolished months or years later in a buyout, and that is just wasted funds. So, a critical reform would be making Federal dollars available immediately after a flood for buyouts or to reimburse local governments that do this. And this could be tied to incentives for local communities to engage in pre-disaster planning to speed the buyout process on their end.

I will end by noting that risk reduction is a complement to insurance. As we lower disaster risk, we make it easier and cheaper to insure against them.

Thank you so much for the opportunity to speak with you today, and I look forward to your questions.

[The prepared statement of Dr. Kousky can be found on page 28 of the appendix.]

Chairman CLEAVER. Thank you very much, Ms. Kousky.

Ms. McHugh, you are now recognized for 5 minutes to give an oral presentation of your testimony.

**STATEMENT OF KAREN McHUGH, MISSOURI STATE NFIP COORDINATOR, AND REGION 7 DIRECTOR, ASSOCIATION OF STATE FLOODPLAIN MANAGERS (ASFPM)**

Ms. MCHUGH. Good afternoon, Chairwoman Waters, Chairman Cleaver, Ranking Member Hill, and members of the committee. I am Karen McHugh, a regional director of the Association of State Floodplain Managers (ASFPM) and the NFIP coordinator for the State of Missouri. I am honored to be testifying today about a program that our organization and our members consider essential to our nation's flood loss reduction efforts: the National Flood Insurance Program. Our written statement identifies over 20 reform ideas for your consideration.

I have worked nearly 30 years in the world of floodplain management regulation, and it has given me a personal perspective on several of ASFPM's reauthorization and reform priorities. It is of paramount importance that NFIP-participating States have authorizing legislation to provide full flood risk disclosure for all property transactions prior to closing on sales or signing rental contracts.

This is of particular significance to me. Too many times, I have listened to homebuyers sobbing on the phone, who were surprised to learn at the closing table that their new house is in a high-risk floodplain and they don't know how they will pay for the required flood insurance. Even more distressing, some property owners have shared with me that they do not learn about their flooding risk until their home has already been flooded.

In 1993, I was working as a floodplain administrator when Increased Cost of Compliance (ICC) coverage was first included in the National Flood Insurance Reform Act of 1994. ICC gives added coverage to structures located in FEMA-mapped special flood hazard areas to anyone who has an active flood insurance policy. I saw firsthand how the added coverage helps homeowners and communities recover after a flooding event.

Since the program became effective, I have witnessed buildings relocated to higher, safer ground. I have seen homes elevated safely above the water surface so that during the next flooding event, there was no damage to the building whatsoever. In our small towns, dry floodproofing historic structures is the only way that these beautiful buildings can be saved, since the integrity of historic buildings is harmed by repeated flooding. The limit of liability coverage was raised 20 years ago to $30,000 from the previous limit of $20,000. The average cost to lift the house and replace the foundation is now pushing $100,000. Increasing the ICC limit to at least $90,000 is long overdue. To allow adequate funding for structures to be brought out of harm's way by elevating or being removed from the high-risk flood area has been proven to save lives and property and taxpayer costs from the devastating effects of flooding.

It is my great pleasure to work with socially or economically disadvantaged communities to deliver NFIP education, training, and outreach so that crucial NFIP principles can be conveyed with maximum efficiency to assure equitable program delivery. My staff and I provide compliance solutions to our underserved communities in Missouri by performing community assistance context visits, offering technical assistance, offering one-on-one help with substantial damage terminations before and after flooding events, and we will continue bringing NFIP workshop training to economically-disadvantaged populations. The Federal Government's authorization of the Community Assistance Program, including providing annual funding at a minimum of $20 million, will ensure a support mechanism for building State capacity to efficiently and effectively assist communities in managing and mitigating their flood risks.

In closing, I would like to state that NFIP reauthorization is an opportunity for Congress to take bold steps to reduce the program's complexity and strengthen the NFIP's financial framework so the NFIP can continue protecting individuals and property from the devastating and unfortunately growing impacts of flooding.

Thank you very much for giving me the opportunity to speak.

[The prepared statement of Ms. McHugh can be found on page 38 of the appendix.]

Chairman CLEAVER. Thank you, Ms. McHugh, for your testimony.

Mr. Rivera-Miranda, you are now recognized for 5 minutes to give an oral presentation of your testimony.

**STATEMENT OF ARIEL RIVERA-MIRANDA, FOUNDER AND AGENCY PRINCIPAL, DEER INSURANCE AGENCY, ON BEHALF OF THE NATIONAL ASSOCIATION OF PROFESSIONAL INSURANCE AGENTS (PIA)**

Mr. RIVERA-MIRANDA. Good afternoon, Chairman Cleaver, Ranking Member Hill, Chairwoman Waters, Ranking Member McHenry, and members of the subcommittee. Thank you very much for holding this hearing and for inviting me to be a part of it. My name is Ariel Rivera-Miranda, and I am the founder and agency principal of Deer Insurance Agency, which is an independent insurance agency located in Jacksonville, Florida. And I am currently the secretary of the National Association of Professional Insurance Agents, also known as PIA.

I was born and raised in San Juan, Puerto Rico, and have over 18 years of experience in the insurance industry. I have been an independent insurance agent since I was 22, which is when I started my first agency. In my time as an independent agent, I have founded and operated insurance agencies in Puerto Rico and in Florida. In my current capacity, I sell flood insurance products through both the National Flood Insurance Program and the private market. I am here on behalf of PIA, but my remarks today represent my personal views and not necessarily those of PIA as an organization.

I would like to begin by talking about the vital role of the independent insurance agent in the marketing, sale, and service of NFIP policies. Independent agents are the face of the program. We are the, "first responders," to both clients and carriers who adequately serve our customers. We must remain up-to-date on ever-changing laws and regulations governing flood insurance requirements, and, historically, we have also had to keep pace with constant changes to the program involving maps, flood zones, and relevant community participation.

Agents explain this complicated program to consumers and interpret changes to the program as needed for the policyholders and prospects. They also assist with home closings and ensure, to the best of their ability, that policy renewals are completed on time. Agents stake their reputation on customer service, and the NFIP has always been a challenging program. When consumers are confused about how the program works, they call the agents. When they become frustrated over a lapse or prospective lapse, when a policy or requirement changes, or when mapping issues arise, consumers call their agents. And most importantly, when consumers face a loss, they call their agents.

We are also on the front lines of Risk Rating 2.0. We strongly support Risk Rating 2.0 because it will help the NFIP move towards solvency while also providing policyholders with more accurate information about their property's flood risk. With better information, we hope property owners will learn more about their risk of flood, engage in mitigation efforts when needed, and ultimately purchase and retain flood insurance that matches the risk. As independent agents have gained experience with explaining Risk Rating 2.0 to policyholders, it has become clear that we need more information about how the new rating factors combine to produce a Risk Rating 2.0 rate.

Risk Rating 2.0 is fully underway. Every policy reading and renewal from now on will be rated using it. What we need now is greater public understanding, which will be bolstered by increased transparency in the system. Greater transparency will also make it easier for agents to explain to our customers why their rates are changing. While FEMA continues to release helpful explanatory material, it remains difficult to explain some rate increases, even though it has been nearly 8 months since the new rating system began.

Last, but certainly not least, the reauthorization of the NFIP is critically important. The NFIP has now been extended about 20 times since 2017, and will expire again on September 30, 2022. In the past 5 years, the program has been extended for days or even weeks at a time. I cannot overstate the detrimental effects of short-term extensions on the program overall. Every short-term extension is another chance for a lapse. The theoretical lapse leaves everyone involved in the program in a terrible position. Homebuyers and sellers look to their insurance agent and all those involved in their transaction to solve a problem over which they have no control. During a lapse, consumers are unable to renew existing policies or even purchase new ones, and lapses may disrupt real estate transactions, especially if they involve properties in mandatory purchase areas. Prior lapses are estimated to have disrupted over 1,000 homes a day, and the longer the lapse, the greater the impact.

Additionally, needed updates to the program are long overdue with support reforms, like a continuous coverage provision, the continuation of progress towards full risk rates to keep the program solvent, and, at the same time, the creation of an affordability framework to minimize potential attrition from the program, the creation of an agent's specific advisory council or with council within FEMA, and increased transparency for policyholders. I urge Congress and the subcommittee to build on the progress made in 2019 when the Full Committee unanimously passed a long-term bipartisan reauthorization and reform package. We support many of the provisions of the bills listed today.

Thank you for having me, and I would be happy to answer any questions.

[The prepared statement of Mr. Rivera-Miranda can be found on page 74 of the appendix.]

Chairman CLEAVER. Thank you, Mr. Rivera-Miranda.

Mr. Wright, you are now recognized for 5 minutes to give an oral presentation of your testimony.

**STATEMENT OF ROY E. WRIGHT, PRESIDENT AND CEO, INSURANCE INSTITUTE FOR BUSINESS & HOME SAFETY (IBHS)**

Mr. WRIGHT. Thank you, Chairman Cleaver, Chairwoman Waters, Ranking Member Hill, and members of the subcommittee. I appreciate the opportunity to rejoin the reauthorization dialogue. In the spring of 2017, when I led FEMA's National Flood Insurance Program, I testified before the Full Committee. I have enjoyed the relationship with both sides of the aisle, so I appreciate this opportunity to rejoin the conversation. Congress was wrapping up 6 years of reauthorization, but you delivered those 6 years in 21 small chunks. Congress must pass long-term reauthorization that provides the program with stability.

There are four key thoughts I want to highlight today. First, breaking the cycle of loss. FEMA's repetitive loss, home acquisition programs of these buyouts, they take years. In that time, the NFIP could have paid to rebuild a house at least twice and then paid to demolish it. I don't have time to retell it here, but my written testimony speaks about a policyholder named Edith, who called me during Hurricane Harvey seeking help with an immediate buyout. She didn't want a third claim paid. She wanted to start over. The recently-introduced Casten-Blumenauer bill offers a clear way forward, offer the buyout at the point of the catastrophic claim. At the very time Edith called me seeking help, you can plow the indemnified claim value into the acquisition project. That will reduce the overall cost, and it expedites the recovery time line for the impacted family.

Second, inflation. We must address the real impacts inflation has on the NFIP. There are two sets of homeowners: A, those who cannot afford the premiums due to the increases in costs of other goods and services; and B, those who cannot afford to rebuild within the limited insurance claim, the $250,000 set in existing law, and I want to speak to that second group.

The average sale price for homes in this country has increased by more than 300 percent since 1944, but NFIP policy limits remain at $250,000. Here is the impact of Congress' inaction. When hurricanes make landfall in the United States this year, Americans who did the right thing and bought flood insurance will learn the consequences of being underinsured. When the cost of rebuilding their home comes in at $370,000 and they only have $250,000 available in coverage, they will be underwater for the second time. Many will blame inflation, but while not unrelated, the principal fault for the protection gap in their coverage will reside with Congress, because Congress continues to limit the amount of insurance homeowners are permitted to buy.

Inflation will also negatively impact the fiscal underpinning of the program. The debt held by the NFIP is about to get walloped by rising interest rates. While I do acknowledge there is not a bipartisan legislative path today to resolve the outstanding debt, I must warn you, this will come back to haunt you, FEMA, and those who depend on the NFIP. Last year, FEMA paid $350 million to service its debt, almost 10 percent of its premium revenue. When FEMA is paying $700 million, $800 million, or even $1 billion a year in interest on the NFIP's residual debt, those funds will come and take away from the ability to pay valid claims, all because of Hurricane Katrina's impacts some 17 years ago.

Two important things as I close, Risk Rating 2.0, simply, it is delivering on its objectives, a fair approach to setting insurance premiums that resembles underwriting practices used for other perils. Ironically, the criticisms I have heard of Risk Rating 2.0 have little to do with the actual risk measurements themselves, the data methods and accuracy. Instead, the criticisms focus on the difficulty of living with the knowledge of the risk, the cost of their flood risk.

On the other side of the coin, nearly two-thirds of policyholders are seeing those incremental increases that resemble their past trajectory, and then nearly a quarter of all NFIP policyholders are seeing price decreases, sometimes $200 or even $1,000 per year about that. In a time of high inflation, the cost of material and labor is soaring, these policyholders are experiencing a cheaper price.

Finally, affordability. I do encourage this Congress and FEMA to identify ways to assist low- and moderate-income households to lessen the financial burden of flood insurance. Yes, I think Congress has to decide how much money it wants to invest into an affordability program each year. The NFIP cannot pay for such a program inside of its premium revenue. That would be inequitable and really undermine the financial stability of the program.

With that, I look forward to your questions.

[The prepared statement of Mr. Wright can be found on page 84 of the appendix.]

Chairman CLEAVER. Thank you, Mr. Wright, for your testimony.

I now recognize Mr. Franklin W. Nutter, president of the Reinsurance Association of America, for 5 minutes to make an oral presentation of his testimony.

**STATEMENT OF FRANKLIN W. NUTTER, PRESIDENT, REINSURANCE ASSOCIATION OF AMERICA (RAA)**

Mr. NUTTER. Chairman Cleaver, Ranking Member Hill, Chairwoman Waters, and distinguished members of the committee, thank you for this opportunity to testify. The Reinsurance Association supports a long-term reauthorization of the National Flood Insurance Program, encourages certain reforms, and appreciates the committee starting this formal conversation about both.

Today, the NFIP remains on GAO's high-risk list, is $20.5 billion in debt, and continues to have policies that distort risk assessment by builders, local officials, property buyers, and the NFIP policyholders themselves. Subsidized rates and statutory caps on rates may be popular with some beneficiaries, but they increase the cross-subsidy from low- or no-risk persons and taxpayers to those living in high-risk flood areas. Starting in 2011, Congress took steps to address the fundamental flaws in the NFIP and toward removing inequitable and unjustifiable rate subsidies. The NFIP today is on a path toward a stronger financial framework and resiliency to pay claims.

The RAA encourages Congress to avoid retreating from this progress and to enact reforms that will improve the program to the benefit of those facing flood risk and taxpayers alike. To that end, I encourage flood reform legislation to strengthen NFIP's financial framework and resiliency by preserving the National Flood Insurance Program's successful reinsurance program as well as Risk Rating 2.0.

In 2017, the Reinsurance Program's first year, FEMA collected over a billion dollars from the private sector to help pay Hurricane Harvey-related claims. The program successfully renewed the following year and has over $2.5 billion available to collect from the private sector after a qualifying 2022 loss event. Risk Rating 2.0, FEMA's new pricing methodology, more precisely reflects property-specific flood risks with more advanced actuarial tools and catastrophe models. Based on FEMA's data, the RAA developed a Risk Rating 2.0 analytical tool, which shows that 89 percent of policy premiums will decrease or remain stable, and premiums will decrease for almost half-a-million NFIP single family residential policies. I have noticed that zero percent of the premiums would have decreased under FEMA's previous pricing methodology, and under Risk Rating 2.0, higher premium increases are no longer attaching to lower-value properties.

To address the problem of the significant underinsured and uninsured but at-risk population, reauthorization legislation should facilitate the development of a private flood insurance market by preserving Risk Rating 2.0, removing impediments to consumer choice by enacting Representatives Castor and Luetkemeyer's continuous coverage bill so consumers can leave the NFIP, secure a private flood policy, and later reassume an NFIP policy without penalty. And increase insurance options for consumers by enacting Representative Luetkemeyer's amendment that would provide FEMA additional tools to strengthen the public-private insurance partnership with private insurers and explore risk-sharing opportunities.

Flood reform legislation should aim to close the flood insurance gap by requiring the development of a comprehensive strategy and address the natural disaster insurance protection gap in the U.S. and the risk it poses to property insurers, taxpayers, and businesses by aligning Federal housing agencies' private flood regulations with those issued by Federal lending institutions.

And lastly, flood reform legislation should create resilient and insurable communities. Several suggestions, such as those by the SmarterSafer Coalition and the BuildStrong Coalition, of which the RAA is a member, are included in my written testimony. The RAA has also developed a proposal called the Community Disaster Resilience Zone, or CDRZ, which would improve resilience in communities that are most in need and most at risk of natural disasters including flooding. Initial bipartisan, bicameral legislation, the

CDRZ Act of 2022 is supported by a diverse coalition of 30 national organizations.

We look forward to working with the committee to further develop the CDRZ proposal. The RAA's members welcome the opportunity to work with you on the long-term reauthorization and reform legislation, and thank you, again, for this opportunity to testify.

[The prepared statement of Mr. Nutter can be found on page 57 of the appendix.]

Chairman CLEAVER. Thank you very much, Mr. Nutter.

The Chair now recognizes the Chair of the full Financial Services Committee, Chairwoman Waters, for a statement, and to begin our questioning. Chairwoman Maxine Waters, you are now recognized.

Chairwoman WATERS. Thank you so very much, Mr. Cleaver, for holding this most important and timely hearing.

The National Flood Insurance Program is a key part of the Federal Government's strategy to be better prepared in the phase of climate change which is causing natural disasters in increasing frequency and magnitude. I have worked for decades to strengthen the NFIP and to stress the importance of mapping and mitigation to avoid the damage that flooding causes in the first place, rather than waiting until it is too late and paying for this after-relief effort.

The last time that Congress passed a long-term reauthorization of the NFIP, as has been said several times, was in 2012, when I worked across the aisle with Representative Judy Biggert to get it done. A decade after we passed the Biggert-Waters Flood Insurance Reform Act, Congress must institute reforms that improve the long-term stability of the program.

Mr. Wright, FEMA has made significant progress in analyzing the affordability challenges of its policyholders and has submitted an affordability framework to Congress. FEMA prepared this framework specifically in response to legislation that Congress passed in 2014, which was meant to address higher premium costs that policyholders had paid.

Now, my draft bill to reauthorize the NFIP would stand up a pilot program to offer means-tested assistance for low- and moderate-income households to help them afford flood insurance. Is this enough? Would this be an effective first step in tackling the affordability challenges that FEMA has laid out, or should we be thinking bigger instead of a pilot program? Could you help me out with your thoughts about that?

Mr. WRIGHT. Thank you, Chairwoman Waters. As you know, I was at FEMA when that study was done and sent forward. The Agency has done more work since I departed, and so I can't speak definitively for where those pieces are at, but something needs to move. Ultimately, we need to find the right balance so that it really helps those in need. There has to be caps on where it is available. I think a pilot program may be too small at this point, but I do think that we have to start incrementally, knowing that we will learn things, because the Agency has never done something like this before. And so, some kind of way that allows that to aim at the need and continues to scale and improve as it is implemented.

Chairwoman WATERS. Thank you very much, because I, too, am worried that a pilot program may be too small, a little bit too late maybe, and we need to be thinking bigger. And I would hope that you, with your background, and your experience, would feel free to help us out in any way that you could with any suggestion that you may have.

I want to now turn to Risk Rating 2.0, which went into effect on April 1st of this year. Ms. Kousky, FEMA's new test rating methodology is intended to modernize the way that NFIP prices its policies so that they better reflect the risk associated with the properties they cover. Many Members of Congress were concerned that Risk Rating 2.0 would result in sharp increases in premiums for their constituents. However, that array kept in current statutes that prevent premiums from going up over a certain percentage each year. And FEMA also has discretion to manage those increases and rarely maxes out those rate caps. Moreover, many policyholders are seeing decreases, not increases, in their premium.

Dr. Kousky, in the 2 months that Risk Rating 2.0 has been in effect, what can you tell us about the kinds of increases in premiums that policyholders are seeing? Do you think current statutory rate caps and discretion to set rates have been sufficient to prevent sharp increases in premiums from year-to-year?

Ms. KOUSKY. Yes. Thank you for the question. I think the caps on rates are important to have a glide path for policyholders into full risk rates, so I think that is important to maintain. I think that what we are seeing so far, though, is that the places of very high risk are the places where there are going to be high rates, and those are concentrated in certain communities and amongst certain households even within communities. And those are really important areas to be targeting mitigation along with this as the antidote to increasing rates.

Chairwoman WATERS. Thank you very much. Mr. Chairman, I can't see the time clock here. Do I have any more time left?

Chairman CLEAVER. Yes, you do. I want to apologize to the ranking member; earlier, I was not able to see the clock. But, Chairwoman Waters, why don't you proceed? We have to try to get backups so that we can all see a clock.

Chairwoman WATERS. How much time do I have left? I don't have a timer here.

Chairman CLEAVER. There is a magical minute left.

Chairwoman WATERS. That is okay. I am going to yield back my time so everybody will get an opportunity to get their questions in, and I hope someone is going to talk about debt forgiveness. Thank you so much, Mr. Chairman, and I yield back.

Chairman CLEAVER. Thank you, Madam Chairwoman.

The Chair now recognizes the ranking member of the subcommittee, the gentleman from Arkansas, Mr. Hill, for 5 minutes.

Mr. HILL. Thank you, Mr. Chairman, and I thank Chairwoman Waters for her comments as well on this topic. This is a topic that she has been keenly engaged in for many years, and so, as I said to you, Mr. Cleaver, I am glad that we are finally, in this Congress, getting into a detailed conversation about this. Thank you.

I will say that Mr. Nutter, in his testimony on page 3 says, "As it currently operates, the NFIP is not an insurance program," and

I found that an interesting and provocative statement. It always concerns me about government programs that are set up for one reason, but they are, just as they are like insurance, in name only instead of really functioning right, and that is why I support Risk Rating 2.0 as a small step in the right direction for the program. But the Majority has noticed a couple of bills that I think go backwards on that, and one of them was referenced. It would actually cut the annual NFIP premium rate hike cap from 18 percent to 9 percent. And while I could not agree more, it is more important that we keep flood insurance affordable for low-income policyholders than for those who are facing high premiums. It is absolutely the wrong approach to impose an across-the-board rate cap like that bill would do. And there is another bill noticed by the Majority that would essentially exclude adverse information as to the underwriting.

Mr. Nutter, let me turn to you. If we do rate caps or we exclude underwriting information, aren't we weakening the, "insurance program?"

Mr. NUTTER. Thanks for the question, Representative Hill. Yes, I agree with that. The rate cap, I think Ms. Kousky references correctly, that allows a glide path, but to reduce the rate cap from 18 percent to 9 percent as proposed effectively is a blunt instrument, and one of the side effects of that is it would go across-the-board for single-family homes. It could be residences. It could be single-family residences. It could be in areas most in need and most at risk, if you will, socially or economically vulnerable. It would also affect the Risk Rating 2.0 as it relates to second homes, vacation properties. It seems like a blunt instrument that is actually counter to what is being done to put this program on a fiscally-sound basis.

Mr. HILL. Thanks, and I appreciate that. Director Kousky, you have made a very interesting comment in your testimony that homeowners, potential homebuyers, are not notified if their house is about to kick into a repetitive loss situation or of higher risk there. Is that something that State law should deal with? How would a homeowner be notified about that, if there was a missing comment?

Ms. KOUSKY. Thank you. Yes. I think there is important flood risk information that is currently not making its way to homeowners, and I think it is a two-fold policy solution and that we need to be working with States for improved flood disclosures. But there are also some changes that are needed so that the NFIP can release important data on flood risk to prospective homebuyers and not just the current owner.

Mr. HILL. Yes. I think that was a key point in Sean Duffy's proposals earlier about increasing transparency on this, making community maps more transparent. Thank you for that. Now, we have the NFIP to really protect mortgage holders on single-family homes, let's say. But in my experience in building houses after Katrina, we have a huge problem where people don't have a mortgage lien, and, therefore, they don't have any protection against flooding, and we had a lot of misallocation of mitigation money. Director Kousky, how should Congress look at insisting on true accountability that mitigation money actually be sent to raise a home, for example?

Ms. KOUSKY. I think we need to be doing more to target mitigation dollars where they are most needed and most effective. If the question is one of sort of misappropriation of funds and fraud, that is not something that I know much about or can speak to. I can speak to the fact that we do need to do more to be better spending our mitigation dollars in those areas, at most.

Mr. HILL. Thank you. I am going to ask Mr. Wright the same question. Mr. Wright, how do we achieve better accountability so that mitigation dollars are not squandered?

Mr. WRIGHT. I think that, again, the fraud pieces, which there are great ways to go after. I look at the point that goes, how do you make sure the mitigation dollars go to where they are going to be most impactful, and reduce future losses. And I do think that at that point, we need to target the places of repetitive loss and then focus on communities where wide swaths of homes can all be mitigated so the community is going to be able to rebound. It is not just going to be a few folks who survive and the others who are left filled with water.

Mr. HILL. Thank you, Mr. Wright. And, Chairman Cleaver, thank you, and I yield back.

Chairman CLEAVER. Thank you, Mr. Hill. I now recognize myself for 5 minutes.

I want to focus on what the Chair of the Full Committee, Chairwoman Waters, started discussing. Dr. Kousky, and Ms. McHugh, the NFIP is currently $20.5 billion in debt, and every year, policy providers pay approximately $400 million in interest to service that debt. Do you both believe, or let me know what you believe, as it relates to the debt, should Congress do something or should it be ignored? What should we do as it relates to the debt?

Ms. MCHUGH. Thank you for the question. I believe the current NFIP debt should be forgiven, and some form of sufficiency standard must be adopted as an automatic long-term mechanism within the NFIP. This should ensure that in certain thresholds of catastrophic events, the debt will be paid by the U.S. Treasury. Thank you for the question.

Ms. KOUSKY. I agree that needs to be repaid.

Chairman CLEAVER. Ms. Kousky, I'm sorry, I didn't get your response.

Ms. KOUSKY. Sorry. I agree that needs to be forgiven. I don't think that the program is going to be able to repay it on its own.

Chairman CLEAVER. I know there is criticism about the Build Back Better Act, but the chairwoman and others on our committee did, in fact, make that a part of Build Back Better, which would put us on a level where we don't enter into a situation where all we are doing is increasing the amount of money we are paying on the interest and leaving a huge indebtedness. But do you think it makes good sense for policyholders, who may already be suffering from affordability challenges in a cash-strapped program, to pay $4 billion just in interest payments on debt? The NFIP will never ever, ever repay. I would like to ask Mr. Nutter for your response to my question.

Mr. NUTTER. Chairman Cleaver, the RAA has not taken a position with regard to payment or repayment of debt. That is obviously a matter for the committee and the Congress to decide. Representative Hill made reference earlier to my comment that the National Flood Insurance Program is not an insurance program, but it could be. But certainly, its overall financial structure needs to be put on this glide path that Risk Rating 2.0 provides, as well as its successful use of the private sector reinsurance to support the financial integrity of the program.

Chairman CLEAVER. I know you are just speaking for yourself. And so, since we realize that you are not speaking for the RAA, you are just speaking as an observer, as a knowledgeable person about the NFIP, do you support the cancellation of NFIP debt?

Mr. NUTTER. I appreciate the follow-up question, Representative Cleaver. I do speak today on behalf of the RAA, and we really have taken no position on it. It is important that the program be fiscally sound. We do feel that more reliance on the private reinsurance sector would help support that and reduce the exposure that the taxpayers have to the debt of the program.

Chairman CLEAVER. Okay. Editorially, I just think it makes no sense whatsoever for us to walk around with a $20.5 billion indebtedness. And with that, I will yield back.

Mr. Posey, you are now recognized for 5 minutes.

Mr. POSEY. Thank you very much, Chairman Cleaver. Mr. Nutter, again, if we are moving the National Flood Insurance Program to actuarial premiums and fiscal soundness, should we also consider taking action to transition a program of flood insurance in the private sector?

Mr. NUTTER. We certainly support the complement or supplement, if you will, that the private sector can bring to the program. The National Flood Insurance Program policy account is largely plateaued at around 5 million policies. One percent of the properties that are outside the program account for a significant amount of the flooding risk that we have in this country. The reinsurance sector stands ready to support private sector flood insurance, and we have offered several proposals in our testimony about how the committee could act to encourage that.

Mr. POSEY. Thank you. Why do you think FEMA isn't fully disclosing to the public the data and computations that they are choosing to compute estimated flood insurance premiums?

Mr. NUTTER. If you are directing that to me, Representative Posey, I can't speak for FEMA's motivation. What I can say is that we have done a lot of data analytics regarding the release by FEMA, like 40 years, 45 years of claim and premium data. We have also used the public release of the Risk Rating 2.0 data to look at communities and the impact on communities and individuals that this is having. It would be valuable for FEMA to release more granular data, largely because what has been released is so involved that you can distinguish single-family homes that are principal residences from second homes, vacation properties, and investment properties. And it is difficult to distinguish the commercial side of this as well. So, more granular data would allow the program and other government programs to target mitigation as well as to understand better who is paying what and in what communities, particularly those that are most socially and economically vulnerable.

Mr. POSEY. Thank you. I couldn't agree more. Shouldn't the National Flood Insurance Program establish premiums and methods for premiums with rulemaking and comments consistent with the Administrative Procedure Act?

Mr. NUTTER. Again, Representative Posey, if you are directing that to me, perhaps Mr. Wright would have more insights about the use of the Act. FEMA has been relatively good about releasing large swathes of data related to the program and made them publicly available. We have used that data, but it is very difficult, particularly for consumers and individuals, to do that, whether or not they should be using the Administrative Procedure Act. I just am not knowledgeable about that.

Mr. POSEY. Mr. Wright, what do you think?

Mr. WRIGHT. I think it is well-known that FEMA is very, very slow to do things through the rulemaking process. I do know as rates are being set and established each year, under the current laws and regulations, those are individual policy decisions that are made and published each year. They are published and follow the spirit of the Administrative Procedure Act. That is helpful for the rulemaking process.

Mr. POSEY. Now, the implementation of Risk Rating 2.0 has severed the premium-setting process for flood insurance rate maps and kept policyholders from an appeals process for premiums. Shouldn't FEMA take action to make it possible for policyholders to actually appeal their premiums, to get access to the information they need to do that? Back to Mr. Nutter, again.

Mr. WRIGHT. Sir, I don't believe so. There has never been an ability to—

Mr. POSEY. Mr. Nutter, do you think they should?

Mr. NUTTER. Mr. Posey, I am not familiar with the appeal process in a way that might be helpful.

Mr. POSEY. Don't you think people who are paying the premium should at least have the advantage of knowing how the premiums are set?

Mr. NUTTER. Actually, Mr. Rivera-Miranda made the point in his comments about the people relying upon the insurance agents, such as themselves, for insights about the premium-setting process. There is no question that transparency benefits everyone, both the consumer as well as people looking to understand the consequences of the rating process and the impact that it has.

Mr. POSEY. Yes, and, of course, the agents don't have the information either. NFIP is not transparent enough to give the agent the information they need to really inform the customer. Lack of transparency, I think, harms everyone. And I see my time has expired. Mr. Chairman, so I yield back. Thank you.

Chairman CLEAVER. Mr. Sherman, you are now recognized for 5 minutes.

Mr. SHERMAN. Thank you. I would like to take a moment to submit for the record a letter from the Independent Insurance Agents & Brokers of America, which states that they support the passage of a long-term NFIP, and it notes that those who are insured recover from a disaster much more quickly. And it says that FEMA needs to do more to make the rating process transparent.

Chairman CLEAVER. Without objection, it is so ordered.

Mr. SHERMAN. Now, Mr. Wright, in the State of California, we have strong real estate disclosure requirements, including prior property damage due to flooding. But I understand that when you are buying a home, constituents can't gain access to the property's National Flood Insurance Program claims history unless the seller formally requests and obtains the report, all within a 30- to 45-day window. I understand that the reason FEMA won't provide this information directly to buyers or lessees is because of the Federal Privacy Act. If there have been repeated NFIP flood claims on a home for some reason, and the seller doesn't disclose it, the buyer doesn't find out. Should buyers and lessees have access to this information directly from the Flood Insurance Program?

Mr. WRIGHT. Mr. Sherman, there must be a way for us to provide that information. As you know, real estate disclosures are almost entirely driven by State law, and so, some States, like California, make more of that available. Many States do not have that requirement. Ultimately, I think we have to find a path, likely through the NFIP, to put the right kind of nudging requirement in,that if a State is going to participate in the NFIP, this kind of transparency needs to be included in their State's disclosures.

Mr. SHERMAN. That would be helpful. And certainly, if a seller opens escrow to sell a property, the buyer named in that escrow wants to have access to the information before the transaction closes.

Mr. WRIGHT. Great.

Mr. SHERMAN. I will point out that both the Chair of the Full Committee and I represent the greatest city in America, which happens to have been built in a desert, and we are experiencing a drought. But flood insurance is important to this entire country, and that is why I am glad we are having this hearing.

Mr. Wright, you point out in your testimony that for the past 6 years, Congress has passed 21 stopgaps. We have heard about this. By some estimates, approximately 1,330 home closings are delayed or canceled for every day the program lapses. What I think is not captured by that statistic is the harm done even if it is about to lapse. As people get concerned, can they sell their homes? Should they be looking for another home? Can they take a job in another city? Can they buy a larger home and sell theirs? And this lapse doesn't save the Federal Government a penny. It is just a loss to our society. Chairwoman Waters now has put forward a bill to reauthorize the program for 5 years. We should commend her for that. Could you speak to the benefits to homebuyers, to home sellers in the market in general, to be provided by a long-term reauthorization of the program?

Mr. WRIGHT. Yes, absolutely. I think that the marketplace in the real estate world needs certainty that there are so many other economic factors going on in flood insurance, and whether or not it will be available on the day of closing should not be part of their concern. Now, whether or not they are at flood risk, should be, but the availability of that insurance—these increments are highly disruptive. They create a tremendous amount of work to turn, particularly when you get to lapses that play out to turn the program on and to turn it back off again.

And I do think that the House deserves to be complimented. You have collectively put through bipartisan pieces that work. So much about flood insurance is geographic, and we have to find a pathway. And it may be a narrower set of reforms that gets us not just a bipartisan, but that otherwise addresses those geographic concerns that often, at least in my estimation, have been what have kept us from getting the reauthorization.

Mr. SHERMAN. Thank you. I yield back.

Chairman CLEAVER. Thank you. The gentleman yields back.

The gentleman from Michigan, Mr. Huizenga, is now recognized for 5 minutes.

Mr. HUIZENGA. Thank you, Mr. Chairman. I appreciate the opportunity, and I am going to go into this with Mr. Wright. I am going to have a question for you, but I am going to bring back some of my colleagues. Going back a couple of years, former Committee Chair Jeb Hensarling used to highlight and talk about repetitive loss properties, and the story he told was this. There was a property outside of Baton Rouge, Louisiana, and don't get me wrong, I love our friends from Louisiana, but it was a modest home that was worth about $60,000, which had flooded over 40—4–0—times, and taxpayers had paid over half-a-million dollars for that property to be rehabbed. In other words, taxpayers in areas that are not prone to flooding, obviously subsidized homes that are at risk.

And I come from Michigan. Near the coast, we have a place called the Grand River. It is grand. It is a big river, and it floods. And we recently, in the last couple of years, had finally had a county effort to buy out some properties along the banks of the Grand River. There are others along here. And we have to ask ourselves, when are we going to make sure that these things are addressed?

And so, Mr. Wright, kind of to you, is this scenario of our former colleague, what he discussed, is that still taking place under the current NFIP, or is it even still possible?

Mr. WRIGHT. It is still possible today. When I was in the program, we actually did analysis to find out how many of the properties of the nearly 5 million policies, and it was less than 500 of them that were in that most egregious group. But we put proposals in a number of years ago, and I believe FEMA continues to do this, to create something called extreme repetitive loss. And once you hit a certain threshold, your only option is to be mitigated, or you will have to buy your insurance on the private market. You should not be able to stay inside the NFIP and continue that cycle.

Mr. HUIZENGA. And is it a number of incidents, or is it a dollar amount?

Mr. WRIGHT. Because there is such variance in terms of the value of properties that are there, I think some of the best thinking on it was looking at either the third or fourth claim by which the value of those claims had exceeded more than $200,000. And again, you don't want to push someone out who really could rebuild, but you have to put a line in there and stop that cycle.

Mr. HUIZENGA. I know we had talked about 3 strikes and you are out on this committee various times, but do we know how much the program has spent to rebuild those properties?

Mr. WRIGHT. I don't have those numbers. I will tell you when I did that analysis, a number of years it goes about 500. And so the overall value was not anywhere near the scale of some of the other financial problems in the program, but it sends the wrong message. And particularly with inflation, I think more homes are going to get into that group.

Mr. HUIZENGA. Yes. We can talk about inflation, but it does seem to me that we are perpetuating keeping people in harm's way of flooding.

Mr. Nutter, in your testimony, you said, "FEMA successfully administered its NFIP reinsurance program that transfers risk from the NFIP to the capital markets." Do you think it makes sense to concentrate so much of the entire country's flood risk on the NFIP's balance sheet alone? And how do programs like NFIP's reinsurance program help deflect those risks and mitigate it?

Mr. NUTTER. Thank you for the question, Representative Huizenga. The National Flood Insurance Program's Risk Transfer Program is fairly common among government insurance programs to transfer risk into the private sector, and the reinsurance sector has been very supportive of the program. It is a way to diversify that risk and not as concentrated as it is in the National Flood Insurance Program. It is a common insurance company practice. I would say that, as I mentioned earlier, that the development of a private flood insurance market that allows consumers to access that and come back into the program if they choose not to stay in it, would supplement the relatively plateaued number of National Flood Insurance Program policies, which is about 5 million.

Mr. HUIZENGA. Because you need numbers to spread that out, it is just actuarial tables?

Mr. NUTTER. Yes, that is correct. And, of course, what the program has is the most, what we call, adverse selection. Largely, the highest-risk properties are likely to be those in the National Flood Insurance Program.

Mr. HUIZENGA. I will let you touch on this briefly, Mr. Wright, maybe the rest of my time, on inflation. My family is in construction. I know what has been happening with the availability of materials and then the cost of those materials. What is that doing to the program as it is having to go in and rebuild properties?

Chairman CLEAVER. Just one second. The gentleman's time has expired, but at the beginning of the hearing, I did go over quite a bit. With the agreement of the ranking member, Mr. Huizenga, you will be recognized to complete your questioning.

Mr. HUIZENGA. Okay. Thank you, Mr. Chairman. Sorry. I wasn't keeping track of the time.

Mr. WRIGHT. Thank you, and I will be very, very quick, Congressman. Risk Rating 2.0 is actually addressing a big piece of inflation because of the actual cost of repairs, the actual cost of reconstruction, and so I think that piece is in place. But the flip side of it is that because there is only $250,000 worth of coverage allowed under law, as home prices have gone up, most homeowners don't go buy a secondary policy. So, as we have seen that escalation, I am absolutely convinced there will be people who are submitting flood claims this year, who realize that they have $370,000 worth of damage and they are only getting a $250,000 check. And

I think that piece plays. I think there is a related element related to the debt because it is going to drive up interest rates, but I know that is not the centerpiece of what the consumer is going to experience.

Mr. HUIZENGA. I appreciate it. Thank you for the additional time, Mr. Chairman. I yield back.

Chairman CLEAVER. Thank you. The gentleman yields back.

The gentleman from Tennessee, Mr. Rose, is now recognized for 5 minutes.

Mr. CASTEN. Mr. Cleaver, am I next?

Chairman CLEAVER. You are next.

Mr. CASTEN. Sorry to interrupt. This is Sean Casten. I thought we are doing a [inaudible], but I was just—

Mr. HILL. Mr. Chairman, this is Congressman Hill briefly for just a parliamentary inquiry. As I have to step out of the hearing, I have asked Mr. Rose of Tennessee to represent the Minority, and I thank the chairman.

Chairman CLEAVER. Thank you, Mr. Hill. Mr. Rose, we are here on—

Mr. ROSE. Thank you. But I do believe Mr. Casten should be up next.

Mr. CASTEN. Thank you, Mr. Rose. Mr. Chairman, with your discretion, I will jump in here. Thank you all for this hearing. I want to follow up on some of the comments Mr. Huizenga was making, and I think we are thinking along the same lines around this issue of repetitive loss properties. And, Mr. Wright, I want to thank you for giving a shout out to the bill I have with Mr. Blumenauer to try to address these issues.

I wonder, Mr. Wright, if you could start? You explained this briefly in your testimony, but I wonder if you could expand on it. We have all seen this FEMA data which says that for folks and repetitive loss properties, you are kind of waiting up to 5 years to get a buyout. And of course, as climate change keeps accelerating, in those 5 years, you are increasingly likely to be flooded again and get stuck there. Can you explain, sort of as simply as you can, what it is about the current process that makes it so hard for people to get a claim on and through the program, and the degree to which this shifting to a buyout in lieu of claims methodology might address that problem?

Mr. WRIGHT. Yes. Thank you. And I appreciate the work you are doing on this bill. What happens today if someone is on multiple claims? If I want to do a buyout, they have to raise their hands, submit to a local community, who then submits to the State, who then submits to FEMA, whenever the next window is there, at which point they can be selected and then it is a peer back and forth. And there may be other people who have been waiting longer, and so you may not get in your first year based on the amount of money.

I spoke about in my testimony—it was after Hurricane Harvey that a lady named Edith called me, and she had a loss in 2015 of more than a $100,000 claim paid, and a loss in 2016 of more than $100,000 paid. And in the summer of 2017, she said, “Mr. Wright, instead of paying my claim, can you just make my buyout happen now?” And the answer was, no, I couldn’t. We tried to get some authorities in the emergency supplemental in the fall of 2017. And I think that what you are proposing in this place will help solve this because it saves money, because in the case of Edith, her third claim, you would subrogate another $100,000 worth of claims damage towards the Buy Act. Otherwise, you are going to give them that money, they are going to rebuild, and then 3 years later, they are going to come in and you are going to demolish.

I will go one step further. For the family who was devastated by that event, they just want to start over, and they don't want to live in the mental health morass of figuring out how to live in a decrepit place in hopes that they will someday get to move on. It saves the program money, and it is much better for the survivor in the insurance.

Mr. CASTEN. Yes. I think all of us, even in the Midwest, we all have these flood zones, and we hear those same stories and you do feel powerless. I want to ask the fiscal question, and I know Mr. Huizenga asked this. I want to ask this in a slightly different way, but if you don't have an answer, that is okay. The idea we are trying to do is say not only is it a buyout, but we move you out of the flood zone, so now you are in a different area. Do you have some sense, when you look at the claim history of NFIP when you were there, if we could get rid of those claims and these repetitive loss areas in the flood zone? Do you have even just a ballpark sense of what that does to the solvency of the program? What portion of the claims would we be essentially taking out of the future liabilities of the program if we did this?

Mr. WRIGHT. GAO has done a couple of studies on this, and I don't have the numbers right off the top of my head. But I spoke with Mr. Huizenga about kind of these crazy cases that are out there, they are 14 times over, but these places were 2 or 3 claims. At one point, that was something like more than 40 percent of the payouts had been just in those places that had come back for multiple bites at the apple, which is why FEMA has long held that these acquisitions on repetitive loss are to the benefit of the National Flood Insurance funds. They are better off over the long haul for making those acquisitions.

Mr. NUTTER. Mr. Casten, this is Frank Nutter. I do have the GAO number in front of me. Their report was that the repetitive loss properties from 1978 to 2019 accounted for $22.2 billion of the $69.7 billion in claims, so nearly one-third.

Mr. CASTEN. One-third. As my old head of engineering in my last life was fond of saying, it is bigger than a breadbasket.

Mr. NUTTER. Yes.

Mr. CASTEN. I thank you for your time. We could go into a lot more detail. Mr. Huizenga, if you are still on—you may have dropped off—we would love to work with you and try to finalize this legislation, or any others on the committee, and I'm really grateful for your expertise. I yield back.

Chairman CLEAVER. The gentleman yields back.

Mr. Rose of Tennessee, you are now recognized for 5 minutes.

Mr. ROSE. Thank you, Chairman Cleaver, and I want to thank Ranking Member Hill, who had to drop off, for holding this important hearing. I also want to thank our witnesses for your time today and for being a part of our first hearing on flood insurance in this Congress. As my time is limited, I am going to go ahead and dive right in.

Mr. Nutter, in your testimony, you mentioned reforms to create resilient and insurable communities. Can you please discuss those, including the Community Disaster Resilience Zones proposal?

Mr. NUTTER. Representative Rose, thank you for the question. We call it CDRZ, if you will, as a typical Washington acronym. What it would do is it would take FEMA's National Risk Index and put it in a statutory state, essentially expecting and requiring that Federal programs, like FEMA's programs and HUD programs, would direct the mitigation dollars toward communities that have been identified as these community disaster resilience zones and prioritize those communities that are both at risk of natural disasters, but also socially and economically vulnerable.

The proposal in its fullest context will also provide Federal assistance to local communities to issue bonds focused on resilience efforts in those communities, as well as private sector bonds that would get the benefit of the tax exemption. The proposal largely is designed to enhance the ability of communities to identify what they see as being appropriate resilience measures but with the assistance and support of the Federal Government.

Mr. ROSE. Thank you. And, Mr. Nutter, in February 2019, regulators issued a final rule clarifying how lending institutions may accept private flood insurance policies. Since that time, has private flood insurance increased its market share?

Mr. NUTTER. Representative Rose, it really has not. The private flood insurance market, unfortunately, competes if you will, with the National Flood Insurance Program, with the subsidized rates and the assistance that goes there. We have been working with State insurance commissioners to facilitate a process at the State level to get companies to encourage companies to be part of that. But we do feel that some things need to be done at the Federal level, and one of those is Representative Luetkemeyer's proposal for continuous coverage that would allow policyholders in the National Flood Insurance Program to access the private market. And if they choose not to take that option, they can come back into the program without losing their status. So, there are things that can be done, but the private flood insurance market is still very nascent.

Mr. ROSE. Aside from just the competitive disadvantage that the private market may be at—you may have referred to one of those—what are the other governmental barriers that prevent the private flood market from expanding and offering better options to consumers?

Mr. NUTTER. One has been dealt with: Risk Rating 2.0. That is, that Risk Rating 2.0 is now focused on individual properties, as well as Mr. Wright has mentioned the replacement cost. It is more akin to the way insurance companies look at risk and evaluate risk. So, I would expect Risk Rating 2.0 to have the residual value, if you will, encouraging private companies to see where the rating is, those ratings are, and then to see whether they can compete either on service or price with all that.

Mr. ROSE. And then, shifting again, Mr. Nutter, what are some of the ramifications of being suspended from the NFIP for not following proper floodplain management guidelines?

Mr. NUTTER. I am not sure that I am the best one to address that. Maybe Mr. Wright can address that. But obviously, it is an important feature of the program to deal with both floodplain management, if you will, and mitigation as well as the insurance component of it. It is a partnership between those two features. I would encourage Mr. Wright to address that if he would like to.

Mr. WRIGHT. Sure.

Mr. ROSE. Mr. Wright, if you don't mind?

Mr. WRIGHT. Very simply, it is a quid pro quo when you join the National Flood Insurance Program. You have to put those pieces in place. Ms. McHugh actually leads that program in Missouri, where it is her job to make sure that people follow through, and that is how insurance is made available. If anything seems very, very patient, it takes a long, long path before you ever get to the fully suspended line.

Mr. ROSE. And what impact, if any, does this have on private insurance, the private insurance market for flood in the areas where—

Mr. WRIGHT. If anything, once you have been suspended, the private market is the only place you can get insurance.

Mr. ROSE. Okay. Chairman Cleaver, I see my time has expired. I yield back.

Chairman CLEAVER. The gentleman yields back.

The Chair now recognizes Mr. Steil. Is still with us?

[No response.]

Chairman CLEAVER. Then, Mr. Timmons, you have 5 minutes.

[No response.]

Chairman CLEAVER. I don't think Mr. Timmons is with us either, in which case I would like to thank all of the witnesses for their testimony today.

The Chair notes that some Members may have additional questions for these witnesses, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

I have a submission for the record, a letter from the National Association of Mutual Insurance Companies urging Congress to provide a long-term reauthorization of the NFIP that contains reforms designed to create more certainty for policyholders by putting the program on a path towards solvency.

This hearing is now adjourned. Thank you all.

[Whereupon, at 1:26 p.m., the hearing was adjourned.]

# A P P E N D I X

May 25, 2022

Written Testimony of Carolyn Kousky
Executive Director, Wharton Risk Center, University of Pennsylvania

Hearing on Reauthorization and Reform of the National Flood Insurance Program
U.S. House Committee on Financial Services
Subcommittee on Housing, Community Development, and Insurance
United States House of Representatives
May 25, 2022

Good afternoon. I would like to thank Subcommittee Chair Cleaver, Ranking Member Hill, and the esteemed members of the subcommittee for the invitation to speak to you today. I would also like to thank Committee Chairperson Waters, Ranking Member McHenry, and members of the broader committee for their support and attention to the National Flood Insurance Program (NFIP). I am pleased to have the opportunity to testify today and share my perspectives on current policy priorities for the program. I am the Executive Director of the Wharton Risk Center at the University of Pennsylvania.

The Wharton Risk Center has been undertaking research on a range of disaster risk management topics for over three decades. The NFIP has long been a focus of work at the Center. It has also been a program that I have been investigating for fifteen years. I have been involved in research on multiple aspects of the program, including the mandatory purchase requirement, drivers of demand, increased cost of compliance coverage, adverse selection, incentive effects, pricing, and the private flood insurance market. My research on this program, and that of my colleagues, informs my testimony today. I will focus my remarks on the role of insurance in providing financial resilience to floods, the updates to current pricing in the program, the continuing need for an explicit means-tested assistance program for flood insurance, and how climate change will pose new stresses for the NFIP that will need to be addressed.

**Escalating Flood Risk and Inequitable Recoveries**

Flooding is the costliest natural disaster and the risk is escalating in many places due to the combined effects of climate change, development, and land use decisions. Sea level rise has already led to an increased probability of coastal flooding, which will continue, and is projected to cause higher flood damages in the coming years.[1] Climate-induced intensification of rainfall

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[1] Sweet, W. V. and J. Park (2014). "From the extreme to the mean: Acceleration and tipping points of coastal inundation from sea level rise." Earth's Future **2**(12): 579-600; Neumann, J. E., K. Emanuel, S. Ravela, L. Ludwig, P. Kirshen, K. Bosma and J. Martinich (2015). "Joint Effects of Storm Surge and Sea-level Rise on US Coasts: New

is also projected to increase flooding in certain parts of the United and this, in turn, could escalate flood damages.[2] In addition to climate changes, our land use and development decisions have also, at times, increased flood risk. Decisions such as reducing impervious surface area, eliminating natural systems, such as wetlands, that can store floodwaters, continuing building in areas known to be at high flood-risk, and failing to build in way that is mindful of escalating risk, all worsen flooding.

Prior research has found that lower income groups and racial minorities suffer disproportionately from disasters, such as floods, and recover less quickly than more privileged residents.[3] The challenges begin before a disaster occurs. These households may live in riskier areas and less safe housing. They may have little or no access to preparedness resources and information. A key driver in inequitable recoveries, though, is a lack of access to the necessary financial resources for repairs and rebuilding. Severe floods take a huge financial toll on households, not just from devastating property damage to homes and their contents, but also additional costs such as evacuation, temporary living expenses, debris clean-up, generators and fuel if households lose power, longer commutes if businesses and transportation are damaged, and more.

As this long list of costs demonstrates, severe floods are a negative economic shock—an event of limited duration, but one where necessary expenditures increase and income can also decline. Financial resilience—the ability to recover quickly from negative economic shocks—underpins all aspects of recovery. Having sufficient resources to rebuild and repair damages improves emotional well-being, mental health, physical health, and the stability of families.[4]

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Economic Estimates of Impacts, Adaptation, and Benefits of Mitigation Policy." *Climatic Change* 129(1-2): 337-349; Garner, A. J., M. E. Mann, K. A. Emanuel, R. E. Kopp, N. Lin, R. B. Alley, B. P. Horton, R. M. DeConto, J. P. Donnelly and D. Pollard (2017). "Impact of Climate Change on New York City's Coastal Flood Hazard: Increasing Flood Heights from the Preindustrial to 2300 CE." *Proceedings of the National Academy of Sciences* 114(45): 11861-11866.

[2] Wobus, C., M. Lawson, R. Jones, J. Smith and J. Martinich (2013). "Estimating Monetary Damages from Flooding in the United States under a Changing Climate." *Journal of Flood Risk Management* 7(3): 217-229; Mallakpour, I. and G. Villarini (2015). "The Changing Nature of Flooding across the Central United States." *Nature Climate Change* 5(March): 250-254; Prein, A. F., C. Liu, K. Ikeda, S. B. Trier, R. M. Rasmussen, G. J. Holland and M. P. Clark (2017). "Increased Rainfall Volume from Future Convective Storms in the US." *Nature Climate Change* 7(12): 880-884.

[3] For example, see: Bolin, R. C. and P. A. Bolton (1986). "Race, Religion, and Ethnicity in Disaster Recovery." FMHI Publications. Paper 88; Fothergill, A., E. G. M. Maestas and J. D. Darlington (1999). "Race, Ethnicity and Disasters in the United States: A Review of the Literature." *Disasters* 23(2): 156-173; Brunsma, D. L., D. Overfelt and J. S. Picou, Eds. (2010). The sociology of Katrina: Perspectives on a Modern Catastrophe. Rowman & Littlefield Publishers; Fussell, E. and E. Harris (2014). "Homeownership and Housing Displacement after Hurricane Katrina among Low-income African-American Mothers in New Orleans." *Social Science Quarterly* 95(4): 1086-1100.

[4] Farrell, D. and F. Greig (2018). Weathering the Storm: The Financial Impacts of Hurricanes Harvey and Irma on One Million Households. J.P. Morgan Chase & Co. Institute. Washington, DC. February; McKnigh, A. (2019). Financial Resilience among EU households: New Estimates by Household Characteristics and a Review of Policy Options. European Commission, Directorate-General for Employment, Social Affairs and Inclusion. June.

Without the resources to recover, disasters become tipping points into deeper poverty, as households default on loans, accumulate debt, exhaust savings, and forgo important expenditures.[5]

**The Role of Insurance in Securing Financial Resilience to Floods**

So where do households find the necessary financial resources for recovery? There are four key sources of funds: (1) savings, (2) loans, (3) assistance (formal or informal), and (4) insurance. Unfortunately, low- and moderate-income households struggle with access to all of these sources. The Federal Reserve Board has estimated that roughly 40% of households do not have $400 in liquid funds for an emergency—insufficient to cover the thousands or tens of thousands of dollars needed for flood recovery. Even when households have savings they have accumulated, such as for retirement or their children's education, draining them to pay for flood repairs leaves them financially insecure and can contribute to long-term negative impacts for the household. The first line of assistance for disaster victims is often a loan, yet credit typically fails for lower-income households, as they may not have the resources to take on additional debt or may be locked out of access to a loan altogether. Indeed, denials for the post-disaster household loan program of the Small Business Administration go up as income declines and these loans tend to be given in more financially secure areas.[6]

With savings and loans insufficient, many households turn to aid. While in some situations, friends or family can help, in a flood, entire neighborhoods may be hit simultaneously. This means those in a family's nearby social network are also struggling. We also know that federal aid, such as through the Individual Assistance program administered by the Federal Emergency Management Agency (FEMA), may be unavailable and when it is activated, is limited, as it is not designed to bring people back to pre-disaster conditions. While perhaps unintentional, recent research has also found that these grants are regressive, with more financially constrained areas averaging both a lower amount paid and a lower probability of receiving assistance at all.[7] Other potential sources of longer-term aid, such as programs financed by Congressional

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[5] For example: Fothergill, A., E. G. M. Maestas and J. D. Darlington (1999). "Race, Ethnicity and Disasters in the United States: A Review of the Literature." *Disasters* 23(2): 156-173; Pastor, M., R. D. Bullard, J. K. Boyce, A. Fothergill, R. Morello-Frosch and B. Wright (2006). In the Wake of the Storm: Environment, Disaster, and Race after Katrina. New York, Russel Sage Foundation.
[6] Sweeney, K., M. Dauer, and B. Thomas (2022). Federal Disaster Assistance: An Overview of Post-Disaster Programs. Wharton Risk Center Primer, University of Pennsylvania, Philadelphia, PA, February; Billings, S. B., E. A. Gallagher and L. Ricketts (2021). "Let the Rich be Flooded: The Distribution of Financial Aid and Distress after Hurricane Harvey." SSRN Working Paper.
[7] Billings, S. B., E. A. Gallagher and L. Ricketts (2021). "Let the Rich be Flooded: The Distribution of Financial Aid and Distress after Hurricane Harvey." SSRN Working Paper; FEMA (2020). National Advisory Council Report to the FEMA Administrator. Federal Emergency Management Agency. Washington, DC, November.

appropriations to the Department of Housing and Urban Development's Community Development Block Grant – Disaster Relief (CDBG-DR) program, are uncertain, and when funded, take years to reach households. For example, recent research found that on average, housing activity from CDBG-DR funds after Hurricane Sandy began almost two and a half years after the disaster declaration.[8]

This leaves insurance. Yet many at-risk households are uninsured against flooding. FEMA estimates that on average nationwide, only about 35% of households in Special Flood Hazard Areas have flood insurance, while less than 2% of those outside this area have flood insurance.[9] There is, however, high regional variation, with take-up rates much higher in coastal communities along the Gulf and Atlantic coasts.[10] But, as flood after flood reminds us, far too many Americans at risk do not have the necessary flood insurance coverage.

This is problematic because **prior research has found that if individuals have insurance, their recovery is improved.**[11] This makes sense: with other sources of post-disaster funding limited or delayed, insurance plays a critical role in getting households the needed financial resources to rebuild their homes and replace damaged possessions. When households can rebuild, they can more quickly resume normal economic activities in their communities and have less need for public sector assistance programs. Yet, the people who need insurance the most are the least able to afford it.

**The NFIP and Current Pricing Reform**

Before discussing an affordability program for the NFIP, let me first provide a bit more context on the history of public-sector disaster insurance. As everyone on this committee knows, the NFIP was established over fifty years ago in response to a lack of coverage in the private sector. Floods are not the only peril for which the public sector has had to offer coverage. Every state exposed to hurricanes has a so-called wind pool or beach plan for those who cannot find or afford wind coverage in the private market. California has the California Earthquake Authority, as well as their FAIR (Fair Access to Insurance Requirements) program, which is now writing increasing numbers of wildfire insurance policies. Finally, federally we have the Terrorism Risk

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[8] Martin, C., D. Teles and N. DuBois (2021). "Understanding the Pace of HUD's Disaster Housing Recovery Efforts." *Housing Policy Debate*, 1-26.
[9] Federal Emergency Management Agency (FEMA). 2018. An Affordability Framework for the National Flood Insurance Program. Washington, DC, April 17.
[10] Kousky, C. (2018). "Financing Flood Losses: A Discussion of the National Flood Insurance Program" *Risk Management and Insurance Review*. 21(1): 11-32.
[11] Kousky, C. (2019). "The Role of Natural Disaster Insurance in Recovery and Risk Reduction." *Annual Review of Resource Economics* 11(3).

and Insurance Program. So for our most catastrophic disasters, we have some type of public sector program.

These programs were put into place because catastrophes are difficult for the private sector to insure on their own. The fact that losses can be so severe, and impact so many people simultaneously, means that some of the underlying principles of risk pooling, on which insurance is based, fail to hold. This makes disaster insurance fundamentally more expensive than non-disaster insurance. And, at times, there may not be any price at which insurance companies can profitably offer disaster coverage *and* that consumers are able or willing to pay. These breakdowns in insurance markets, often witnessed after disasters, have led to the creation of many of the public sector programs just mentioned.

That said, all of the various public disaster insurance programs—here and around the world—struggle with the basic question of who should pay for disaster losses. Some other countries take a "solidarity" approach to pricing disaster insurance, charging one flat fee to all residents (perhaps varying by property type or coverage limit). They make disaster insurance universal and compulsory. The United States has shied away from embracing a solidarity approach to pricing, but it has also eschewed a fully market-based approach of pricing each property according to its individualized risk level. Some stakeholders advocate that pricing only on risk levels could encourage safer building and better decisions about where to build. And there are those who believe that if someone chooses to live in a risky area, it is their responsibility to shoulder the costs of that decision. But, in practice, some of the disaster insurance programs in the U.S. have cross-subsides (if sometimes implicit or hidden) that keep costs lower for those in high-risk areas. This is true for several of the state wind pools and was also historically true for the NFIP.

Last month, though, FEMA completed roll out of its new approach to pricing flood insurance, Risk Rating 2.0. This new pricing methodology harnesses modern data and modeling tools to better price the flood risk of a given property. While there are still certain adjustments that are likely warranted, **this modernization of rate-setting is long-overdue for the program**, which has operated with an approach to price setting that is way behind the tools and capabilities of the private sector. This new approach will now allow flood insurance premiums to more closely reflect the risk for individual properties. It will undo cross-subsidies across flood zones and eliminate price "cliffs," where two properties at similar risk could have faced substantially different premiums if a flood zone boundary crossed between them.

Risk Rating 2.0 will also take a small, but important, step in improving affordability for certain homeowners. The old approach to pricing in the NFIP had a cross-subsidy from lower-valued homes to higher-valued homes because the program did not adjust pricing for the value of the home or the share of it that was insured. Why does this matter? Consider a $1 million home and $100,000 home. Assume both owners purchase $100,000 of flood insurance coverage. A claim of that amount for the lower-value home means the house was completely destroyed—a very rare, catastrophic event. A claim of $100,000 is much more likely for the $1 million home, since it would occur when a disaster damages only 10% of the home—a more likely occurrence. Because of this, the $100,000 insurance policy should cost more for the $1 million home, since it is only insured to 10% of its value, making it more likely the insurer will have to pay claims to that property. Most property insurers factor this in when pricing their policies. The NFIP is finally doing so with Risk Rating 2.0.

While this is an important change, it is *not* a means-tested assistance program for flood insurance. Such a program is needed to help bring the financial resiliency benefits of flood insurance discussed above to the lower income households that need it the most. That is why **it is critical to pair Risk Rating 2.0 with a means-tested assistance program to target premium help to those most in need.**

**An Affordability Program for the NFIP**

The need for a means-tested assistance program for the NFIP has been recognized for a decade. In this time period, there has also been substantial investigation into how to design such a program from many groups including The National Research Council, RAND, independent researchers, and FEMA itself. It is time to use that combined research to adopt and implement a program.

The National Research Council[12] suggested that designing an affordability program would need to answer the following six questions:

1. Who will receive assistance?
2. What type of assistance will be provided?
3. How will assistance be provided?
4. How much assistance will be provided?
5. Who will pay for assistance?
6. How will an assistance program be administered?

The prior reports by the above groups can help answer these questions. I will raise just a couple thoughts on the questions of who will receive assistance and how much.

[12] National Academies of Sciences, Engineering, and Medicine (2015). Affordability of National Flood Insurance Program Premiums: Report 1. Washington, DC: The National Academies Press. https://doi.org/10.17226/21709.

The primary decision with respect to the first question is how to identify the households most in need. While income is a natural measure that has been used in many previous programs, there is a concern that aid could be given to households with extremely high net worth that are not currently earning a paycheck. FEMA's Affordability Framework has suggested an administratively achievable policy to address this: households must certify that their net worth does not exceed a specified threshold, with periodic audits on those attestations.

A next question is at what level are benefits provided. Here, I would urge the committee to consider a **tiered program** that would not simply provide assistance to those below a threshold and none to those above, but provide a sliding scale of benefits, such that assistance phases out as income increases. This would allow assistance to scale with need and also prevent there being an abrupt cutoff to benefits.

Draft legislation has also suggested limiting access to the assistance using several other criteria. Some of these reflect priorities in spending public dollars that have widespread support, such as limiting this program only to primary residences. I do think the committee should revisit, however, the decision in draft legislation to limit this program to existing policyholders only. There are two difficulties with this limitation. First, as suggested in FEMA's Affordability Framework report, there are many households at risk of flooding who are currently not policyholders because they cannot afford to purchase a policy. These are the very households we should wish to help: those currently locked out of the protections of flood insurance because they cannot afford a policy. I believe **the assistance program should offer help to any qualifying household, regardless of current policy status.** This will allow households that have not been able to afford coverage to newly enter the program, providing financial resilience for themselves and their communities.

Second, as climate change advances, flood risk is going to escalate in many places around the country. This means that there will be lower-income households that are not currently in areas of high risk, but which will become so in the coming years. For their financial recovery and that of their communities, I urge you to consider extending the benefit to households not currently in the SFHA, as well.

The objection to these expansions is one of moral hazard. Could providing the assistance create a perverse incentive for people to build unsafely or move into high-risk areas? I think if we were considering rate suppression across all policyholders, this would be a very important concern. There is no evidence, however, that when limiting our discussion to lower-income populations that premium support would have this perverse impact. Many of these households are trapped in risky locations and in unsafe housing because they cannot afford the necessary retrofits or to move to safer ground. By targeting federal assistance only to those truly in need, we are providing vital financial resilience, while limiting perverse incentives.

More broadly, however, subsidized flood insurance is only one of many policies that may create perverse incentives to build in high-risk areas. Other subsidies for development, such as for infrastructure, or the lack of strong building codes, may be even more influential, especially because in many high-risk locations, take-up rates are still low, suggesting the availability of federal flood insurance is not a factor in decisions to locate in these areas. That said, as climate risks escalate, we need to send clear signals of higher risk to markets through prices, but we also must adopt stronger building codes and increase public sector support for mitigation. Lack of information and externalities prevent prices alone from being sufficient for triggering the needed investments in risk reduction.

Some NFIP practices are currently hindering full information on flood risk from reaching markets. Only current policyholders can request information on prior claims for a property and only insurance agents can look up the cost of flood insurance for a property. Potential homebuyers also have no way of knowing if the home they are purchasing is about to become a repetitive loss property—a designation with serious financial consequences for them. People need all this information when they are considering a move to somewhere new—and they need it early in the search process. **A simple online tool that could be used to look up prior floods, repetitive loss status, and provide the cost of insurance for any given property would help buyers in making sound decisions about where to live.** After major floods, there are too many stories of people who never would have moved into a location if they had been given full information on the flood risk of a given property. This is material information that should not be kept hidden. As risks escalate, we do not want to continue to trap households in high-risk areas.

Of course, current homeowners in very risky areas do not want to make such information transparent, since it would, quite rightly, lower the value of their home. We need to make it easier for current occupants of very high-risk areas to mitigate their risk or accept a floodplain buyout to preserve their property value or financial position as risks escalate. This is true across income levels, but financially- and climate-vulnerable communities will need additional help.

**Affordability and Mitigation**

As discussed earlier, flood risks are escalating. This is imposing higher costs on households, as well as the federal government. According to the Government Accountability Office (GAO), since 2005 the federal government has spent at least $450 billion on disaster assistance. It is critical to recognize that not only can greater investments in risk reduction reduce the financial burden of disasters on households, businesses, and the public sector, it is also a complement to insurance. **As we lower disaster risk, we make it easier and cheaper to insure against them.**

Our public insurance programs, like the NFIP, often have broader mandates to support risk reduction and risk communication. Because of this, they invest more heavily in these synergistic activities than do private insurers. The NFIP's work on flood risk reductions has paid dividends around the country. The NFIP mandatory floodplain regulations that participating communities must adopt are credited with helping limit flood losses. The NFIP also has an incentive program, the Community Rating System, designed to reward communities that take actions to better manage flood risk with lower premiums for residents. Research has found that communities that participate in the program have both lower flood claims and lower overall losses.[13]

Still, the program has not gone far enough with risk reduction. The NFIP has a group of highly risky properties that have seen repeated flooding—aptly named repetitive loss properties. They make up only a small share of policies, but a larger, and disproportionate, share of claims. From 1978 to 2015, just 160,000 repetitive loss properties (about 3% of all policies) received $9 billion, or roughly 25% of all claims payments.[14] Many observers of the program have argued for more aggressive mitigation of these properties or for the NFIP to stop insuring them altogether after a certain number of losses. Certainly, a private firm would never continue paying to rebuild a home placed in such a risky location that it was destroyed time and time again. Development in such areas is uneconomic and yet currently enabled by the NFIP.

For many of these properties, the costs of continued occupancy outweigh the costs of relocation. Our federal floodplain buyout programs were designed for this need: to purchase risky properties and return them to open space in perpetuity. Unfortunately, these programs are missing important opportunities and wasting financial resources. The timing of buyout dollars through the Hazard Mitigation Grant Program or the Community Development Block Grant-Disaster Relief program take too long to make their way to homeowners ready to move.[15] Households—especially those of limited means—cannot wait for years for the federal funds to get to their community and for the buyout process to be undertaken. Many may begin the rebuilding process to make their home safe for habitation, often using partial or full flood

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[13] Kousky, C. and E. Michel-Kerjan (2015). "Examining Flood Insurance Claims in the United States." *Journal of Risk and Insurance* 84(3): 819-850; Highfield, W. E. and S. D. Brody (2017). "Determining the effects of the FEMA Community Rating System program on flood losses in the United States" *International Journal of Disaster Risk Reduction* 21: 396-404.

[14] See: NFIP (2017). Developing a Repetitive Loss Area Analysis for Credit under Activity 510 (Floodplain Management Planning) of the Community Rating System, online at: https://crsresources.org/files/500/rlaa-guide-2017.pdf.

[15] Wiley, H. J. P. and C. Kousky (2020). "Speeding Up Post-Disaster Housing Buyouts." *Solutions* 11(3).

insurance payouts, only to have the home demolished months or years later in a buyout. Insurance payouts used to repair a home that will then be demolished are wasted funds that could have gone to expanding buyouts or lowering buyout costs if they could have been undertaken quickly post-flood.

**A critical reform would make some federal buyout dollars available immediately after a flood or allow for local reimbursement of floodplain buyouts.** The federal delay is only part of the long timeframes. Another source of delay comes from the tasks required for local implementation of buyouts. These can be reduced through pre-disaster evaluation and prioritization of where buyouts will occur, which properties are eligible, and conducting the necessary appraisals and approvals. To incentivize local communities with high-risk areas to do this necessary pre-disaster work, **the expedited or reimbursed federal buyout funds could be tied to demonstration of a pre-disaster buyout planning process.**

While reforms such as these are needed across all communities, the committee should also consider linking some mitigation assistance to an NFIP means-tested premium assistance program. If we lower the risks of lower-income households through retrofits, or in the extreme, floodplain buyouts, we reduce insurance costs and reduce the overall costs of a federal means-tested assistance program for insurance. This could be done by providing flood mitigation grants to households that are also eligible for premium assistance, for example, or even conditioning assistance on mitigation, when it has been determined that there are cost-effective measures that could be undertaken for the given property.

**Conclusion**

Flood insurance has a critical role to play in promoting resilience by protecting households and businesses against negative financial shocks, speeding recovery, and potentially lowering risks ex ante through financial incentives. All households need access to these benefits of insurance. This can be guaranteed by adoption of a means-tested assistance program to help lower-income households with the cost of flood insurance. In addition, as flood risk grows in the coming years, risk reduction is going to become more important as a key complement to insurance. Reforms to better target and speed federal mitigation dollars can support this goal.

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**TESTIMONY**

**Reauthorization and Reform of the National Flood Insurance Program**

Before the

Subcommittee on Housing, Community Development and Insurance
House Financial Services Committee

By

Karen McHugh
Region 7 Director
Association of State Floodplain Managers

May 25, 2022

# Introduction

The Association of State Floodplain Managers is pleased to participate in this hearing about the National Flood Insurance Program. We appreciate the opportunity to discuss our views and recommendations for the future of the program. We thank you, Chairman Cleaver, Ranking Member Hill and Members of the subcommittee for your interest in this important subject.

The ASFPM and its 38 state chapters represent more than 20,000 local and state officials as well as private sector and other professionals engaged in all aspects of floodplain management and flood hazard mitigation, including management of local floodplain ordinances, flood risk mapping, engineering, planning, community development, hydrology, forecasting, emergency response, water resources development and flood insurance. All ASFPM members are concerned with reducing our nation's flood-related losses. For more information on the association, our website is: *www.floods.org*.

Floods are this nation's most frequent and costly natural disasters and the trends are worsening. The National Flood Insurance Program (NFIP) is the nation's most widely used tool to reduce flood risk through an innovative and unique mix of incentives, requirements, codes, hazard mitigation, mapping and insurance. It is a partnership between communities, states and the federal government. The NFIP is the one tool in the toolbox that serves policyholders, taxpayers and the public well. Our testimony is intended to provide a better description of these interdependencies as well as 20 recommendations for Congress to consider to reform the NFIP.

## The NFIP is a National Comprehensive Flood Risk Reduction Program

The NFIP was created by statute in 1968 to accomplish several objectives. Among other things, the NFIP was created to:

- Provide for the expeditious identification of and dissemination of information concerning flood-prone areas through flood mapping
- Provide communities the opportunity to voluntarily participate in the National Flood Insurance Program in order for their citizens to buy flood insurance and, as a condition of future federal financial assistance, to adopt adequate floodplain ordinances consistent with federal flood loss reduction standards
- Require the purchase of flood insurance in special flood hazard areas by property owners who are being assisted by federal programs or by federally supervised, regulated or insured lenders or agencies.
- Encourage state and local governments to make appropriate land use adjustments to constrict the development of land exposed to flood damage so homes and businesses are safer and to minimize damage caused by flood losses
- Guide the development of proposed future construction, where practicable, away from locations threatened by flood hazards
- Authorize a nationwide flood insurance program through the cooperative efforts of the federal government and private insurance industry
- Provide flexibility in the program so flood insurance may be based on workable methods of distributing burdens equitably among those protected by flood insurance and the general public who benefit from lower disaster costs

**Beyond merely providing flood insurance, the NFIP is unique as it integrates multiple approaches for identification of flood risk, communication of risk, and techniques to reduce flood losses. It is a unique collaborative partnership enlisting participation at the state and local level. It is a multi-faceted, multiple objective program – a four-legged stool as it is often called. The four legs of the stool are (1) floodplain mapping, (2) floodplain management standards, (3) flood hazard mitigation and (4) flood insurance. Altering one leg without careful consideration of impacts on the other three legs can have serious repercussions on reducing flood losses. The NFIP on the whole provides substantial public benefits as our testimony will further detail.**

We must remember that 90% of natural disasters in the United States involve flooding, and all 50 states and 98% of counties have the potential to be impacted by a flood event. The NFIP, which is now over 50 years old, has paid over $70 billion in claims (and half of that has come in the past 15 years). But beyond paying insurance claims, the NFIP has also mapped 1.2 million miles of streams, rivers and coastlines — flood hazard data that is freely and widely available. It has invested more than $1.3 billion in flood hazard mitigation for older, at-risk structures and into local flood mitigation planning. Because of the program, 22,571[1] communities have adopted local flood risk reduction standards — far more communities than have building or zoning codes, which have resulted in $2.45 billion of flood losses avoided every single year. The NFIP has provided innumerable public benefits, direct monetary benefits to taxpayers, and significant benefits to policyholders.

## A Pivotal Time for the NFIP – and a Window of Opportunity

Today, the NFIP is engaged in one of its most transformational actions in the past several decades — the implementation of Risk Rating 2.0. At its core, Risk Rating 2.0 is consistent with a reform that ASFPM and many other organizations have been calling for, which is to ensure that, through accurate insurance rating, we can communicate the relative level of flood risk to property owners and renters. While this is a simplified view and implementing a transformation like Risk Rating 2.0 is much more complicated, it is also an opportunity to implement several complimentary reforms. For example, a seemingly widely supported reform from the last Congress was the need for a targeted, means-tested way to assist lower income property owners with NFIP premiums. Now, Congressional reform ideas can be tested against the NFIP's more accurate rating approach in Risk Rating 2.0 to fine tune the approach to address affordability concerns. Also, Risk Rating 2.0 could serve to provide more credit for a wider range of mitigation activities as highlighted in a recent Congressional Research Service report.

ASFPM is aware that the roll-out of any transformational change will require adjustments as it is implemented. Our primary concerns with Risk Rating 2.0 are focused on making sure that changes to the insurance part of the NFIP have not broken integral ties with either the floodplain management or mitigation elements of the program. For example, a reason that some communities may have chosen to adopt a protection standard for buildings (a freeboard) was for insurance premium reductions. However, under Risk Rating 2.0, the benefits of elevating a structure for premium reduction are not understood and seem to be less than under the previous rating model which could impact a community's willingness to adopt standards that go beyond the NFIP minimums. Under Risk Rating 2.0 individual property level mitigation actions for existing at-risk buildings such as installing flood vents do not seem to be nearly as well as incentivized as under the previous model and are concerned that Risk Rating 2.0, despite its important benefits, appears to provide insufficient recognition of

[1] FEMA Community Status Book accessed 5/24/22

mitigation actions to result in premium credit. The point is that we must strive to ensure that there is much better transparency and awareness of how the new, multiple variables affect flood insurance premiums. ASFPM is pleased to begin working with FEMA on a tool that could enable floodplain managers and other better understand the effect on various mitigation actions on NFIP premiums. We also encourage FEMA to continue to develop training and more specific outreach tools on Risk Rating 2.0. ASFPM has seen far too many ideas in the past that would change one element without consideration of how that change would impact the other elements of the NFIP (for example changes in insurance shouldn't weaken the role of either mitigation or floodplain management). We must ensure that reforms carefully contemplate the potential impacts to the comprehensive approach to flood risk management that the NFIP provides so that we strengthen the nation's overall resilience to flooding.

Today's NFIP must ensure that the nation is ready to address tomorrow's flood risk. Floodplain managers know development often results in increased flood heights, and we are observing changing weather patterns that result in shifting snowmelt/rainfall in the West, and nationally, more intense short duration storms are causing more flash floods. Additionally, unrelenting sea level rise (SLR) is beginning to affect communities from Florida and the Gulf of Mexico to Virginia, the Mid-Atlantic, New England and Alaska. A 2017 NOAA report added a new upper boundary for SLR this century up to 2.5m (8 feet) by 2100 due to new data on the melting of the Greenland and Antarctic ice sheets. According to a 2018 report by the Union of Concerned Scientists, accelerating sea level rise in the lower 48 states, primarily driven by climate change, is projected to worsen tidal flooding and put as many as 311,000 coastal homes with a collective market value of about $117.5 billion today at risk of chronic flooding within the next 30 years — the lifespan of a typical mortgage. America's trillion-dollar coastal property market and public infrastructure are threatened by the ongoing increase in the frequency, depth, and extent of tidal flooding due to SLR, with cascading impacts to the larger economy. Higher storm surges due to SLR and the increased probability of heavy precipitation events exacerbate this risk. Inland, the situation is only slightly better, but is still problematic. A 2014 Climate Change Vulnerability Analysis by the Milwaukee Metropolitan Sewerage District shows that in the future to expect a pattern of increasing precipitation intensity in a few larger events but a decrease in the size and frequency of many smaller events, which is also consistent with the National Climate Assessment. The mapping, mitigation, and floodplain management elements of the NFIP all have a role to play in addressing future flood risk.

More recently, issues of equity and social vulnerability have been recognized as needing to be addressed. FEMA's National Advisory Council's (NAC) 2020 report made the focus on equity a centerpiece of the vision of the future of emergency management. It noted that "For disaster preparedness, mitigation, response, and recovery to drastically improve in 2045, emergency management must understand equity and become equitable in every approach and in all outcomes. The exacerbated impacts of disasters on underserved and historically marginalized communities across the United States showcases existing inequity." In 2021, ASFPM testified in the Senate supporting the NAC's recommendations especially as it relates to hazard mitigation programs and the NFIP. ASPFM is pleased that since that time, FEMA has established an Equity Enterprise Steering Group to help create a FEMA-wide definition of equity and a framework for implementing equity into its programs, and has elevated the issue in its newly revised strategic plan. Later in this testimony, we will detail more specifically how equity concerns can be addressed through the NFIP.

So, what will the NFIP of tomorrow look like? If we make the necessary adjustments and investments, the NFIP of tomorrow will be robust and fiscally-strong, with the ability to be resilient in the face of a changing climate. The program's floodplain management standards will be improved to reflect our nation's increasing flood risk and we will have a set of flood mapping data everywhere so that land use managers, businesses and homeowners can make informed decisions on flood risk. Aggressive mitigation functions will enable repetitive loss properties and other high-risk buildings to be mitigated quickly and individual mitigation actions will be incentivized through premium reductions. And gone will be the days when new property buyers are not aware of the flood risk or history of the property they are purchasing. The key question today is are we up to the task to make this vision a reality?

## A Long-term Sustainable Financial Framework is Needed; Debt is an Issue

Until 2005, the NFIP had generally been self-supporting. In the 1980s, the program went into debt a few times and ultimately Congress forgave approximately $2 billion. But from the mid-1980s to 2005, the NFIP was entirely self-sustaining and, when borrowing from the U.S. Treasury, the debt was repaid with interest. However, due to catastrophic floods in 2004, 2005, 2012, and 2016-2021, the program currently owes approximately $21 billion to the U.S. Treasury, and since Hurricane Katrina in 2005 has paid $5.06 billion in interest to the Treasury.

The NFIP was never designed to pay for catastrophic events. In fact, from 1968 to 1978 the concept was one of risk sharing with the private sector, with direction from Congress having the program actually providing a subsidy for pre-FIRM structures (structures built prior to availability of flood insurance rate maps). As recently as the late 1980s, internal communications show that the administration reaffirmed the federal treasury was essentially the reinsurer of last resort.

Congress and FEMA have made some progress toward putting the program on a sound financial footing as part of the past two NFIP reforms in 2012 and 2014, which ASFPM supported. Under BW-12, reforms (later modified by HFIAA-14) included changes that led to moving subsidized policies toward actuarial premium rates, allowing the NFIP to purchase reinsurance, and to establish a reserve fund. These changes help reduce the financial risk to the program (and ultimately to the American taxpayer) and better prepare for the ever increasing number of catastrophic flood events. However, those reforms did have a consequence of exacerbating the issue of flood insurance affordability. We also note Congress' very significant action to forgive $16 billion of the NFIP's debt in 2017, and point out that the aforementioned reforms put in place in 2012 and 2014 to put the program in a better fiscal position continue today.

So what is next? ASFPM believes that Congress should consider reforms that don't endlessly put the NFIP at financial risk and at the same time, will also assure that the program remains consistent with a primary reason for having a federal flood insurance program in the first place — to reduce the need for disaster declarations and subsequent emergency spending bills. As a point of comparison, the federal crop insurance program now costs taxpayers approximately $8 billion annually[2]. Yet the program is not required to pay that debt back — with interest — while fulfilling almost exactly the same public policy goal; to reduce much larger costs to the taxpayers for agriculture disasters. Even those wishing to reform the crop insurance program aren't advocating elimination of all subsidies or considering the program a failure because the program results in taxpayer debt every single year; rather, reforms are targeted to certain subsidies, subsidy caps, and income limits.

- **ASFPM recommends forgiving the remainder of the current debt and adopting some form of a "sufficiency standard" as an automatic, long-term mechanism within the NFIP that ensures, after a**

[2]The latest CRS report on the Federal Crop Insurance Program looked at the average net payments for 10 years from FY2010 through FY 2020. https://crsreports.congress.gov/product/pdf/R/R46686

**certain threshold of flooding, the debt will be paid by the U.S. Treasury, much like other disaster assistance.[3] Among other things, the sufficiency standard would consider the reserve fund balance, utilization of reinsurance, and ability of the policy base at that time to repay.**

- **At a minimum, the requirement for the NFIP to pay interest on the debt should be discontinued, or the interest and debt payments should be directed as reinvestments back into the program for needs such as flood mapping or mitigating flood-prone buildings, especially repeatedly flooded buildings.**

ASFPM is worried that as we head into a more inflationary environment which would likely have the effect of increasing interest rates, servicing the debt will quickly become the largest financial risk to the NFIP. The fact is, today's NFIP has taken advantage of the numerous tools Congress has provided to make it more fiscally sound and is more of a public-private partnership than ever before; leveraging private sector financial risk management tools like reinsurance and catastrophe bonds, as well as enabling the market for private flood insurance. Much progress has been made over the past eight years and Congress should take the final steps by recognizing these steps and permanently put the program on a sound financial footing by addressing today's and tomorrow's debt.

## Floodplain Mapping

Floodplain mapping is the foundation of all flood risk reduction efforts, including design and location of transportation and other infrastructure essential to support businesses and the nation's economy. The flood maps are also used for emergency warning and evacuation, community planning, siting and locating of critical facilities like hospitals and emergency shelters. Today FEMA has in place the right policies and procedures (i.e., requiring high-resolution topography (LiDAR) for all flood map updates), and is using the best available technology to produce very good flood studies. For example, FEMA is conducting pilot studies in Minnesota and South Dakota using very precise topographic mapping and automated flood study methods to develop base level engineering that can be used as an input into future flood studies. This gives communities faster access to data to use for planning and development rather than waiting years for the data. In coastal studies, FEMA now uses the state-of-the-art ADvanced CIRCulation (ADCIRC) model for storm surge analysis.

Today, flood risk maps only exist for about 1/3 of the nation – only 1.2 million of 3.5 million miles of streams, rivers, and coastlines have been mapped. Also, even some of today's maps are many decades old, or were updated before the current standards to redraw boundaries based on more accurate study data and topography. ASFPM has repeatedly expressed concern that there is still a large inventory of pure "paper" maps that have never been digitized and modernized with newer flood study procedures. Many other areas have never been mapped at all, so there is no identification of areas at risk and communities have no maps or data to guide development to be safe from flooding. This is a significant problem and the example below illustrates why.

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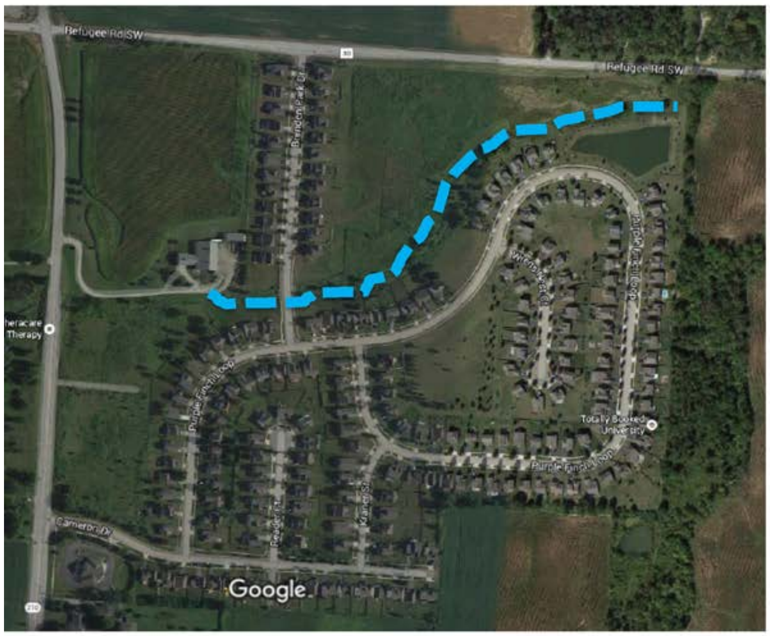
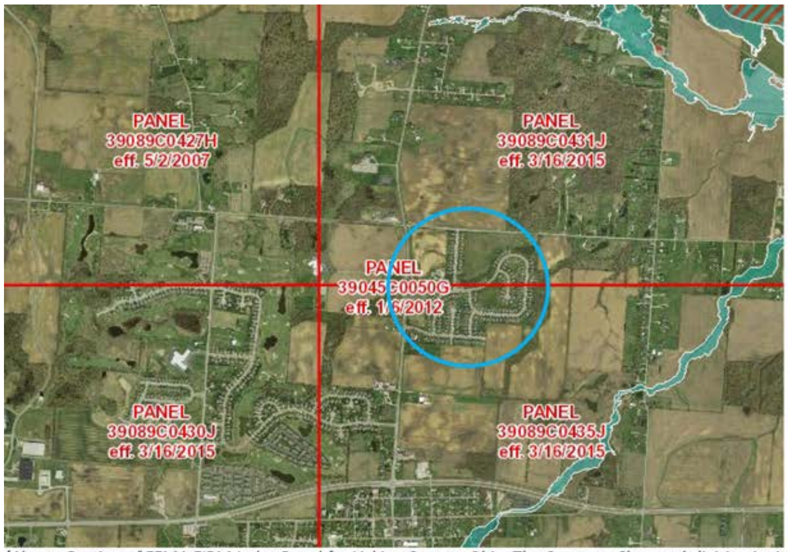
[3] Most insurance systems have some trigger for socializing risk of extreme events, such as a sufficiency standard based on a pre-identified event (i.e., a one-in-twenty-five year or one-in-one-hundred-year event) beyond which mechanisms like guaranty funds pay losses. Adopting an explicit standard of this type for the NFIP would provide clarity as to what its funding sources should be and give Congress and taxpayers an understanding of when NFIP debt should be forgiven. Such an approach has been suggested by the American Academy of Actuaries for Congress to consider as part of a broader set of NFIP reform considerations in their updated 2019 report *The National Flood Insurance Program: Challenges and Solutions*.

Cameron Chase is an 87-acre residential subdivision developed in the early 2000s in Licking County, Ohio. As a crow flies, it is 17 miles from downtown Columbus, Ohio (metro area population 2+ million). An unnamed stream flows through the subdivision:




*(Above: Aerial view of Cameron Chase division, Etna Township, Licking County Ohio. The unnamed stream is highlighted as the dashed blue line)*

On the FEMA maps that were effective at the time and even on today's maps, the unnamed stream is not mapped. Why? The old guideline for mapping these small streams was that you needed about 10 square miles of land draining into the stream for it to reach a threshold for FEMA mapping in rural areas. In the case of this tributary, it only had about 760 acres or just over one square mile of drainage. Also, the land previously had been a cornfield, and as a result never had enough property at risk for FEMA to map prior to development.




*(Above: Portion of FEMA FIRM Index Panel for Licking County, Ohio. The Cameron Chase subdivision is circled; note that the unnamed stream does not have a FEMA mapped floodplain – it does not show up until several miles downstream)*

Luckily, Licking County, Ohio has strong local floodplain management regulations that exceed federal minimum standards and the regulations required the developer to map the floodplain on any stream where one wasn't identified. Prior to development a flood study (similar to one that FEMA would prepare) was completed and the result? A 1% chance floodplain identified that ranged from 150 feet wide to 300 feet wide and more importantly a map to guide the proposed development. But most communities do not have such standards and what happens then? The development occurs with no flood standards. Well, this is what is happening in thousands of subdivisions across the country: areas that used to be cornfields and cow pastures are developing into subdivisions with tens of thousands of housing units. Later, after there is significant development already built at risk and often after a flood or two, FEMA comes in and maps it. Then the dynamic changes and everything becomes adversarial. People think FEMA put a floodplain on them, when it was there all along. The property owner is mad because they have to buy flood insurance at high premiums because flood elevations were unknown. Realtors are upset because it is a surprise and may have an impact on the future salability of homes. And local elected officials fight to minimize the size of the mapped floodplain, spending thousands of dollars on competing flood studies. The entire dynamic can change if maps showing risk are available <u>before</u> development starts. You can see from the FEMA flood map above that there are many existing farm fields that will be developed in the next few decades (and there are small streams running through them too). We must map today's corn fields and cow pastures to assure that quality flood mapping precedes development.

For most of the history of the NFIP, flood mapping was done to primarily support two functions of the NFIP: flood insurance rating and floodplain management standards. As a result, two pieces of data were typically produced: the 100-year and the 500-year flood. However, as the NFIP grew and as flood risk management became more important, the nation's citizens looked to the FEMA flood maps as the primary source of any kind of flood risk information for a given area.

In 2012, Congress, for the first time, authorized a National Flood Mapping Program (NFMP) as part of the NFIP reform legislation which took this more expansive view of flood mapping. It required, among other things, several new, mandatory types of flood risks to be shown on the nation's Flood Insurance Rate Maps (FIRMs) beyond the 100-year and 500-year flood including:

1. All populated areas and areas of possible population growth located within the 100-year and 500-year floodplains;
2. Areas of residual risk, including areas that are protected by levees, dams, and other flood control structures and the level of protection provided by those structures;
3. Ensuring that current, accurate ground elevation data is used;
4. Inclusion of future conditions risk assessment and modeling incorporating the best available climate science; and
5. Including any other relevant data from NOAA, USACE, USGS and other agencies on coastal inundation, storm surge, land subsidence, coastal erosion hazards, changing lake levels and other related flood hazards.

Unfortunately, ASFPM is not aware of any single flood map in the entire country that exists today where all of these data sets exist on either a FIRM panel or in the accompanying data FEMA provides. Therein lies the problem. We have had a National Flood Mapping Program authorized since 2012, but many key elements have not been implemented. In fairness to FEMA since 2012, progress has been made on improving the quality of the existing flood maps, in use of high resolution topography, and in the area of communicating information to communities and the public (either through the mapping process itself or through technologies and tools). Nevertheless, we believe these additional elements that Congress required are essential for an effective national flood mapping program. It is our understanding that lack of sufficient resources and funding has hampered FEMA's ability to implement these provisions of law.

What is the gap then? ASFPM believes that the gap lies in getting the job of initially mapping the nation done.

Consider:

- Based on the National Hydrography Dataset (NHD) and NOAA shoreline data, there are approximately 3.5 million miles of streams and rivers, and 95,471 miles of coastlines in the nation. **Currently, only 1.2 million stream miles and 45,128 shoreline miles have flood maps. By this metric, only about one-third of the nation has been mapped**.
- **Over 3,300, or roughly 15%, of NFIP communities have maps over 15 years old, with many of these over 30 years old and still having "un-modernized" paper maps**.
- **Many of the added mapping requirements from 2012 haven't even been started beyond preliminary studies and research.** This includes residual risk mapping around flood control structures and future

conditions mapping. A 2016 TMAC report reviewing the National Flood Mapping Program stated: *"To create technically credible flood hazard data, FEMA needs to address residual risk areas in the near term. Residual risk areas associated with levees and dams are of great concern."*

- In 2020, in a House Science Committee hearing examining FEMA's flood mapping program, FEMA recognized these mapping needs and testified that appropriations simply have not been enough to make meaningful progress on the additional mapping responsibilities identified under the National Flood Mapping Program.

ASFPM believes this gap in data is contributing significantly to the increasing flood losses in the nation. A 2018 study shows that the total US population exposed to serious flooding is 2.6–3.1 times higher than previous estimates, and that nearly 41 million Americans live within the 100-year floodplain (compared to only 13 million when calculated using FEMA flood maps). This translates into 15.4 million housing units. The same study indicates that over 60 million people live in the 500-year floodplain.

In 2020, ASFPM completed the update to its 2013 report *Flood Mapping for the Nation*, which modeled the costs to fully implement the National Flood Mapping Program under the 2012 Biggert-Waters Reform Act and complete the initial flood mapping of the nation. We conclude that it will cost between $3.2 and $11.8 billion to complete flood mapping in the nation and then cost between $107 and $480 million to maintain these maps as accurate and up-to-date.

To improve flood mapping in the nation:

- **ASFPM recommends the reauthorization, funding, and enhancement of the National Flood Mapping Program (NFMP).**
- **ASPFM supports an increased authorization for the National Flood Mapping Program to between $800 million to $1.8 billion annually in order to accelerate the completion of the job of initially mapping the nation in five years and getting to a steady-state maintenance phase.**
- **FEMA must complete the initial flood mapping of the entire nation to get ahead of development and must prioritize the elimination of the un-modernized paper map inventory in the nation.**
- **ASFPM urges consideration of an immediate surge of flood map funding investment to jump-start the completion of mapping the nation and associated new mapping tasks to provide critical information to guide the newly enacted significant investment in the nation's infrastructure.**

ASFPM notes that in 2016, a letter initiated by then Chairwoman Ranking Member Maxine Waters and signed by 43 House members, not only recognized the benefits of flood mapping, but urged Congress to get the job done by funding FEMA's mapping program at a level of $1.5 billion/year for five years. A stepped up commitment to mapping flood risk should really go hand-in-hand with our major infrastructure investment; otherwise, we risk making costly and important infrastructure vulnerable to both today's and tomorrow's flood risk.

## Floodplain Management (Floodplain Regulations, Training, Public Education)

To participate in the NFIP, states and communities must abide by minimum development standards and designate a NFIP coordinator. At the state level, this means that there is a NFIP coordination office that provides technical assistance and training to communities and the public, serves as a repository for the state's flood maps, ensures the state has sufficient enabling authority for communities to participate in the NFIP and is the lead agency to ensure that state development is consistent with NFIP minimum standards. At the local level this means that over 22,500 communities participate in the NFIP and have adopted minimum development and construction standards to reduce flood losses. As floodplain areas are identified and mapped throughout the nation, NFIP participating communities must adopt and enforce local floodplain management standards that apply to all development in such areas. We are pleased to note that, in response to a petition filed by ASFPM and the Natural Resources Defense Council, FEMA has embraced the call to re-evaluate and update its minimum floodplain management standards. These have not been updated since the 1980s.

NFIP standards are the most widely adopted development/construction standards in the nation as compared to building codes, subdivision standards, or zoning. FEMA has estimated that for approximately 6,000 of the NFIP participating communities, the only local codes they have adopted are their floodplain management standards. Today it is estimated \$2.4 billion of flood losses are avoided annually because of the adoption and implementation of minimum floodplain management standards. Often communities decide to adopt standards that exceed the federal minimums. For example, over 60% of the population in the United States lives in a community that has adopted an elevation freeboard – which requires the first floor of the building be at an elevation that is at least a foot higher than the base flood (or 100-year flood).

Why do communities participate in the NFIP and adopt local standards? State floodplain managers around the nation who have enrolled nearly all of the communities in the past 40 years know a major reason is to make flood insurance available to their citizens. If a community hasn't joined (there are still about 2,000 communities not in the NFIP), it is usually compelled to do so when a resident gets a federally-backed mortgage and needs to have flood insurance. While there are some non-participation disincentives in terms of restrictions on some forms of disaster assistance, such disincentives are weak and very limited. For most communities, they are not much of a disincentive at all, but getting flood insurance is a strong incentive. We must ensure changes to the insurance element of the NFIP do not undermine this incentive.

To enable the NFIP to provide better technical assistance to the 22,500 communities in the NFIP, the Community Assistance Program – State Supported Systems Element (CAP-SSSE) was developed in the 1980s. This program invests in building capability to do floodplain management at the state level in order to assist the communities in the state with their NFIP participation responsibilities because it would be impossible for FEMA to either directly assist that many communities or for the program to provide funding assistance to all communities in the program. It is important to recognize communities must meet the NFIP standards, they do so within the laws and framework that differs in each state, making it important states provide that assistance. For a modest total investment of around \$10 million annually, CAP-SSSE has leveraged state investment and staffing to create and maintain the capability to do effective floodplain management at the state and local level. The entire floodplain management budget (100%), which includes staffing, community and state technical assistance, and the Community Assistance Program (CAP-SSSE), is funded from the Federal Policy Fee. However, the CAP-SSSE program has not heretofore been explicitly authorized.

- **ASFPM recommends that a community assistance program which would provide resources to states be explicitly authorized with funding double its historic level to maintain and expand community technical assistance through effective state floodplain management programs.**

Additionally, the technical assistance provided through a robust, authorized CAP program is an excellent, proven framework to address equity and social justice issues as states with a comprehensive state floodplain management program can assist far more communities that are disadvantaged or have low capacity than can any program providing direct federal assistance. There are simply too many communities needing assistance for a direct federal model to be successful.

Although millions of American's homes are at risk of flooding, 21 states have no real estate disclosure laws. This makes it difficult for a home buyer to learn of a property's flood history. These states do not require sellers to tell prospective home buyers or renters whether a property has been damaged by a flood and limiting access to such information prevents people from making smart decisions about where to live. Unfortunately, many homeowners learn of their propensity to flood only after suffering through multiple disasters. The other 29 states have varying degrees of disclosure requirements. This hodgepodge of state and local policies hinders buyers from making fully informed decisions, and has a disproportionate impact on those that do not have the economic resources or options to make more informed decisions (another equity concern).

Additionally, there is no way for a prospective home buyer or realtor to determine if FEMA has ever paid out a flood insurance claim for a property or public or individual disaster assistance to the property or neighborhood post flood. Access to this data would provide more complete flood history for the property in order to help potential buyers make risk informed decisions. This data is currently unavailable to prospective buyers and realtors and access is significantly limited for community officials.

- **ASFPM supports a national real estate disclosure requirement for a property's flood history. Such a requirement could be tied to a state's participation in the NFIP.**
- **ASFPM supports providing prospective buyers, renters, property owners, and lessees full access to NFIP flood claims and disaster assistance data (IA and PA if applicable) thereby providing knowledge of flood claims and damage data to support effective decision making, risk awareness and management, and, where appropriate, mitigation or ultimate removal of buildings from high risk areas.**
- **ASFPM supports timely access to historical coverage and claims loss data, including all repetitive flood loss data for communities and states.**

For more than three years, ASFPM has been engaging FEMA to address access to certain policy and other data that might be classified as personally identifiable information (PII) under the Privacy Act. Previously, state and local floodplain and mitigation managers had access to information such as claims data provided it was used for official purposes such as implementing local floodplain management codes or for mitigation planning. However, two events conflated to inordinately restrict these data – Inspector's General reports where certain inappropriate uses of data were discovered (and uses that ASFPM would never support), and the implementation of FEMA's new PIVOT system and accompanying reporting tool which did not contemplate needing to provide these data to those involved in flood mitigation or floodplain management. Today, FEMA has implemented a cumbersome system where some states and communities cannot even agree to FEMA's legal agreement under which some of these data are provided. Further, it is the DHS Privacy Office – that has dictated this burdensome overall approach. Unfortunately, we are not optimistic that FEMA can solve this administratively on its own.

- **ASFPM recognizes that there are Privacy Act issues associated with the release of certain data and information; however, it is critical that such issues must be resolved and overcome if we are to make progress on flood risk reduction in the nation. One approach may for Congress to allow limited Privacy Act exemptions to improve disclosure and understanding of flood risks.**

In 2018, the Natural Resources Defense Council researched this topic extensively and developed an interactive website where each state's flood disclosure law can be reviewed.

## Flood Hazard Mitigation

The NFIP has two built-in flood mitigation programs: Increased Cost of Compliance (ICC) and Flood Mitigation Assistance (FMA). These NFIP funded mitigation programs have resulted in more than $1.3 billion in funds to reduce risk to thousands of at-risk, existing structures. The National Institute of Building Science's Multi-Hazard Mitigation Council, in its research about FEMA flood hazard mitigation projects, determined that such projects resulted in $6 in benefits for each $1 spent. ICC and FMA have mitigated, on average, 1,850 buildings annually between 2010 and 2014. ASFPM strongly supports both programs.

ICC is the fastest way to get flood mitigation done and is paid for 100% through a separate policy surcharge. Since it is simply part of the flood policy it isn't run like a typical grant, funds are available to the owner much quicker. It is a transaction between the insured and insurance company. 60% of ICC claims are used to elevate a building and 31% of the time ICC is used to demolish a building. Other techniques used are floodproofing or relocation of the building out of the floodplain altogether. From 1997 to 2014, ICC has been used to mitigate over 30,000 properties.

ASFPM has been frustrated for several years over the pace of FEMA's implementation of its own authority to make ICC much more useful. In 2004 ASPFM worked with Congress to add triggers to ICC, so currently there are four of them in the law:

- A building being substantially damaged,
- A building classified as a repetitive loss,
- A building where another offer of mitigation is being made,
- And the Administrator's discretion to offer ICC when it is in the best interest of the flood insurance fund.

Of these four, only one trigger is being utilized: when a structure has been determined to be substantially damaged. While FEMA will claim it also applies ICC to repetitive loss properties, it is only applied to that subset of repetitive loss properties that have also been substantially damaged. The point is that there are three triggers *in existing law* that could be used in a pre-disaster sense. We are pleased to note that there is demonstrated Congressional recognition of the value of investment in pre-disaster mitigation.

Another frustration with how ICC is currently being implemented is the determination of how the ICC premium surcharge is set by FEMA's actuaries. Currently funding for ICC is through a congressionally-mandated surcharge capped at $75 per policy. The latest data ASFPM has is for calendar year 2014 where ICC brought in approximately $74 million for mitigation. On average the ICC surcharge was about $15 per NFIP policy – which is far below the statutory cap. However, as ASFPM has been discussing changes to ICC, including increasing the ICC claim limit beyond $30,000, a response we often get is that FEMA would have a tough time making the changes because it is collecting as much as it can under the existing cap and that the surcharge rate is set using actuarial principles.

In its 2010 rate review, however, FEMA discussed how it was collecting more in ICC than it was spending and therefore adjusted downward the amount it would collect per policy in 2011. The result? In 2010 the surcharge collected $84.5 million and in 2011 the surcharge collected $78.2 million. The point of this is that the rate setting becomes a self-fulfilling prophecy – FEMA's decision not to implement ICC's other triggers has resulted in the program not being fully used. And its low utilization in turn led to FEMA determining that the rates should be lowered. So, it gives the appearance there is room under the existing cap. ASFPM believes there is room under the existing cap. We suggest that Congress look at setting a tiered amount that would be consistent with the existing cap limit and reflective of risk. ASFPM calculates that under such an approach an ICC surcharge set at $25 for BCX-Zone properties, $50 for actuarially-rated A- and V-Zone properties and $75 for subsidized A- and V-Zone properties, would generate approximately $227 million in revenue that could be used by policyholders to mitigate their flood risk.

ASFPM believes ICC needs two other adjustments by Congress to be more effective. First, while ICC is collected on every policy, FEMA believes the statute requires the ICC claim be counted toward the total claim limit. This means a home that gets a $250,000 damage claim, the amount available for ICC is $0. Second, the ICC claim limit is too low. Estimates to elevate a home range from $30,000 to $150,000 with an average closer to $100,000. While $30,000 is very helpful, it often does not come close to covering the mitigation cost, to be practical or feasible, especially for lower income homeowners.

- **ASFPM recommends the ICC claim limit be in addition to the maximum claim limit under a standard flood insurance policy and that ICC can be triggered by any hazard event, not just flooding.**
- **ASFPM recommends the "base" ICC claim limit be raised to at least $90,000, with the ability to purchase optional additional amounts of coverage.**
- **ASFPM recommends that Congress specifically allow FEMA to utilize the available ICC amount for both demolition and acquisition costs as a means of compliance, when the claim is assigned to the community and deed restricted as open space.**
- **ASFPM recommends Congress waive any rulemaking requirements that may be an impediment to quickly implementing the pre-disaster triggers for ICC and allowing demolition and acquisition costs.**

FMA operates like a typical grant program where a community applies through the state with a grant application. Further, FMA also funds other types of mitigation that can address issues on the neighborhood- or community-scale such as stormwater management systems to reduce flood risk and flood mitigation plans. In recent years, the priority for the FMA program has been repetitive loss and severe repetitive loss properties. While this is an important objective, ASFPM worries that an exclusive focus on such projects is increasingly resulting in a gap where no assistance is available for properties that desperately need assistance, such as older pre-FIRM, non-repetitive loss structures for which insurance rates may be increasing significantly. ASFPM recommends that accommodations be made for these types of properties as well, when FEMA formulates its new policy guidance.

Repetitive loss claims unnecessarily drain the National Flood Insurance Fund, and today, there are at least 160,000 repetitive loss properties. Because increased flooding keeps adding more repetitive loss buildings, hazard mitigation efforts have been insufficient to reduce flood damage to older structures and ultimately to reduce the overall number repetitive loss properties. Current mitigation programs within the NFIP have been underfunded and have been unable to reduce the overall number of repetitive losses in the country. ASFPM appreciates that the Congress has provided a one-time, multi-year surge in funding for the FMA program to significantly address the growing number of repetitive loss properties and improve the financial stability of the NFIP. This, combined with increased annual funding will greatly help reduce the repetitive loss building in the nation.

Another idea for expanding mitigation that has merit is flood mitigation loan programs. After Superstorm Sandy, ASFPM worked with HUD to clarify that their Federal Housing Administration 203K loan program was available for flood mitigation purposes. Certainly loans have their place as a flood mitigation approach. ASFPM supported Congressional passage of the STORM Act and its funding of $500 million in the Infrastructure Investment and Jobs Act (IIJA). This will provide funds to capitalize state mitigation revolving loan programs.

ASFPM supports improvements to FEMA mitigation grant programs, like FMA, to better address equity and social vulnerability. Increasingly, it is recognized that traditional benefit-cost analysis (BCA) that focuses primarily on damages and losses avoided favor high value homes and communities, and it does little to recognize issues of social vulnerability. Further, FEMA's longstanding, restrictive interpretation and limited application of the Uniform Relocation Act assistance results in inequities, especially for those vulnerable populations who ultimately cannot participate in a mitigation project due to the inability to secure comparable safe, sanitary and affordable housing. We've offered ideas in the past such as excluding costs of complying with other federal laws like URA and environmental compliance laws from BCA calculations, which would result in mitigation grants being more equitable, as well as making progress on environmental justice issues.

- **To address FEMA's equity goal in its strategic plan, FEMA should consider changes to its approach for benefit-cost analysis to more fully account for the range of benefits and exempt the costs associated with assistance provided through Uniform Relocation Act and compliance with other federal and state health and environmental regulations from the benefit-cost calculation.**

## Flood Insurance

Flood insurance is the easiest way for a property owner to manage their flood risk. It was also viewed by the original authors of the program as a way to more equitably share risks and costs of development decisions. Yet too few property owners and renters carry flood insurance. Today it is estimated 10% of the population lives in an identified floodplain and that number is projected to grow to 15% by the year 2100 based on natural population growth and future conditions (land use, development, and climate change). While the NFIP provides some standards to reduce flood losses to new development, it has not encouraged or helped communities avoid development in high flood risk areas. It is also estimated the number of policies increasing by 100% and the average loss per policy increasing by 90% in 2100. [4] The point is that these trends show growth in the human occupation of flood hazard areas and the potential damage that may result. As we have pointed out earlier, there are many more miles of rivers, streams and coastlines that aren't even yet mapped (which is why it is not

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[4] *The Impact of Climate Change and Population Growth on the National Flood Insurance Program through 2100. 2013.*

surprising that 25% of NFIP claims and 1/3 of federal disaster assistance come from outside of mapped floodplains)[5].

## Flood Insurance Affordability

The aforementioned 2020 NAC report describes how the NFIP "inadvertently assists the wealthier segment of the population by serving only those who can afford flood insurance." Although reforms in 2012 and 2014 did put all properties on the path to full risk rating, it also affected flood insurance affordability. Unfortunately, a long-term solution to affordability was not included in either BW-12 or HFIAA. However, through Risk Rating 2.0, FEMA argues that in addition to making the program more equitable, it also will result in making flood insurance more affordable to those who are likely most sensitive to higher flood insurance rates, fixing the legacy rating approach which resulted in low-value homes paying too much and high-value homes paying too little. Additionally, ASFPM has identified three reforms that may have an impact on flood insurance affordability.

Over the past several years, the need for a means-tested program to provide premium subsidies to address affordability concerns has gained traction. ASFPM is very supportive of the concept. We point out that such a program must include two provisions: 1) that the subsidy is shown separate from the premium so that the policyholder better understands the underlying flood risk, and 2) that the subsidy be paid for outside of the NFIP and therefore by taxpayers versus NFIP policyholders as the benefits accrue to society at large versus other NFIP policy holders. It seems appropriate that such a program would be inclusive of an equity standard that has been proposed by FEMA's National Advisory Council, FEMA's new strategic plan, and the Administration's Executive Order 13985 on equity and racial justice.

- **ASFPM supports a needs based, equitable flood insurance premium assistance program. However, the subsidy should remain separate from the premium in order to properly communicate flood risk and it should be paid for outside of the NFIP as the benefits of the program are to society at large.**

In 2014, to meet House PAYGO rules, there was a large surcharge imposed on non-primary residences, small businesses and other non-residential structures. The surcharge is neither risk-based nor need-based. Premium increases and surcharges have led to a notable reduction in policies in force, declining from a high of 5.5 million to about 5.1 million today.

- **ASFPM recommends the elimination of the PAYGO surcharge established in 2014 to improve flood insurance affordability and equity with private flood policies. This will take an additional cost burden off of small businesses.**

A third reform that is presently being debated is the cap on flood insurance premium increases. ASFPM does not have a specific recommendation on a suggested rate cap; rather, we would remind the committee that generally rate caps that are too aggressive (too high) reduce the glide path to actuarial risk rating and therefore could

[5] *FloodSmart Flood Facts. Webpage accessed 3/14/17.*

exacerbate the problem of flood insurance affordability, while rate caps that are lower could help with flood insurance affordability and give owners time to consider and implement rate reducing flood mitigation options.

## The Private Flood Insurance Market

Since 2012, previous NFIP reforms have led to a robust private market for flood insurance. Reforms to stimulate more private market participation have worked as intended. ASFPM very much believes a strong NFIP can co-exist with the private market offering flood insurance as long as both are on equal playing fields. In other words, neither the NFIP nor the private market should be at a competitive disadvantage. The result can be coverages that complement each other. For example, private insurers depend on NFIP maps and agree local floodplain regulations help all insurance by reducing risk, yet private policies do not have to include the Federal Policy Fee to help pay a share of the flood mapping and floodplain management costs. The wholly unfair PAYGO surcharge has allowed private policies to be written using FEMA rate tables and the private sector is profiting on the difference between the loaded NFIP policy (with surcharges and fees) and private sector policy that does not have to charge such fees. ASFPM further believes that with the increase in the number of private flood insurance policies, it is even more important that the NFIP continue to be widely available when the private sector no longer writes policies in an area due to the concentration of risk or claims.

In 2019, the mortgage regulators issued a final rule which directly conflicts with statute when it comes to what type of flood insurance policy qualifies to meet the mandatory purchase requirement. While rulemaking had gone on for some years, the "discretionary acceptance" approach appeared in the latest, final version with no opportunity to comment. The primary issue is that Congress mandated that private flood insurance policies that were sold to for properties to meet the mandatory purchase requirement had to have coverages and deductibles "at least as broad as" a NFIP policy. This means that such private sector policies must have a coverage similar to ICC, to provide resources to come into compliance with flood codes and have deductibles that aren't too excessive – a cheap flood insurance policy does a property owner no good if the deductible exceeds their ability to pay. Yet the "discretionary acceptance" alternative would allow policies without these provisions. Such a loophole hurts property owners and will lead to greater dependence on federal disaster assistance – contrary to the foundational goals of the NFIP. Additionally, the private flood insurance market that has grown rapidly the past seven years has done so without the loophole being in effect.

- **ASFPM recommends Congress eliminate the Lender regulators 2019 "discretionary acceptance" rule that allows lenders to decide whether to accept private policies not meeting the specific requirements set by Congress for private flood policies.**

The private insurance industry uses FEMA flood maps in various ways: sometimes to calibrate their risk assessment models, and sometimes to determine basic eligibility of their private flood insurance product. Certainly the most impactful part of flood mapping for private industry is the identification of where the mandatory purchase requirement is in effect. Industry officials that ASFPM talks with all support the floodplain management efforts in a community that provides a meaningful program of risk reduction. Given that 100% of the Federal Policy Fee goes to mapping and floodplain management, it is only equitable that private policies help pay for these functions and that they are not just borne by NFIP policyholders.

- **ASFPM recommends an *equivalency fee*, equal to the Federal Policy Fee, be assessed on all private flood insurance policies sold to meet the mandatory purchase requirement.**

As private flood insurance becomes more widely and easily available, provisions must be made to ensure such policies can only be made available to meet the mandatory purchase requirement if the community participates in the NFIP. Why? For thousands of communities in the NFIP, the primary reason for joining the program is the availability of flood insurance to meet the mandatory purchase requirement. As a requirement of joining, communities agree to adopt and enforce local floodplain management standards. As a result, floodplain management standards are the most widely adopted in the United States – exceeding the coverage of building codes, subdivision regulations and zoning. The adoption and enforcement of these codes, in turn, reduces future flood risk to the individual, businesses, communities and taxpayers. ASFPM members understand that once you remove the incentive for joining (flood insurance availability) thousands of communities may rescind their codes, drop out of the NFIP, and rely on the private policies to meet needs of property owners without the administrative burden of adopting and enforcing local codes and the likely future result of more development in flood risk areas. Particularly susceptible to this are small communities with low policy counts and where more development will occur. As stated earlier in this testimony, most communities in the nation already participate in the NFIP. And while the private industry is still emerging, let's be partners in persuading communities to comprehensively reduce flood losses. Finally, this fee has no cost to the private insurance industry.

- **ASFPM recommends that when private flood insurance policies are sold to meet the mandatory purchase requirement, they can only be sold for that purpose within NFIP participating communities.**

Finally, ASFPM is concerned about the availability of private claims and policy data for the purposes of floodplain management and flood mitigation planning and programs. For decades FEMA has provided these data to local and state officials to assist with substantial damage determinations, flood recovery, flood mitigation grants, Community Rating System participation and flood mitigation planning. There should be a requirement that private flood insurance providers share comparable policy data to state and local floodplain managers.

## Other Flood Insurance Issues

Community floodplain managers often hear complaints about the NFIP centered around what is covered and what is not; and the inability to get additional coverages like living expenses as part of a NFIP policy. ASFPM has been impressed with FEMA's customer experience initiative after Superstorm Sandy with FEMA committing to improving the insurance product it sells. Yet FEMA is constrained by a cumbersome rulemaking process that can take years to complete.

- **ASFPM recommends Congress give FEMA the flexibility to offer additional flood insurance policy options and make changes to existing options without the need for extensive rulemaking.**

Consistent with ASFPM's overall philosophy laid out in this testimony, the roll-out of Risk Rating 2.0 should strive to do no harm to the floodplain management and flood mitigation elements of the NFIP. As the roll-out of the program continues, while recognizing the many benefits of Risk Rating 2.0, many of our members have expressed concerns about how this will impact floodplain management and flood mitigation. ASFPM has been engaging with FEMA to answer questions on how these changes will affect how floodplain managers assist property owners, how it will impact mitigation grant programs, and to ensure that tools and information is developed to address these issues. We urge the Committee's continued oversight to ensure that the roll-out of Risk Rating 2.0 recognizes and addresses the needs of all of the NFIP's partners and stakeholders.

## In Conclusion

Floods are this nation's most frequent and costly natural disasters and the trends are worsening. The NFIP is the nation's most widely used tool to reduce flood risk through an innovative and unique mix of incentives, requirements, codes, hazard mitigation, mapping and insurance. At the same time, we understand the four main pillars of the NFIP are interconnected; and making significant changes to one pillar without thoughtful consideration of the impact on the other three can erode the program overall. The NFIP is a key tool in the toolbox that serves policyholders, taxpayers and the public well.

The Association of State Floodplain Managers appreciates this opportunity to share our observations and recommendations with the Committee. For any questions, please Karen McHugh, ASFPM Region VII Director at Karen.McHugh@sema.dps.mo.gov ; Chad Berginnis, ASFPM Executive Director at *cberginnis@floods.org* ; or Merrie Inderfurth, ASFPM Washington Liaison at *merrie@floods.org*.

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**UNITED STATES HOUSE
COMMITTEE ON
FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING, COMMUNITY
DEVELOPMENT AND INSURANCE**

**HEARING ON
"REAUTHORIZATION AND REFORM OF THE
NATIONAL FLOOD INSURANCE PROGRAM"**

**MAY 25, 2022**

Chairman Cleaver, Ranking Member Hill, and members of the Subcommittee on Housing, Community Development and Insurance, thank you for the opportunity to testify during today's hearing on "Reauthorization and Reform of the National Flood Insurance Program," and thank you for your interest in the U.S. property casualty (re)insurance industry.

I am Frank Nutter, President of the Reinsurance Association of America (RAA). The RAA is the leading trade association of property and casualty reinsurers doing business in the United States. RAA membership is diverse, including reinsurance underwriters and intermediaries licensed in the U.S. and those that conduct business on a cross border basis. The RAA also has life reinsurance affiliates and insurance-linked securities (ILS) fund managers and market participants that are engaged in the assumption of property/casualty risks. The RAA represents its members before state, federal and international bodies.

The RAA appreciates the Committee starting a formal conversation on reauthorization and reform of the NFIP. The RAA supports a long-term reauthorization of the NFIP and reforms, specifically those that:

- Strengthen NFIP's financial framework and resiliency,
- Facilitate the development of a private flood insurance market,
- Close the flood insurance protection gap, and
- Create resilient and insurable communities.

**Introduction**

A guiding principle of the Federal government's natural disaster policy should be to protect U.S. taxpayers by managing the nation's escalating natural disaster risks, reducing those risks over the long-term, and promoting environmental stewardship. The NFIP was established on the fundamentally sound principles of encouraging natural disaster mitigation and promoting the use of insurance to reduce post event disaster assistance. In 1973, George Bernstein, the first Federal Insurance and NFIP Administrator, cautioned prophetically: "It is the combination of land use controls and full actuarial rates for new construction that makes the National Flood Insurance Program an insurance program rather than a reckless and unjustifiable giveaway program that could impose an enormous burden on the vast majority of the Nation's taxpayers without giving them anything in return."

For decades, Bernstein's warning was ignored, and today the NFIP remains on the U.S. Government Accountability's (GAO) "High Risk List," where it has been since 2006.[1] As of FEMA's most recent NFIP financial statement, the Program is $20.5 billion in debt.[2] According to the most recent GAO report that examined NFIP policies with subsidized rates, 17% remained subsidized and around 9% were receiving grandfathered rates, meaning that "property owners whose properties are remapped into higher-risk flood zones… continue to pay the premium rate from the lower-risk zone."[3] GAO also anticipates an increase in the frequency and severity of floods, the number of catastrophic floods, and the number of repetitive loss properties, the latter of which accounted for $22.2 billion (32%) of the $69.7 billion in claims paid by NFIP from 1978 to 2019.[4]

Subsidized rates were introduced early in the Program as an inducement for communities to enter the Program. It was a successful strategy. Nearly 22,000 communities now participate. However, it was the intent of the original legislation that subsidized rates and the properties to which they apply would to be gradually eliminated. For decades, rates in the NFIP were subsidized without regard to the present character or ownership of the property. Additionally, the Program originally was designed to address primary residences, yet second homes, investment, and vacation properties received the benefit of subsidized rates for decades. Congress should recognize that subsidized rates and statutory caps on rates may be popular with beneficiaries, but subsidized rates and caps distort risk assessment by builders, local officials, property buyers and NFIP policyholders. They increase the cross subsidy from low or no risk persons and taxpayers to those living in high-risk flood areas. The classic "robbing Peter to pay Paul" analogy applies. The Program's subsidies also have facilitated the development of environmentally sensitive coastal areas, including those at high risk to flood losses.

For the first four decades of the program, NFIP was modified by legislative compromises, rather than sound public policy, insurance principles and practices. Congress and FEMA should be commended, however, for recently taking steps to address these fundamental flaws in the NFIP and toward removing inequitable and unjustifiable rate subsidies. As a result, the NFIP is today on a path toward a stronger financial framework and resiliency to pay claims without additional

[1] https://www.gao.gov/high-risk-list; https://www.gao.gov/highrisk/national-flood-insurance-program
[2] https://www.fema.gov/sites/default/files/documents/fema_fy2022-q1-watermark.pdf
[3] https://www.gao.gov/assets/gao-20-508.pdf
[4] https://www.gao.gov/assets/gao-20-508.pdf

borrowing from taxpayers. The RAA urges Congress to avoid retreating from this progress and strongly encourages Congress to fully examine reforms that will improve the program to the benefit of those with homes, businesses, and communities facing flood risk and taxpayers alike.

**Strengthen NFIP's Financial Framework and Resiliency**

As it currently operates, the NFIP is not an insurance program. But it should and can be, and thanks to the "National Flood Insurance Program Extension Act" (NFIP Extension Act) and the "Biggert-Waters Flood Insurance Reform Act of 2012" (Biggert-Waters), it is on a path toward becoming an insurance program.[5] That legislation introduced private sector risk assessment into the NFIP therein retaining the proper role for government in land use planning and hazard mitigation and re-establishing the flood risk management program as a public-private partnership. FEMA's implementation, over the last decade, of the NFIP Extension Act, Biggert-Waters, and the "Homeowner Flood Insurance Affordability Act of 2014 (HFIAA)," introduced fuller application of risk-based rates and an appropriate risk-bearing role for the private reinsurance sector, which have started to transform the NFIP. Specifically, FEMA improved NFIP's financial framework and resiliency by successfully establishing the NFIP Reinsurance Program and updating the NFIP's risk rating methodology through the implementation of Risk Rating 2.0 (RR 2.0), a new pricing methodology. Future flood reform legislation, at a minimum, should preserve and support these initiatives to continue to strengthen NFIP's financial framework and resiliency so that it can pay claims, especially after catastrophic events. By continuing down this path, the NFIP could achieve the goal of protecting taxpayers and the Treasury, thereby returning the Program to its original goal of being fiscally sound.

***Reinsurance***

**Background.** Reinsurance is essentially insurance for insurance companies. It is a successful, critical, and efficient risk management tool used by private sector companies and government programs to provide a crucial safety net for low frequency, high severity natural and man-made events that result in extreme insured losses. Reinsurance helps the private sector companies and government programs improve capacity and financial performance, enhance financial security, and reduce financial volatility. Insurers rely on reinsurers to assume losses for a single event or, in many cases, for an accumulation of losses from hurricanes, earthquakes, winter storms, wildfires, or terrorist attacks. Some historic events illustrate this. Hurricanes Katrina, Rita and Wilma in 2005 caused over $92 billion in insured losses, and reinsurers bore around 28% of the losses from those events.[6] Reinsurers assumed 55% of $41 billion in insured losses from the terrorist events of September 11.[7] Superstorm Sandy caused $25 billion in insured losses with reinsurers taking 30% of those losses.[8]

Reinsurance also is the primary mechanism for spreading risk globally, thereby accessing a greater pool of capital to pay for inevitable catastrophic losses. Reinsurance is extensively used by the private markets to diversify risk and protect against future losses. Reinsurance is purchased for essentially four reasons: (1) to limit liability on specific risks; (2) to stabilize loss experience; (3)

[5] Public Law No: 112-123, https://www.congress.gov/112/plaws/publ123/PLAW-112publ123.pdf; Public Law 112-141, https://www.congress.gov/112/plaws/publ141/PLAW-112publ141.pdf
[6] Holborn Corporation, "Holborn Perspectives, Looking Closer At…SuperStorm Sandy," December 12, 2012
[7] Holborn Corporation, "Holborn Perspectives, Looking Closer At…SuperStorm Sandy," December 12, 2012
[8] Holborn Corporation, "Holborn Perspectives, Looking Closer At…SuperStorm Sandy," December 12, 2012

to protect against catastrophes; and (4) to increase capacity. Depending on the purchaser's goals, different types of reinsurance contracts are available to bring about the desired result.

For Federal programs, purchasing reinsurance can mitigate the financial impact of any large-scale future losses and help to prevent any future funding lags as it is pre-arranged financing for losses. Reinsurance also allows Federal programs to gain financial flexibility and not be forced to rely on emergency Federal funding in the event of defaults that could put programs in jeopardy. Reinsurance has been used by Federal programs, including FEMA's NFIP, the Export-Import Bank of the U.S., and the Government Sponsored Enterprises, Fannie Mae and Freddie Mac. It also has been used by state programs, including the California Earthquake Authority, California Wildfire Fund, Florida Hurricane Catastrophe Fund, and Florida Citizens Property Insurance Corporation.

Consistent with the intent of Congress, reinsurers believe the private sector can and should voluntarily assume more Federal government risk and help manage exposure to losses. The use of private capital will protect consumers, taxpayers, and communities, while spreading risk throughout the globe to insurers and other capital providers who are willing to assume such risk. Risk transfer via reinsurance and the capital markets will strengthen government programs by giving them the financial flexibility to ensure they continue to remain viable in the long term. Reinsurers are poised to work with the Congress and the Administration to expand and maximize the Federal government's utilization of the private market to the extent the industry can write the risk.

**FEMA's NFIP Reinsurance Program.** The RAA supports FEMA's NFIP Reinsurance Program and requests that it be preserved in NFIP reauthorization and reform legislation.[9] The RAA has long advocated for the NFIP to utilize the private market to help manage the financial burden of the NFIP's catastrophic flood risk. The NFIP Reinsurance Program has successfully enlisted private reinsurance and capital, which has strengthened the NFIP's resilience and ability to pay policyholder claims after catastrophic floods and helped to protect taxpayers against NFIP losses following an extreme flooding event. The benefit of the NFIP Reinsurance Program was evident when over $1 billion in reinsurance was recovered by FEMA to pay claims resulting from Hurricane Harvey in 2017 (additional details below). In 2022, for the sixth consecutive year, FEMA successfully administered its NFIP Reinsurance Program that transfers risk from the NFIP to the capital markets, specifically through reinsurance placements and catastrophe bond issuances.

As noted above, several Federal government agencies already have risk transfer programs in place. These programs highlight the ways in which risk transfer can succeed for government agencies. The best example of an ongoing Federal risk transfer program is FEMA's NFIP Reinsurance Program. The NFIP Reinsurance Program enables the NFIP to utilize the private market to help manage the financial burden of the NFIP's catastrophic flood risk by providing financial backing for the government's flood risk, protecting taxpayers, and helping the program to be more resilient and pay claims. In 2016, FEMA, launched its NFIP Reinsurance Program via a pilot and, in 2017, transferred $1.042 billion of the NFIP's financial risk to 25 reinsurers, offsetting some of NFIP's risk to the private sector instead of U.S. taxpayers. In the program's first year (2017), FEMA collected the full $1.042 billion from the private reinsurance sector to help pay the cost of NFIP

[9] https://www.fema.gov/flood-insurance/work-with-nfip/reinsurance

losses and claims resulting from Hurricane Harvey. This 2017 coverage, which also improved NFIP's financial viability and protected taxpayers, cost $150 million, and the program successfully renewed the subsequent year. This is a true testament of successful private public partnerships. Following the 2017 placement, the program was renewed and currently has reinsurance coverage through 2025. For FEMA's traditional reinsurance placements from 2017 through February 2022 and capital market reinsurance placements from 2018 through February 2022, FEMA paid a total of $1.75 billion in premium to reinsurers and the capital markets, received $1.042 billion from reinsurers as previously mentioned, and has up to $2.664 billion available to collect after a qualifying 2022 loss event.[10] The initial 2017 purchase marked key first steps towards helping the NFIP achieve long term resilience and financial stability and was crucial in enabling the reinsurance program to be a long-term project.

The RAA also supports H.R. 3417, the "Taxpayer Exposure Mitigation Act," introduced by Representative Blaine Luetkemeyer (R-MO), which "requires FEMA to purchase reinsurance or some capital market alternative to protect taxpayers from footing the bill for future losses."[11] The bill enhances the NFIP Reinsurance Program and includes important factors for FEMA to consider as part of risk transfer.

***Risk-Based Pricing***

After enactment of the NFIP Extension Act, Biggert-Waters, and the HFIAA, FEMA undertook a process to better protect taxpayers and manage the nation's escalating risk of flooding by improving its risk rating methodology. As stated on its website, "FEMA is updating the National Flood Insurance Program's (NFIP) risk rating methodology through the implementation of a new pricing methodology called Risk Rating 2.0. The methodology leverages industry best practices and cutting-edge technology to enable FEMA to deliver rates that are actuarily sound, equitable, easier to understand and better reflect a property's flood risk."[12] The RAA strongly supports RR 2.0, which would more precisely reflect the real risk of flooding of properties with more advanced actuarial tools and catastrophe models.

**Key Takeaways from FEMA's Public NFIP Data.** FEMA publicly released data on the impact of RR 2.0 on current NFIP policies for the first year of its implementation. Based on this data, the RAA developed an analytical tool to understand the data and RR 2.0's potential impact on NFIP policyholders. Separately, FEMA publicly released general, historical NFIP data, and RAA is developing a separate analytical tool to understand that data. FEMA's data has provided a variety of insights about the improvements RR 2.0 made over the previous NFIP risk rating methodology.

For context, NFIP provides flood insurance to around 5 million policyholders. Of these, around 3.4 million (67%) are policies for single family homes, including primary residences, second homes and vacation properties, as well as dwelling contents. Around 1.6 million (33%) are policies for commercial, multifamily, and other structures. FEMA's publicly available RR 2.0 data

[10] https://www.fema.gov/press-release/20220223/fema-expands-its-reinsurance-program-transfers-450-million-flood-risk; https://www.fema.gov/flood-insurance/work-with-nfip/reinsurance; https://www.fema.gov/sites/default/files/documents/fema_fy-2021-q4-watermark.pdf; https://www.fema.gov/sites/default/files/2020-05/FIMA_Watermark_FY19Q4.pdf; https://www.fema.gov/sites/default/files/2020-05/fima-watermark-2018-q4.pdf; https://www.fema.gov/sites/default/files/documents/fema_fy2022-q1-watermark.pdf

[11] https://luetkemeyer.house.gov/news/documentsingle.aspx?DocumentID=400530

[12] https://www.fema.gov/flood-insurance/risk-rating

generally distinguishes between single family policies and all other policies and is provided at a zip-code level. FEMA has not publicly released more granular data to distinguish among single family policies - primary residences, second homes, vacation properties, and dwelling contents.

FEMA's data demonstrates that around 1.1 million (23%) of NFIP policyholders' premiums are expected to decrease in the first year under RR 2.0, which to our knowledge, has never occurred during the NFIP's history and would not have occurred under FEMA's previous pricing methodology. Under FEMA's pricing methodology that preceded RR 2.0, all NFIP policyholders' premiums were scheduled to increase. As a result of RR 2.0, 23% of NFIP policyholders collectively are scheduled to save an estimated $41 million. Under RR 2.0, around 66% of NFIP policyholders' premiums will remain stable, meaning that they will have no increase ($0.00) or an increase of up to $10 per month. In total, around 89% of NFIP policies will see a decrease in their premium or have a stable premium, as compared to the 100% of NFIP policyholders' premiums that were scheduled to increase under FEMA's previous pricing methodology.

Under RR 2.0, as was the case under FEMA's previous pricing methodology, some policyholders' premiums for single family residences will increase. Specifically, around 7% of policyholders' premiums for single family residences will increase by a modest amount, $10 to $20 per month. And around 4% of policyholders' premiums for single family residences will increase by a large amount, $20 or more per month.

To better understand the impact of decreases and increases to policyholders' premiums for single family residences, the RAA conducted an analysis of FEMA's RR 2.0 data against income data derived from the "American Community Survey" (ACS) by the U.S. Census Bureau, U.S. Department of Commerce.[13] The results of this analysis conclude that:

- There are around 495,000 NFIP single family residence policies located in low to moderate-income zip codes for which premiums will *decrease* under RR 2.0. These policies represent around 15% of all NFIP single family residence policies. Of all NFIP single family residence policies, around 100,000 are in low to moderate-income zip codes *and* have premiums that are scheduled to decrease by $100 or more per month. As noted above, 0% of policyholders' premiums would have decreased under FEMA's previous pricing methodology.

- There are around 78,000 NFIP single family residence policies located in low to moderate-income zip codes for which premiums will *increase* by a large amount ($20 or more per month). These policies represent around 2.97% of all NFIP single family residence policies, which are fewer than the approximately 3.32% of all NFIP single family residence policies located in low to moderate-income zip codes for which premiums would have increased by a large amount under FEMA's previous pricing methodology. Of all NFIP single family residence policies, around 300 are located in low to moderate-income zip codes and have premiums that are scheduled to increase by $100 or more per month.

[13] The RAA's analytical tool price-parity-adjusted ACS income data using price parity factors from the U.S. Department of Commerce, Bureau of Economic Analysis. As previously noted, FEMA's data on policies for single family residences does not distinguish among primary residences, second homes and vacation properties, and dwelling contents. The RAA preliminarily estimated, with point-in-time, general NFIP data and separate and previous to RR 2.0 – that 38% of NFIP single family residence policies are non-primary residences.

Appendix A includes a distribution of RR 2.0 premium changes by single family policy count and estimated premium amounts under RR 2.0, and it also categorizes changes by zip code level median household income.

**Affordability.** Separately, the RAA has confirmed with FEMA that under the current RR 2.0 pricing methodology, the maximum annual premium amount for a single family residence policy for 2022 is $12,125. Under FEMA's previous pricing methodology, the maximum any NFIP single family policyholder paid was $45,925.[14]

In addition, it should be noted that single family residence policies that are primary residences will continue to be subject to the 18% statutory cap on annual rate increases, which Congress enacted as part of the "Homeowner Flood Insurance Affordability Act of 2014 (HFIAA)." That annual cap applies unless those structures are deemed severe repetitive loss properties. That said, the RAA recognizes that it may be challenging for some NFIP policyholders faced with significant flood risk to pay their flood insurance premiums and offers its assistance to Members of Congress to help develop targeted, need-based solutions for individual policyholders and, in some cases, a community of policyholders. The RAA has a broader proposal, discussed below, to use a data-driven approach to identify communities that are the most in need and most at risk of natural disasters, especially those that are at risk of flooding, and prioritizing and directing public funding and private sector investments to improve resilience in those communities.

According to FEMA, "The goal of Risk Rating 2.0 is to deliver easy-to-understand premiums that are distributed more equitably across all policyholders based on the replacement cost value of their home and their property's unique flood risk."[15] In other words, FEMA's previous pricing methodology failed to take into consideration property-specific replacement cost value and property-specific flood risk, so some policyholders were overpaying for their NFIP flood insurance. FEMA released data comparing RR 2.0 to its previous pricing methodology, and the RAA's analysis of that data (Appendix B, Single Family NFIP Policies) clearly demonstrates that, under RR 2.0, higher premium increases are attaching on average to higher value properties. But, if the previous pricing methodology remained in place, higher premium increases would be attaching on average to lower value properties. FEMA's data demonstrates that its RR 2.0 pricing methodology is more equitable, especially for policyholders with low-value properties. A recent NPR article also described this RR 2.0 impact for select neighborhoods in the Philadelphia, Pennsylvania area.[16]

**Build for Future Disasters.** The RAA supports bipartisan legislation, the "Build for Future Disasters Act of 2021" (H.R. 2632), introduced by Representatives Scott Peters (D-CA) and Andy Barr (R-KY), "…to end the costly cycle of building, flooding, and rebuilding perpetuated by the NFIP. The Build for Future Disasters Act would end NFIP subsidies for newly-constructed properties in areas vulnerable to flooding. Properties built in 2025 and thereafter would be subject to rates that reflect up-to-date flood risk information. These new constructions would not qualify for a subsidy, while structures built before 2025 in flood zones or re-mapped into flood zones would still be eligible for grandfathering subsidies. The bill also requires the U.S. Government Accountability Office to study the feasibility and implications of lowering all subsidies to a point

[14] https://www.nahb.org/-/media/NAHB/advocacy/docs/top-priorities/flood/risk-rating-fact-sheet.pdf
[15] https://www.fema.gov/sites/default/files/documents/fema_nfip-flood-insurance-manual-sections-1-6_oct2021.pdf
[16] https://whyy.org/articles/flood-prone-eastwick-federal-flood-insurance-pricing-system/

that puts the NFIP on a path to stronger financial footing. Together, this would reduce taxpayer burden, stop growing government risk, and quash the implication the risk must be low if insurance is cheap."[17] The RAA applauds Reps. Peters and Barr for recognizing that the vicious cycle of build-flood-rebuild is not in the best interests of the NFIP, nor the American taxpayers who are ultimately on the hook for the costs associated with the program.

Unfortunately, one of the draft bills under consideration, as part of today's hearing, would "limit the annual increases in premiums and surcharges under [NFIP]."[18] The draft bill would eliminate "catastrophic loss years" as part of the calculation of an "average historical loss year" as part of FEMA's method to determine rates for NFIP policies. The same draft bill reduces the current 18% cap to 9% for the maximum allowable cost increase (to include chargeable premiums, surcharges, and fees) for any individual policy, regardless of a policyholder's income level. This change would result in an immediate reduction in the scheduled premium increases for second homes, vacation homes, and investment, business, and other commercial properties, Severe Repetitive Loss properties, mis-rated and lapsed policies, and policies where an offer of mitigation assistance has been refused by the owner. The RAA opposes this draft bill in its current form.

**Facilitate Development of a Private Flood Insurance Market**

Flood reform legislation should facilitate the development of a private flood insurance market with the NFIP risk-based pricing reforms mentioned above, by removing impediments to consumer choice, and by increasing flood insurance options for consumers.

**Removing Impediments to Consumer Choice.** Flood insurance uncertainty for consumers, as it relates to continuous coverage and potential rate increases by the NFIP, is an impediment to consumers buying private flood insurance and limits consumers' choices. Insurance agents and brokers have stated that "…the risk of a substantial NFIP rate increase should the consumer later wish to return to the NFIP often makes insurance agents and brokers hesitant to recommend private flood insurance policies."[19] It is important that Congress and FEMA provide consumers with clarity about continuous coverage compliance so that current and future NFIP policyholders are confident that they have complied with the law's continuous coverage requirements by having an NFIP or private flood insurance policy. For example, if a consumer leaves the NFIP to secure a private flood policy with better coverage and a better price and later re-assumes an NFIP policy, so long as the consumer had continuous coverage, that NFIP policy should be at the same rate and terms as if the consumer had continuously maintained an NFIP policy.

The RAA supports H.R. 4699 introduced by Representatives Kathy Castor (D-FL) and Blaine Luetkemeyer (R-MO) to amend the National Flood Insurance Act of 1968 (NFIA) to "consider any period during which a property was continuously covered by private flood insurance to be a period of continuous coverage, including for the purposes of NFIP subsidies."[20] In two previous Congresses, similar legislation had broad bipartisan support. In 2016, by a vote of 419-0, the House passed a similar provision as part of H.R. 2901 and, in 2017, by a vote of 58-0, the House Financial Services Committee passed a similar provision as part of H.R. 1422.

[17] https://scottpeters.house.gov/media-center/press-releases/reps-peters-barr-reintroduce-bipartisan-bill-to-discourage-costly; https://barr.house.gov/2021/4/reps-barr-peters-reintroduce-bipartisan-bill-to-discourage-costly-development-in-flood-prone-areas
[18] https://financialservices.house.gov/uploadedfiles/bills-117pih-nfipratecap.pdf
[19] https://financialservices.house.gov/uploadedfiles/hhrg-116-ba00-wstate-heidrickc-20190313.pdf
[20] https://www.congress.gov/bill/117th-congress/house-bill/4699/text?q=%7B%22search%22%3A%5B%22%22%5D%7D&r=7&s=1

**Increasing Flood Insurance Options for Consumers.** Congress should modernize the part of the National Flood Insurance Act (NFIA) that has not been used or updated in over 40 years to give FEMA additional tools to encourage additional private market participation, including capital, in offering flood insurance, which would benefit consumers and taxpayers.

When enacted in 1968, over 50 years ago, the NFIA incorporated two approaches to provide consumers with flood insurance, Part A and Part B. The NFIP operates under Part B with the Federal government assuming the full underwriting risk subject to the risk transfer program mentioned above. Congress should modernize Part A of the NFIA and clarify that FEMA can use its authorities simultaneously with the Part B program. Re-purposing and modernizing the statutory language in Part A would give FEMA additional tools to partner with private insurers, facilitate the participation of private insurers in NFIP on a risk-sharing basis, further improve NFIP's viability, increase the NFIP's resources to pay claims, and increase flood insurance opportunities for consumers. Part A reforms also can lead to a stronger public-private partnership, give private insurers experience in underwriting flood risk, and help close the flood insurance coverage gap.

The Part A statutory language currently authorizes the FEMA Administrator to facilitate and assist the creation of a pool of insurers on a risk sharing basis with the federal government to provide flood insurance through their network of agents and policyholder relationships. Under the statute, the Administrator defines the qualifications of insurers for the pool and risk capital to be provided. The Administrator is authorized to enter a contractual relationship with the pool defining the insured risk to be retained and the government's risk through its reinsurance of the pool. Pursuant to the statute, the financial arrangement recognizes that the NFIP provides subsidies to certain policyholders.

The RAA specifically recommends that NFIP reauthorization and reform legislation include the amendment offered to the "National Flood Insurance Program Reauthorization Act of 2019" and then withdrawn by Representative Blaine Luetkemeyer (R-MO) during the House Financial Services Committee's June 11-12, 2019 mark up.[21] The amendment language would: (1) require FEMA to solicit ideas for risk-sharing demonstration programs; (2) provide FEMA with authority, but not require it, to conduct risk-sharing demonstration programs; and (3) make technical amendments to the NFIA Part A authority, which FEMA can use for risk-sharing demonstration programs.

**Close the Flood Insurance Protection Gap**

Homeowners and renters, property owners, mortgage investors, taxpayers, and communities face risks due to natural disaster risks and the lack of insurance coverage or underinsurance of such coverage. There is a serious and significant natural disaster insurance protection gap in the U.S. The Department of the Treasury's Federal Insurance Office's (FIO) Federal Advisory Committee on Insurance (FACI) has a subcommittee dedicated to addressing it. Several RAA members serve on both the FACI and the "Subcommittee on Addressing the Protection Gap through Public-Private

[21] https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=407747;
https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=403829

Partnerships and Other Mechanisms." During FACI's December 2019 meeting, the Subcommittee cited statistics to provide examples of the insurance protection gap in the U.S. and issued recommendations that FHFA should consider.[22] The National Association of Insurance Commissioners (NAIC) has published alarming statistics about the disaster insurance protection gap. For example, one NAIC statistic cited in the Subcommittee's presentation is that "Only 1% of properties outside of flood zones have flood insurance, yet half of U.S. floods occur in these areas." Various studies and reports, including a 2018 report by AIR Worldwide (now Verisk), have warned that the next big earthquake to impact California, likely by 2044, could result in $170 billion in total damage and almost half would be residential-related loss, $37 billion of which would be uninsured.[23] Given the likelihood of future, significant, and costly natural disasters throughout the U.S. and uninsured residential costs, it is important to have a coordinated effort focusing on closing the insurance protection gap.

Congress, the Administration, the NAIC, state and local officials, and the private sector, including reinsurers, should develop a comprehensive strategy to identify and address the natural disaster insurance protection gap in the U.S. and the risks it poses to homeowners and renters, property owners, individuals, businesses, and federal programs and taxpayers. It also is important to close the insurance protection gap. Congress and Federal regulators should help initiate efforts to close the insurance protection gap via traditional insurance and risk transfer. Congress and Federal regulators can further facilitate a private market for flood insurance, potentially providing consumers with more flood insurance options. One way to achieve this is for the Federal Housing Finance Agency (FHFA) and HUD's Federal Housing Administration (FHA) to align their regulations and/or guidance for private flood insurance with those issued in 2019 by Federal lending regulators.[24] (In 2020, HUD issued a proposed regulation to align its FHA regulations and guidance with that of the 2019 Federal lending regulators, but HUD has not issued its final regulation [25]).

***Primary Insurance***

Traditional insurance solutions – such as primary property insurance protection, including flood insurance – are critical for people, property, jobs, businesses, and communities to be resilient in the aftermath of natural disasters. That is especially true since Federal disaster assistance is provided only when there is a Federally declared disaster and typically results in a fraction of what insurance assistance can provide. For example, according to FEMA, the average, annual flood insurance premium was $700 (about $58 per month) in 2019, and the average claim payout was $53,000.[26] Meanwhile, in 2019, Federal disaster assistance was capped at $34,900 with an average annual payment of $6,246.[27] Ensuring that the protection gap is bridged, and property insurance adequately covers the climate and natural disaster risk(s) involved are of utmost importance. Risk transfer products that protect each stakeholder from natural disaster risks can play an important role.

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[22] https://home.treasury.gov/system/files/311/December2019FACI_ProtectionGapPresentation.pdf; https://home.treasury.gov/system/files/311/December2019FACI_ProtectionGapProposedRecs.pdf
[23] https://www.air-worldwide.com/Publications/Infographics/Who-Will-Pay-for-the-Next-Great-California-Earthquake-/
[24] https://www.fdic.gov/news/financial-institution-letters/2019/fil19008.html
[25] https://www.federalregister.gov/documents/2020/11/23/2020-25105/acceptance-of-private-flood-insurance-for-fha-insured-mortgages; https://www.hud.gov/press/press_releases_media_advisories/HUD_No_20_191
[26] https://www.fema.gov/data-visualization/historical-flood-risk-and-costs
[27] https://www.federalregister.gov/documents/2018/10/22/2018-22884/notice-of-maximum-amount-of-assistance-under-the-individuals-and-households-program; FEMA communication with RAA, 4/16/2021

**Create Resilient and Insurable Communities**

People and communities across the U.S. rely on both public insurance programs and private insurance coverage. If little is done to mitigate or pre-mitigate the exposure of these people and communities to natural disaster risks, especially extreme weather risks, the U.S. will eventually develop uninsurable communities, and people and communities will be reliant upon disaster assistance from the Federal government, which has largely been proven to be inadequate to help people fully recover. As the severity and frequency of natural disasters continue to increase, the RAA believes a variety of solutions should be used to improve community resilience to the benefit of all those in the value chain of natural disaster risk exposure.

Some traditional solutions, like property insurance protections for homeowners as described above certainly can and should be utilized, but new analytical capabilities that increasingly and intelligently can help reduce risk and prioritize and direct public and private sector resources to achieving that goal also should be pursued.

In December 2019, the National Institute of Building Sciences issued its U.S. Department of Housing and Urban Development-funded "Natural Hazard Mitigation Saves" report.[28] The report describes that federal disaster mitigation has saved $6 for every $1 invested since 1995. Other mitigation-related activities, such as updating building codes to ensure resilient structures, and investments can save between $4 and $11 for every $1 spent. Investing in mitigation can reduce the impact of future disasters on lives, property, and the economy. Congress and the Administration can increase these investments by directing both public and incentivizing private sector resources to support resilience projects.

**Community Disaster Resilience Zones.** The RAA has developed another analytical tool, largely based on FEMA's National Risk Index for Natural Hazards (NRI) data, and its comprehensive Community Disaster Resilience Zones, or CDRZ, proposal to use a data-driven approach to direct public and incentivize private sector investment to improve resilience, including affordable housing resilience, in the most in need and most at risk communities facing significant natural disaster risk(s), including the risk of flooding. The Community Disaster Resilience Zones (CDRZ) Act of 2022 (S. 3875/H.R. 7242), the first bipartisan and bicameral bills of the proposal were introduced in March and voted on and advanced, with no opposition, by the U.S. Senate and House Committees of jurisdiction in March and April, respectively, to the full chambers for debate and a vote. The CDRZ Act of 2022 would amend the 1988 "Robert T. Stafford Disaster Relief and Emergency Assistance Act" to establish a statutory structure to identify and designate CDRZ communities that are the most in need and most at risk to natural disasters, such as hurricanes, flooding, earthquakes, and wildfires, to increase public and private sector investments in housing, infrastructure, and community-wide resilience. The bill is supported by a diverse, RAA-led coalition of 30 national organizations. The RAA would like to work with this Committee and other Committees in Congress on additional CDRZ-related legislation, and with key Federal agencies to direct public funds and private sector investment to projects that improve resilience in vulnerable communities.

[28] https://www.nibs.org/projects/natural-hazard-mitigation-saves-2019-report

**Additional Reform Priorities.** FEMA's Flood Mitigation Assistance (FMA) Program and Building Resilient Infrastructure and Communities (BRIC) program, U.S. Department of Housing and Urban Development programs, the U.S. Department of the Treasury's Capital Magnet Fund, and other Federal programs should direct funding resources toward achieving housing and natural disaster resilience for "extremely low- and very low-income households" that face significant natural disaster risk and that expose taxpayer-backed Federal housing programs to natural disaster risks.[29]

In general, the RAA also recommends that the Financial Stability Oversight Council (FSOC) and all of its members prioritize natural disaster resilience efforts for federally funded and federally backed residential properties in communities that are the most in need and most at risk from significant natural disaster(s).

The RAA also supports using financing mechanisms and the tax code to leverage Federal spending and provide states, communities, homeowners, and businesses with incentives to improve building resilience and better protect against the natural disaster risks they face, including:

- As part of its CDRZ proposal (generally described above), to help fund resilience projects in or primarily benefitting CDRZ communities, legislation to create Federal:
    - Taxable direct pay bonds, federally subsidized bonds issued by state and local governments for local projects that support community resilience,
    - Tax-exempt facility private activity bonds, federally tax-exempt bonds from which proceeds would be utilized by private or quasi-governmental entities to fund resilience projects that benefit a public purpose,
    - Transferrable tax credits for individuals for resilience improvements to housing,
    - Tax credits for charitable contributions for resilience projects, and
    - Tax credits for community-level projects that are tradeable, transferrable, and do not expire, and allow proceeds from the sale of certified tax credits to be used to, for example, meet matching requirements for federally funded resilience projects.
- The "Protecting Families and the Solvency of the National Flood Insurance Program Act of 2022" (H.R. 7842) to "…authorize FEMA to provide additional mitigation assistance to families affected by flooding, and address the problems of delays in buyouts for communities facing repetitive losses."[30]
- The "State Flood Mitigation Revolving Fund Act" (H.R.1610/S.2192-116$^{th}$) to establish a new Federal-state partnership to provide low-interest loans for projects, such as elevation projects, flood-proofing activities, relocation or removal of buildings, and other projects.[31]

[29] https://www.hudexchange.info/programs/htf/; https://www.cdfifund.gov/programs-training/programs/cmf
[30] https://casten.house.gov/media/press-releases/casten-blumenauer-introduce-bill-help-communities-facing-flood-damage
[31] https://www.pewtrusts.org/-/media/assets/2019/03/state-flood-mitigation-revolving-fund-supporters-draft-3-11-2019.pdf

- The “Disaster Tax Relief Act of 2021” (H.R.3954) provisions that, like federal disaster mitigation grants, would exempt from federal taxation state disaster mitigation grants that help people protect their homes against windstorms, earthquakes, or wildfires;[32] and

- The “Strengthening Homes and Eliminating Liabilities Through Encouraging Readiness (SHELTER) Act (H.R.3925/S.1805) to provide individuals and businesses a disaster mitigation tax credit, specifically 25% of qualifying mitigation expenses of up to $5,000.[33]

As a member of the SmarterSafer Coalition, the RAA supports the Coalition’s priorities in relation to policies pertaining to climate resiliency and pre-disaster mitigation:

- Enhance infrastructure-related research, including that which pertains to climate risk, and match new findings from new research with advanced pre-disaster mitigation plans and investment in pre-disaster mitigation,

- Ensure the benefits of climate research, technological modernization, and pre-disaster mitigation efforts reach vulnerable communities that are oftentimes those most adversely impacted by climate change,

- Invest in natural and climate resilience infrastructure projects, and pair natural infrastructure with more traditional (grey) infrastructure to reap the maximum benefits from both entities and receive twice the protection,

- Improve infrastructure resilience in America’s floodplains, as envisioned in the “Flood Risk Management Act” (S. 1688), the “Flood Resiliency and Taxpayer Savings Act” (H.R. 481) and the “Built for Future Disasters Act of 2021” (mentioned above); and consider and address the racial inequities inherent in federal disaster assistance and hazard mitigation assistance programs that reflect and perpetuate discriminatory practices and historic redlining,

- Protect the housing stock as the inverse relationship between climate change and access to safe housing continues to get stronger,

- Facilitate and strengthen public-private partnerships, such as transferring risk to private financing, insurance, and reinsurance to shift some of the financial burdens associated with climate change from the government’s balance sheet to willing private sector participants to improve the implementation of federal programs,

- Direct Federal funds to outcome-driven projects that strengthen communities and reduce long-term risk, such as requiring stronger minimum design standards and incorporate forecasts of future conditions for federal infrastructure investments, as envisioned in the “Build to Last Act” (S.1282/H.R.2760),[34]

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[32] https://mikethompson.house.gov/newsroom/press-releases/thompson-announces-introduction-of-disaster-tax-relief-act-of-2021

[33] https://www.cassidy.senate.gov/newsroom/press-releases/cassidy-bennet-introduce-new-tax-credit-for-working-families-small-businesses-preparing-for-natural-disasters-; https://crist.house.gov/news/documentsingle.aspx?DocumentID=2386

[34] https://www.smartersafer.org/about-us/; https://www.smartersafer.org/2021/07/15/smartersafer-infrastructure-priorities-letter/

- Fully implement Risk Rating 2.0 and support its mission to equitably price risk across all NFIP policyholders,

- Procurement of modernized FEMA flood maps that better identify changes in flooding patterns and movements in flood risk to better communicate who is at risk and the level of risk faced, and

- Enhanced interagency coordination to ensure that all agencies across government benefit from improved communication, data, and technology that will assist in both pre-disaster mitigation and post-disaster recovery efforts.

As a member of the BuildStrong Coalition, the RAA supports the Coalition's work to further the achievements of the bipartisan "Disaster Recovery Reform Act of 2018," which significantly increased America's investment in pre-disaster mitigation to help communities protect against disaster risk. The RAA supports the "Resilient AMERICA Act" (H.R. 5968), including the bill's objectives to:

- Increase disaster mitigation funding for FEMA's Building Resilient Infrastructure and Communities (BRIC) program,

- Provide incentives for state and local communities to strengthen and enforce building codes,

- Invest in risk-reducing enhancements to improve the resilience of lifeline infrastructure,

- Create incentives and investments that help to improve resilience, and

- For state, local, and tribal governments, provide resources and eliminate barriers to enhance resiliency and protect against all hazards.[35]

**Conclusion**

The above-mentioned reforms can further facilitate the development of a private flood insurance market and improve the viability of the NFIP. The RAA strongly supports RR 2.0, which would more precisely reflect the real risk of flooding of properties with more advanced actuarial tools and catastrophe models. The reinsurance market is interested and has the capacity to underwrite flood insurance risk, including extreme flood risk, in the public NFIP program, private market, and any future public-private flood insurance partnerships. Actions taken in recent years by some states, such as Florida, have demonstrated the interest and benefits of private insurers assuming a broad cross-section of risk, and the same would result from the above flood insurance reforms. Reinsurers stand ready to partner with both the private- and public-sectors as the flood market transitions.

The RAA looks forward to continuing to work with Subcommittee Chairman Cleaver, Subcommittee Ranking Member Hill, Financial Services Committee Chairwoman Waters,

[35] https://buildstrongamerica.com/about-us/; https://homeland.house.gov/imo/media/doc/2021-06-08-EPRR-HRG-Testimony-Williams.pdf

Financial Services Committee Ranking Member McHenry, and other members of the Committee on legislation that provides a long-term reauthorization of the NFIP and reforms that strengthen NFIP's financial framework and resiliency, facilitate the development of a private flood insurance market, close the flood insurance protection gap, and create resilient and insurable communities. Thank you for your consideration of our views and recommendations. The RAA and its members welcome the opportunity to meet with you about our views and recommendations, provide a briefing on FEMA's RR 2.0 data, work with you to develop a long-term NFIP reauthorization and reform bill, or answer any questions you may have.

# APPENDIX A

RAA


## Custom Analysis (Nationwide to Zip Code)

All Policies or SFH Only: Single Family Only | Primary County: (All) | Zip Code: (All) | Price Parity Adj. Median HH Income Rating: (Multiple values) | Congressional Dstct: (All) | Congressional District Zip Match Level: Quintary

(All) AK AL AR AS AZ CA CO CT DC DE FL GA GU HI IA ID IL IN KS KY LA MA MD ME MI MN MO MP MS MT NC ND NE NH NJ NM NV NY OH OK OR PA PR RI SC SD TN TX UT VA VI VT WA WI WV WY

Source: https://www.fema.gov/flood-insurance/risk-rating

### Count Distribution by Range of Monthly Premium Change and MHHI Category

| | < -$100 | $-100 to $-90 | $-90 to $-80 | $-80 to $-70 | $-70 to $-60 | $-60 to $-50 | $-50 to $-40 | $-40 to $-30 | $-30 to $-20 | $-20 to $-10 | $-10 to $0 | $0 to $10 | $10 to $20 | $20 to $30 | $30 to $40 | $40 to $50 | $50 to $60 | $60 to $70 | $70 to $80 | $80 to $90 | $90 to $100 | > $100 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Very Low | 23,099 | 3,262 | 3,960 | 4,591 | 5,570 | 6,538 | 7,290 | 8,242 | 10,401 | 15,013 | 31,450 | 348,330 | 28,850 | 7,842 | 1,816 | 346 | 164 | 90 | 36 | 21 | 17 | 18 |
| Relatively Low | 36,695 | 4,934 | 5,632 | 6,560 | 7,465 | 8,405 | 9,446 | 10,766 | 13,184 | 23,325 | 65,327 | 728,981 | 85,333 | 26,539 | 5,120 | 915 | 441 | 202 | 121 | 60 | 53 | 100 |
| Relatively Moderate | 40,135 | 4,533 | 5,062 | 5,745 | 6,327 | 6,848 | 7,595 | 8,263 | 10,332 | 23,700 | 64,899 | 787,607 | 80,399 | 25,161 | 6,103 | 1,250 | 573 | 266 | 151 | 94 | 74 | 194 |
| Relatively High | 23,205 | 2,259 | 2,451 | 2,659 | 2,702 | 2,991 | 3,322 | 3,776 | 4,825 | 15,140 | 42,471 | 479,742 | 31,590 | 11,620 | 3,625 | 839 | 373 | 198 | 105 | 53 | 69 | 166 |
| Very High | 4,984 | 350 | 376 | 381 | 400 | 447 | 495 | 542 | 670 | 3,377 | 7,293 | 67,828 | 5,684 | 2,472 | 967 | 206 | 69 | 36 | 15 | 12 | 7 | 17 |
| Grand Total | 128,118 | 15,338 | 17,481 | 19,936 | 22,464 | 25,229 | 28,138 | 31,589 | 39,412 | 80,555 | 211,440 | 2,392,989 | 231,856 | 73,534 | 17,631 | 3,556 | 1,620 | 792 | 428 | 230 | 220 | 497 |

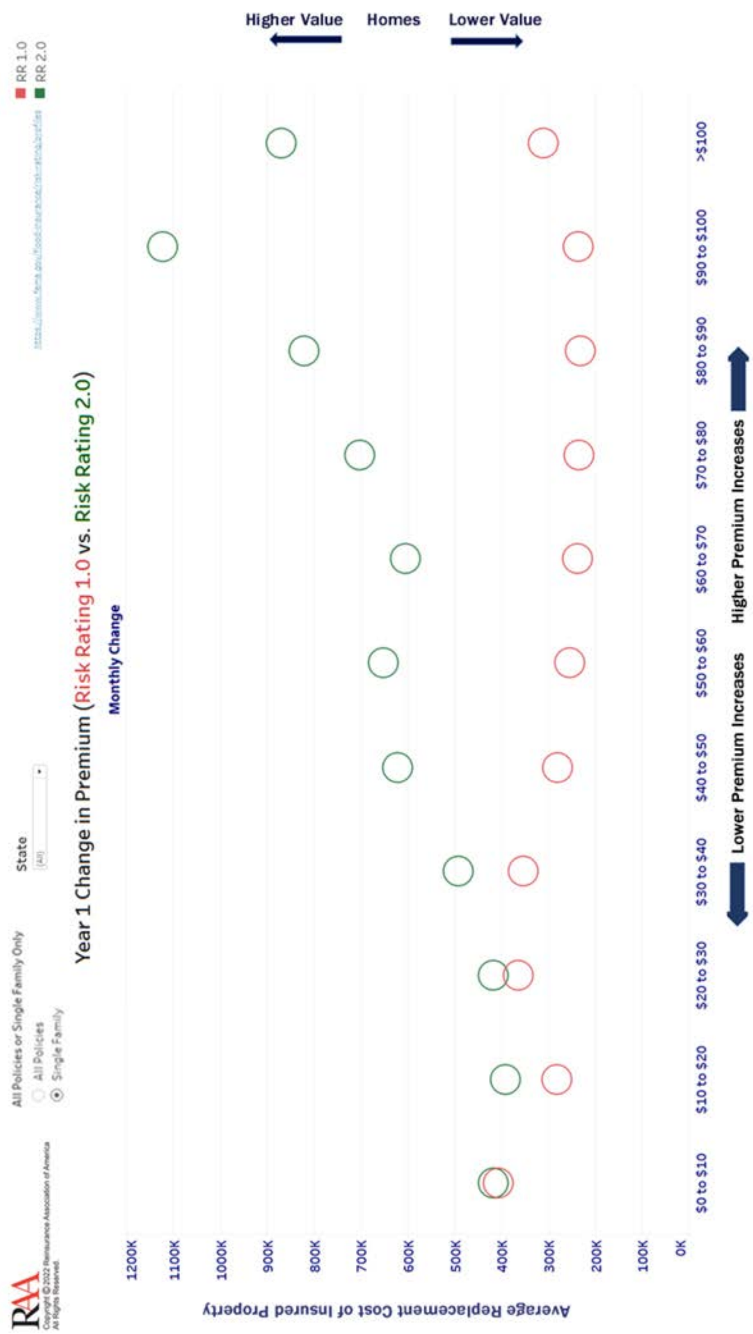
### Count Percentage Distribution by Range and MHHI Category

| | < -$100 | $-100 to $-90 | $-90 to $-80 | $-80 to $-70 | $-70 to $-60 | $-60 to $-50 | $-50 to $-40 | $-40 to $-30 | $-30 to $-20 | $-20 to $-10 | $-10 to $0 | $0 to $10 | $10 to $20 | $20 to $30 | $30 to $40 | $40 to $50 | $50 to $60 | $60 to $70 | $70 to $80 | $80 to $90 | $90 to $100 | > $100 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Very Low | 4.55% | 0.64% | 0.78% | 0.90% | 1.10% | 1.29% | 1.43% | 1.62% | 2.05% | 2.96% | 6.20% | 68.74% | 5.69% | 1.55% | 0.36% | 0.07% | 0.03% | 0.02% | 0.01% | 0.00% | 0.00% | 0.00% |
| Relatively Low | 3.53% | 0.47% | 0.54% | 0.63% | 0.72% | 0.81% | 0.91% | 1.04% | 1.27% | 2.24% | 6.28% | 70.12% | 8.21% | 2.55% | 0.49% | 0.09% | 0.04% | 0.02% | 0.01% | 0.01% | 0.01% | 0.01% |
| Relatively Moderate | 3.77% | 0.43% | 0.48% | 0.54% | 0.59% | 0.64% | 0.71% | 0.78% | 0.97% | 2.22% | 6.09% | 72.06% | 7.55% | 2.36% | 0.57% | 0.12% | 0.05% | 0.02% | 0.01% | 0.01% | 0.01% | 0.02% |
| Relatively High | 3.66% | 0.36% | 0.39% | 0.42% | 0.43% | 0.47% | 0.52% | 0.60% | 0.76% | 2.39% | 6.70% | 75.66% | 4.98% | 1.82% | 0.57% | 0.13% | 0.06% | 0.03% | 0.02% | 0.01% | 0.01% | 0.03% |
| Very High | 5.16% | 0.36% | 0.39% | 0.39% | 0.41% | 0.46% | 0.51% | 0.56% | 0.69% | 3.49% | 7.55% | 70.19% | 5.88% | 2.56% | 1.00% | 0.21% | 0.07% | 0.04% | 0.02% | 0.01% | 0.01% | 0.02% |
| Grand Total | 3.83% | 0.46% | 0.52% | 0.60% | 0.67% | 0.75% | 0.84% | 0.94% | 1.18% | 2.41% | 6.32% | 71.58% | 6.94% | 2.20% | 0.53% | 0.11% | 0.05% | 0.02% | 0.01% | 0.01% | 0.01% | 0.01% |

### $ Amount of Monthly Premium Change by Range and MHHI Category

| | < -$100 | $-100 to $-90 | $-90 to $-80 | $-80 to $-70 | $-70 to $-60 | $-60 to $-50 | $-50 to $-40 | $-40 to $-30 | $-30 to $-20 | $-20 to $-10 | $-10 to $0 | $0 to $10 | $10 to $20 | $20 to $30 | $30 to $40 | $40 to $50 | $50 to $60 | $60 to $70 | $70 to $80 | $80 to $90 | $90 to $100 | > $100 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Very Low | -2,425,395 | -309,890 | -336,600 | -344,325 | -362,050 | -359,590 | -327,600 | -288,470 | -260,025 | -225,195 | -157,250 | 1,744,150 | 432,750 | 196,050 | 63,560 | 15,570 | 9,020 | 5,850 | 2,700 | 1,785 | 1,615 | 1,890 |
| Relatively Low | -3,852,975 | -468,730 | -478,720 | -492,000 | -485,225 | -462,275 | -425,070 | -376,810 | -329,600 | -349,875 | -326,635 | 3,644,905 | 1,279,995 | 663,475 | 179,200 | 41,175 | 24,255 | 13,130 | 9,075 | 5,100 | 5,035 | 10,500 |
| Relatively Moderate | -4,214,175 | -430,635 | -430,270 | -430,875 | -411,255 | -376,640 | -341,775 | -289,205 | -258,300 | -355,500 | -324,495 | 3,830,035 | 1,205,985 | 629,025 | 213,605 | 56,250 | 31,515 | 17,290 | 11,325 | 7,140 | 7,030 | 20,370 |
| Relatively High | -2,436,525 | -214,605 | -208,335 | -199,425 | -175,630 | -164,505 | -149,490 | -132,160 | -120,625 | -227,100 | -212,355 | 2,398,715 | 473,850 | 288,000 | 126,875 | 37,755 | 20,515 | 12,870 | 7,875 | 4,505 | 6,555 | 17,640 |
| Very High | -523,320 | -33,250 | -31,960 | -28,575 | -26,000 | -24,585 | -22,275 | -18,970 | -16,750 | -50,655 | -36,465 | 339,140 | 85,260 | 61,800 | 33,845 | 9,270 | 3,795 | 2,340 | 1,125 | 1,020 | 665 | 1,785 |
| Grand Total | -13,452,390 | -1,457,110 | -1,485,885 | -1,495,200 | -1,460,160 | -1,387,595 | -1,266,210 | -1,105,615 | -985,300 | -1,208,325 | -1,057,200 | 11,964,945 | 3,477,840 | 1,838,350 | 617,085 | 160,020 | 89,100 | 51,480 | 32,100 | 19,550 | 20,900 | 52,185 |

## APPENDIX B



Higher Value
Homes
Lower Value
Year 1 Change in Premium (Risk Rating 1.0 vs. Risk Rating 2.0)
Monthly Change
All Policies or Single Family Only
All Policies
Single Family
State
(All)
RR 1.0
RR 2.0
Average Replacement Cost of Insured Property
1200K
1100K
1000K
900K
800K
700K
600K
500K
400K
300K
200K
100K
0K
$0 to $10
$10 to $20
$20 to $30
$30 to $40
$40 to $50
$50 to $60
$60 to $70
$70 to $80
$80 to $90
$90 to $100
>$100
Lower Premium Increases
Higher Premium Increases
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Testimony

Ariel Rivera-Miranda, Founder & Agency Principal, Deer Insurance Agency
On behalf of the National Association of Professional Insurance Agents

"Reauthorization and Reform of the National Flood Insurance Program"
Subcommittee on Housing, Community Development and Insurance
Committee on Financial Services
United States House of Representatives

May 25, 2022

Good afternoon, Chairman Cleaver, Ranking Member Hill, members of the subcommittee, and invited guests, thank you very much for holding this hearing and for inviting me to be a part of it. My name is Ariel Rivera-Miranda, and I am the founder and agency principal of Deer Insurance Agency, which is an independent insurance agency located in Jacksonville, FL.

I was born and raised in San Juan, Puerto Rico and have over 18 years of experience in the insurance industry. I have been an independent insurance agency owner since I began my professional career, and I have founded and operated insurance agencies in Puerto Rico and Florida. In my current capacity, I sell flood insurance products through both the National Flood Insurance Program and in the private market, and I am currently the Secretary of the National Association of Professional Insurance Agents (PIA).

Founded in 1931, PIA is a national trade association that represents independent insurance agencies and their employees. Our members sell and service all kinds of insurance, but we specialize mostly in Property & Casualty insurance. We represent independent insurance agents in all 50 states, Puerto Rico, and the District of Columbia.

We strongly supported the House Financial Services Committee reauthorization bills that unanimously passed out of the committee in 2019, and we remain supportive of many provisions of the discussion drafts listed for today's hearing.

## I. Background

The National Flood Insurance Program (NFIP) was created in 1968 to provide property owners in the U.S. with flood insurance coverage for their homes. At the time, the private insurance market viewed flood as an uninsurable risk, and, as a result, flood insurance products sold through the private market were cost-prohibitive or unavailable. In the decades since its inception, the NFIP has remained the primary source for flood insurance products.

The Federal Emergency Management Agency (FEMA) administers the NFIP, and, over the past several years, FEMA has been updating the NFIP's risk rating process using a methodology known as Risk Rating (RR) 2.0. We strongly support this new rating system, which calculates premium rates using substantially more granular data to align rates more closely with each property's actual level of flood risk. The use of RR 2.0 is an opportunity for the NFIP to achieve solvency while also providing policyholders with more accurate, detailed information about their property's flood risk. With better information available to them, we hope policyholders and potential policyholders will be encouraged to learn more about their property's flood risk, engage in mitigation efforts where needed, and, ultimately, purchase flood insurance that matches their risk.

A long-term reauthorization of the NFIP is crucial to the program's longevity because the NFIP continues to provide critical support to all flood-prone areas. We support the growth of the private market for flood insurance products, but private flood insurance is not available nationwide and is sometimes unavailable in the areas where it is needed most.

## II. Essential Role of the Independent Agent

The NFIP is a public-private partnership between the federal government and insurance companies, which are referred to as "Write-Your-Own" (WYO) carriers. The federal government enters into a contract with each WYO selling NFIP products, and each WYO uses insurance agents to sell those products to consumers. Independent agents have separate contracts with each WYO whose NFIP policies they sell.

Independent insurance agents generally serve as the first point of contact for a potential consumer inquiring about flood insurance, and they represent potential policyholders as they navigate this complicated program. Agents are essential resources for property owners trying to make educated choices about the need for and purchase of flood insurance policies for their homes and businesses. More often than not, agents also receive the first call policyholders make after a flood loss.

Purchasing an NFIP policy is a difficult process for consumers; it requires the aid of agents with specialized knowledge, especially now that all policies are subject to the new RR 2.0 methodology. Additionally, even before the RR 2.0 transition, the flood policy purchasing process was very different from and more complex than that of a standard homeowners' or auto policy; that remains true today. Selling flood insurance demands far more effort from agents than selling other insurance products. With the private market growing, and state statutory and regulatory oversight of the private market evolving all the time, agents must compare the NFIP to the private market for eligibility, coverage options, and pricing; inform policyholders and prospects of their results; and offer options if available.

To effectively serve their customers, agents must remain up to date on ever-changing laws and regulations governing flood insurance coverage requirements, and, historically, they have also had to keep pace with the constant evolution of applicable floodplain maps, flood zones, specialized terminology, and relevant community participation. In the current RR 2.0 environment, they are also tasked with gathering dozens of data points about each of the properties they cover to provide the RR 2.0 rating engine with a complete picture of the property they are insuring.

At renewal time, agents review notices for accuracy (name[s] of insured[s], mailing address, location of insured property, scope of coverage, and identification of any liens and lienholders); research legal changes that could affect coverage or premium rates and the existence of other policies that could cause a gap in coverage; obtain and enter the new data points required by RR 2.0; and, during the first six months RR 2.0 was in use, determine when each policy was eligible for renewal into the RR 2.0 system. Agents work with policyholders to ensure renewal payments are received in a timely way, sends policyholders reminders as the expiration date approaches, and warns of cancellation for nonpayment of a policy for which renewal is intended.

Perhaps most importantly for consumers, independent agents support their clients after a flooding event, even when that event also affects the agents' own homes and businesses. Once a flood occurs, agencies often make customer service representatives available nearly around the clock in shifts. Agencies will sometimes hire extra staff to assist in navigating the complicated claims process. Often, the entire agency staff has itself been affected by the flood from which their clients are recovering; however, they recognize their responsibility to put their clients first. Because floods frequently damage an entire neighborhood or community at once, an agent usually does not have the luxury of handling just one claim arising from one flood; rather, a single agent or agency could be handling many claims, all arising from a single flood.

Over the past year, agents have also been fielding constant questions from lenders, builders, community floodplain managers, realtors, and clients about the effect RR 2.0 would have on different aspects of the program. But without a clear understanding of how each rating factor works, agents cannot answer these questions. The flood insurance program has always been a complex program with a steep learning curve, but RR 2.0 has exacerbated it and sometimes placed agents in the uncomfortable position of being unable to answer the inquiries of consumers and others. The workload of independent agents around the country increased exponentially once FEMA announced its bifurcated transition plan, and the smooth implementation of RR 2.0 has required tremendous effort.

Independent agents' businesses, like those of many salespeople, are built on their reputations. They use their skill and experience to answer clients' questions and alleviate their concerns. Agents have spent the past year investing time, money, and manpower to familiarize themselves and their employees with a completely new rating methodology, but they often face a ubiquitous yet unanswerable question: Why did my rate increase so much?

### III. Risk Rating 2.0

We strongly support RR 2.0 because it will make the NFIP more solvent while also providing policyholders with more accurate information about their properties' flood risk. With better information, we hope property owners will learn more about their risk of flood, engage in mitigation efforts where needed, and, ultimately, purchase flood insurance that matches their risk.

Moreover, we support the continued use of statutory caps, to provide consumers with a gradual progression toward actuarially sound rates. Risk-based rates are essential for stabilizing the NFIP financially, but their gradual implementation is key and should be accompanied by clear and frequent communication.

a. **Implementation**

Last October, FEMA began the first phase of RR 2.0's two-part deployment process. RR 2.0 was implemented for all new policies and some existing policies during the first phase. Specifically, existing policies whose renewal dates were between Oct. 1, 2021 and March 31, 2022 gained access to the RR 2.0 pricing system during that renewal (and thus before policyholders whose renewal dates occurred outside that time frame), if doing so would be financially advantageous to the policyholder—that is, if the RR 2.0 methodology produced a lower premium than the legacy methodology did. Existing policyholders whose policies were up for renewal during that time were permitted to renew using the legacy methodology if moving to RR 2.0 rate would have resulted in a premium increase.

FEMA's choice to bifurcate of the implementation process intensified the burden already being placed on independent agents, which include small business owners who, in some cases, have only a handful of employees. Splitting the process into two phases for renewing properties had several unintended consequences: first, the attendant media attention prompted policyholders around the country to contact their agents with inquiries about their eligibility for a lower rate via the new rating system. At that time, agents had no way of identifying the eligible policies within their books of business, so they were unable to answer their clients' questions. Indeed, agents only received access to the rating engine about a month before it went live. As a result, many hired additional staff to comb through their policies and identify clients eligible for RR 2.0 renewal during this first phase.

This past April, FEMA implemented the second phase, which rendered all policies subject to RR 2.0, regardless of whether the legacy methodology would have produced a lower rate. Currently, the last of the policies still using the legacy rating method will renew on March 31, 2023. From that point forward, all policies will be subject to RR 2.0, irrespective of its effect on their rates.

**b. Affordability and Transparency**

As independent agents have gained experience with RR 2.0, we have seen that we need more information from FEMA about how the new rating factors are weighed and combined to produce a single property's RR 2.0 rate. The FEMA website includes numerous Excel spreadsheets designed to be cross-referenced with one another to understand how a single rate is constructed, but the calculation process is unclear even to the most seasoned flood agents, particularly when compared to their experiences using the legacy methodology.

Every day, all over the country, agents begin the process of renewing a policy into RR 2.0 by entering the required datapoints into the new rating engine. Often, based on our years of experience, and our growing experience working with RR 2.0, we expect the system to produce a rate within a certain range. Sometimes our expectations are met, but, in many cases, we are surprised at the quotes returned by the system. Clients we expected would experience rate increases do not, while those we expected to benefit from it do not.

Agents have discovered that the legacy rating system credited consumers for mitigation measures in a way that the new system does not. Consumers who invested in mitigation because they expected it to pay for itself in premium reductions are learning that, in some cases, they will need to own their home for another decade or more before their investment pays off—if it ever does. An unintended consequence is that consumers considering whether to undertake mitigation efforts may be discouraged from doing so. If asked whether mitigation is a worthwhile investment, we may be hesitant to say yes, because we have seen the way mitigation is treated in RR 2.0, and we do not want to mislead our clients or colleagues about its advantages. This concern is widespread; legislators and regulators should want to minimize flood losses by incentivizing mitigation. Based on our experiences with the new rating engine, it appears that consumer mitigation efforts are minimally rewarded, if at all, in RR 2.0.

Because consumers whose rates went down using RR 2.0 were eligible for transition at their next renewal, beginning this past October 1, current policies being renewed into RR 2.0 for the first time are disproportionately those of consumers experiencing rate increases. Naturally, consumers facing increases seek explanations from their agents, who are, too often, unable to provide them. The rating engine was designed to take in data from agents and produce a rate, so the system does not show how it arrives at a particular rate. Agents cannot see what effect any single data point has on a rate, making it impossible for them to walk policyholders through the system's process of building an increased rate. Policyholders deserve to understand how their data is being used to calculate their premiums, whether mitigation efforts could change those premiums, and how existing mitigation efforts are accounted for in the new system.

Independent agents are the face of the NFIP, and our expertise and personal attention to our clients are vital assets to the program. The lack of transparency in the rating engine makes our work harder because it leaves us with frustrated clients and incomplete information. Better information about how rates are produced would help us maintain the level of service we are accustomed to providing and would improve the customer experience. Increased transparency will lead to greater trust in the NFIP, which could increase the flood insurance take-up rate all over the country, and further strengthen the NFIP.

The second trend concerning agents is the affordability of NFIP policies as they transition to full-risk rates pursuant to RR 2.0. All new policies are being issued at full-risk rates, which means that those covering high-risk properties will immediately be charged commensurately high-risk rates. Existing policyholders' annual rate increases are subject to statutory caps (typically either 18 or 25 percent per year, depending on the type of property). We support the continued use of statutory percentage caps on rate increases as the NFIP transitions remaining policyholders to full-risk rates. That said, even with statutory caps, some policyholders will be subject to the maximum allowable increase each year and will find their premiums unaffordable before they even reach their full-risk rates. For that reason, in the interest of retaining NFIP policyholders, we are open to proposals to lower the maximum rate cap, so long as policyholders' glide paths to full-risk rates continue.

The affordability problem will be exacerbated for policyholders who make changes to their policies that are not eligible for statutory caps, which apply only to rate increases prompted by a consumer's trajectory along the glide path. If a change in premium is prompted by something other than movement along the glide path, that change is not subject to the otherwise-applicable statutory cap. The NFIP refers to these as "premium-bearing changes,"[1] which include but are not limited to the loss of an applicable discount, an increase in coverage amount, or a decrease in deductible. An increase in coverage should remain subject to an otherwise-applicable rate cap. Omitting coverage increases from statutory caps arguably discourages policyholders from obtaining more coverage, leaving properties less protected than they would otherwise be.

With the benefit of this context, we would like to assist Congress as it works to reauthorize the program by highlighting some opportunities to improve the NFIP going forward.

## IV. Reauthorization Fundamentals

### a. Long-Term Reauthorization

The program's most recent five-year reauthorization expired on September 30, 2017, nearly five years ago. Leading up to that deadline, the 115th Congress was unable to agree on reforms to the program. As a result, the NFIP briefly lapsed three times within a three-week period in early 2018. Since the 2017 deadline, the NFIP has been subject to around 20 extensions of varying lengths, and its current extension will expire on September 30, 2022, which is still the peak of the Atlantic hurricane season.

Every short-term extension brings with it the chance for a lapse in the program. When the NFIP lapses, consumers are unable to renew existing policies or finalize the purchase of existing policies. Claims continue to be paid on existing, in-force policies, but consumers engaged in ongoing real estate transactions may experience disruptions in those processes, especially if they are purchasing a property in a mandatory purchase area, where flood insurance is required. Plus, if a flood loss occurs during a lapse, some claims may not be processed until the program is

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[1] The October 2021 Flood Insurance Manual addresses this issue in its "How to Endorse" section. See https://www.fema.gov/sites/default/files/documents/fema_nfip-flood-insurance-manual-sections-1-6_oct2021.pdf.

reauthorized. Prior NFIP lapses have been estimated to have disrupted over 1,000 home sales per day, and, of course, the longer the lapse, the greater the disruption.[2]

The series of short-term extensions over the last five years has been extremely disruptive for everyone associated with the NFIP, including policyholders. Even if the program does not lapse, the federal government and every facet of the insurance industry incurs costs associated with preparing for a lapse when the NFIP's next expiration date approaches. Agents, carriers, lenders, and FEMA itself all develop contingency plans for an anticipated lapse. Those expenditures are made whether the lapse occurs or not, and only a long-term reauthorization can avoid them. The program's effectiveness depends on certainty.

**b. Continuous Coverage**

One of our top priorities is the inclusion of a continuous coverage provision in any NFIP reauthorization, so that policyholders can move between the private market and the NFIP without penalty. We were gratified to witness the bipartisan support this provision garnered in the 2019 committee vote and appreciate its inclusion in the draft legislative text associated with today's hearing.

Currently, consumers may be left in an untenable financial position if, for example, their private flood policy is cancelled for reasons outside their control. Existing law requires that, if such consumers live in an area where flood insurance is required, they reenter the NFIP as if they were brand-new policyholders, at which point they are immediately subjected to full-risk rates without access to the glide path.

Continuous coverage would allow a former NFIP consumer who purchased a private flood policy to return to the NFIP at the same rate they were paying when they left. Without continuous coverage, consumers whose NFIP rates were on a glide path toward full risk rates will effectively be penalized with higher rates for attempting to return to the NFIP after leaving it for the private market.

**c. Debt Forgiveness**

The NFIP has not been financially stable since Hurricane Katrina hit the Gulf Coast in 2005. Hurricane seasons since have yielded a mix of small and catastrophic losses, and, as a result, the NFIP's debt grows each year. Policyholders are left to pay off the debt, which amounts to $400 million annually paid to the Treasury Department—and that just represents the interest on the debt.

Since 2005, the NFIP has repaid a total of $5.5 billion to Treasury; even the Trump administration's decision to forgive $16 billion of the debt did not substantially alleviate this burden. The program is finally moving in a direction of financial stability with the use of RR 2.0; the existing debt represents an albatross around its neck from which it may never otherwise be free.

[2] See https://www.nar.realtor/blogs/economists-outlook/how-many-home-sales-will-be-affected-by-a-nfip-lapse.

**d. A Robust Affordability Framework**

Thanks to the implementation of the Risk Rating 2.0 methodology, the NFIP is presently on a gradual track toward financial stability. However, as noted above, for RR 2.0 to succeed, and for the NFIP to remain a viable program, consumers need the program to consider the issue of affordability. The past several years have been financially tumultuous for individuals and for the national economy, and, in some parts of the country, some property owners will find their full-risk rates to be unaffordable, whether they are new policyholders subject to them immediately or existing policyholders experiencing maximum allowable annual increases.

One of the primary goals of the NFIP has always been to increase the number of flood policies in force; indeed, the program owes its very existence to that goal. Even though the program has been available for more than a half century, only 30 percent of homes in high-risk areas have flood insurance,[3] and fewer than 25 percent of the properties flooded by Hurricanes Harvey, Sandy, and Irma were covered by flood insurance.[4]

To increase the take-up rate, particularly in high-risk areas, the NFIP needs an affordability framework with means testing to ensure that flood insurance is not out of reach for those who need it most.

Anecdotally, agents are seeing some NFIP policyholders with low-risk properties transition to the private market when faced with their first RR 2.0 renewal. If that trend bears out on a national scale, the NFIP could be increasingly composed of the highest flood risk properties in the country. Without an affordability mechanism, RR 2.0 could create an adverse selection problem for the NFIP, where the federal government is left to cover only the highest-risk properties. The NFIP should not become, effectively, the federal flood insurer of last resort.

We support both Risk Rating 2.0's progress toward full-risk rates and the development of an affordability framework. Consumers need the detailed, accurate information provided by RR 2.0 to enable them to make smarter choices about their level of risk. However, some consumers may not be able to afford the rates associated with their property's level of risk as revealed by RR 2.0—if not now, then in the future. The program must be affordable for policyholders who will never be able to afford their property's full-risk rate and for those who may otherwise find themselves priced out of their homes before their rates even reach full risk.
Because agents are in regular communication with existing and prospective policyholders, they are already seeing the effects of RR 2.0 increases in some of the

[3] See https://www.iii.org/article/spotlight-on-flood-insurance#:~:text=Flooding%20is%20the%20most%20common%20and%20costly%20natural,natural%20disasters%20in%20the%20United%20States%20involve%20flooding.
[4] See https://riskcenter.wharton.upenn.edu/policy-incubator/upgrading-flood-insurance/closing-the-flood-insurance-gap/.

communities they serve. For that reason, the NFIP does not have the luxury of choosing between full risk rates and an affordability framework.

**e. Greater Rate Transparency**

Consumers and agents need more information about how the new methodology's rating factors combine to calculate NFIP premiums, especially in the context of mitigation efforts. Reauthorization should include provisions demanding greater rate transparency from FEMA, including information about how the rating engine builds a rate, how some rating factors may be used to increase a rate and how other rating factors may be used to decrease it. Everyone invested in the future of the NFIP would benefit from understanding how the system is intended to work.

Rate transparency will be bolstered by the disclosure of each policyholder's full actuarial premium rate, which is included in the National Flood Insurance Program Reauthorization Act of 2022 discussion draft listed for today's hearing.

Rep. Nydia Velázquez's National Flood Insurance Program Administrative Reform Act of 2022, which is listed for today's hearing, includes provisions that would strengthen disclosure requirements for NFIP policies. We support these provisions, which include the requirement of an acknowledgement page confirming that the carrier and consumer both fully understand the scope and limitations of the policy being purchased.

**f. Mapping Improvements**

NFIP policyholders would benefit from a federal investment in mapping improvements. To the extent that the NFIP relies on mapping to evaluate risk, maps should reflect data available through the use of cutting-edge technology like geospatial intelligence and global positioning system satellites. The NFIP should continue to collaborate with the U.S. Geological Survey and other federal agencies to maximize the accuracy and reliability of flood maps.

**g. Mitigation**

Mitigation helps control the NFIP's claims costs. Robust mitigation efforts allow communities, homeowners, and businesses to resume normal activity more quickly after a disaster. We continue to support expanding the amount allowable for increased cost of compliance (ICC) coverage for policyholders and allowing its use to fund pre-flood mitigation efforts. However, using the RR 2.0 methodology, policyholder mitigation efforts appear not to be rewarded with lower rates the same way they were in the legacy rating system. We are monitoring this issue as RR 2.0 continues to be implemented.

**h. An Agent Advisory Council**

Agents are the face, the sales force, and the first responders of the National Flood Insurance Program, and they deserve a voice in the regulatory process. An Agent Advisory Council housed within FEMA but independent of the agency could provide FEMA with recommendations to enhance the customer experience, including but not limited to improving the application and claims processes, improving communications about NFIP programmatic changes, and providing input on agent training needs and potential solutions. An Agent Advisory Council should include independent agents who are experts on flood insurance and routinely sell and service NFIP policies.

The discussion draft of the National Flood Insurance Program Administrative Reform Act of 2022, listed for today's hearing, calls for a broader stakeholder Federal Flood Advisory Council, and we would support that concept as well. Any such council should include at least one seat for each of the three national independent agent organizations, to account for the various perspectives within the agent community.

**V. Conclusion**

We support the NFIP because it provides critical flood coverage to residential and commercial property owners, and we support Risk Rating 2.0 because it provides property owners with a more accurate estimate of their flood risk than was previously available to them. This additional information will help property owners make sound decisions about how to protect their investments. Plus, the progress towards risk-based rates will enable the NFIP to rebuild its long-term financial stability for the first time in nearly twenty years.

We would like to see more transparency in the rates produced by RR 2.0, particularly when those rates are at odds with the expectations of knowledgeable flood experts, and we are committed to the creation of an affordability framework to ensure that existing NFIP policyholders are not priced out of their homes as their rates increase along the glide path toward full risk.

We urge Congress to work towards a long-term NFIP reauthorization that will attract and retain policyholders and provide everyone associated with the program the certainty needed to remain in the business of flood insurance. We look forward to continuing to work with you all on this critical issue.

# Testimony of Roy E. Wright

President & CEO
Insurance Institute for Business & Home Safety (IBHS)

***"Reauthorization and Reform of the National Flood Insurance Program"***

**Before the U.S. House of Representatives**
**Committee on Financial Services'**
**Subcommittee on Housing, Community Development, and Insurance**

**May 25, 2022**

Members of the Subcommittee, thank you for the opportunity to speak with you today about flooding, insurance, and resilience. My name is Roy Wright, and I am President & CEO of the Insurance Institute for Business & Home Safety (IBHS). IBHS is a 501(c)(3) organization, enabled by the property insurance industry's investment, to conduct building safety research that leads to real-world solutions for home and business owners, helping to create more resilient communities. Before joining IBHS, I served at the Federal Emergency Management Agency (FEMA), where I was the Federal Insurance Administrator, the chief executive of the National Flood Insurance Program (NFIP). Complementing these insurance responsibilities, I led the agency's Federal Insurance and Mitigation Administration and directed the resilience programs addressing earthquake, fire, flood, and wind risks.

Severe weather disrupts lives, displaces families, and drives financial loss. IBHS delivers top-tier science and translates it into action so we can prevent avoidable suffering, strengthen our homes and businesses, inform the insurance industry, and support thriving communities. The perils we study at IBHS are part of the natural world in which we live, but social and economic disasters occur when these perils meet human populations that live or work in harm's way. To break the cycle of destruction, it is essential to address all aspects of the building performance chain: where you build, how you design and construct, and how well you maintain and repair. As a building science institute, IBHS focuses on the ways that weather behaves, what makes homes and businesses vulnerable, and how our buildings can be more resilient. We exist to help ensure that the places where people live, learn, work, worship, and gather are safe, stable, and as strong as the best science can equip them to be.

As noted, IBHS is enabled by the investment of our Members, property insurers and reinsurers. A set of IBHS member companies also provide critical services to the NFIP by writing and servicing NFIP flood insurance policies as part of the Write Your Own program. IBHS Members that participate in the Write Your Own program are proud to help bring flood insurance to millions of Americans.

The core perils studied at the IBHS Research Center are wind, wind-driven rain, hail, and wildfire. Today, drawing in part from my experiences at FEMA, I would like to speak with you about flooding, the effects of inflation on the NFIP, the critical role that insurance plays in communicating risk and providing financial resilience, and ways to improve the effectiveness of the NFIP and the resilience of families and communities in flood-prone areas.

Before addressing these issues, let me address squarely the one before you now: reauthorization.

The politics of flood insurance is, and always has been, principally driven by geographic concerns, not ideological ones. If the work of reauthorization was easy, Congress would have passed a simple, long-term re-authorization years ago.

Congress is wrapping up six years of reauthorization this fall. Unfortunately for flood insurance consumers and those responsible for leading the program, Congress has delivered those six years of reauthorization *in 21 small chunks*. With fundamental administrative reforms to the program now in place, Congress must pass long-term reauthorization that provides the program with political stability. A reasonable, multi-year reauthorization would be best for the NFIP, best for the Write-Your-Own insurers that help make the program function, and, most importantly, best for the consumers that depend on the NFIP for flood insurance.

## INFLATION

As Congress attends to the fiscal policy side of inflation, it must also address the real impacts inflation has on the NFIP. These impacts will affect flood insurance consumers and program administration alike – and solutions to these challenges can only be addressed by Congress; the program administration of FEMA alone cannot mitigate them.

On the consumer side, inflation is undermining flood insurance affordability for two sets of homeowners:

a) those who cannot afford the premiums due to increases in the cost of other goods and services, and
b) those who cannot afford to rebuild with the limited insurance claim ($250,000) provided by existing law.

The inflationary pressures on the first set of homeowners will be addressed by broader national efforts to reduce inflation. The second set of homeowners, however, can only be helped by statutory change that increases NFIP policy limits.

When Congress set the existing NFIP policy limits for structural coverage at $250,000 in 1994, the average sales price of a home in the United States was $154,000 (Federal Reserve Bank of St. Louis data). At that time, a $250,000 policy limit provided adequate space to absorb regional cost differences across the country and was sufficient to help most homeowners rebuild following flood damage. For 2022 Q1, the Federal Reserve Bank of St. Louis reports average home sales price in America at $507,800. Simply put, the average sales price has increased by more than 300 percent since 1994, and yet the NFIP policy limits for structural coverage remain at $250,000.

Here is the impact of Congress's inaction: when hurricanes make landfall in the United States this year, Americans who did the right thing and bought flood insurance will learn the consequences of being underinsured. When the cost of rebuilding their home comes in at $370,000 and they only have $250,000 available in coverage, they will be underwater – for the second time. Many will blame inflation. While not unrelated, *the principal fault for the protection gap in their coverage will reside with Congress* because Congress continues to limit the amount of insurance homeowners are permitted to buy.

There is a straightforward solution to this problem that allows for flexibility and reflects market realities. Congress should set NFIP coverage limits through a process that pegs the coverage limit to the Federal Housing Finance Agency's (FHFA) conforming load limits. Particularly for consumers that *must* purchase flood insurance, Congress should craft a program that allows them to purchase *enough* flood insurance. Simply, the current caps guarantee an incomplete recovery after flood disasters that will surely frustrate the policyholders.

Inflation will also negatively affect the program administration side of the equation. The debt held in the flood insurance program is about to get walloped by rising interest rates. While I know that there is no bipartisan legislative path today to resolve the outstanding debt, I must warn you – this will come back to haunt you, FEMA, and all those who depend on the NFIP for flood insurance. As interest rates rise, so too will interest payments on the residual $20.5 billion debt that FEMA owes to the Treasury Department.

Last year, FEMA paid $350 million to service its debt. Diverting ten percent of the premium revenue in each year over the past decade has a compounding effect on funds available to pay claims. Yet this interest number will likely double. In future years, when FEMA is paying $700 million, $800 million, or even $1 billion in annual interest on the NFIP's residual debt, those funds must come from somewhere. As Congress currently constructs the program, that interest is paid from premium revenue, which reduces the funds available to pay claims.

Thus begins a vicious cycle. When claims cannot be paid for expected losses, FEMA will be back at the window of the Treasury Department borrowing more, leading inexorably to larger debt, and consequently larger debt payments. Short-term borrowing has a role in any insurance operation, but not for long-term debt that the program still carries from Hurricane Katrina, circa 2005.

## RISK RATING 2.0

Risk Rating 2.0 set out to be a fairer approach to setting insurance premium rates that resembles the methodologies used for underwriting property risk across the covered perils insured in the United States. As FEMA is implementing the program changes, this objective is being accomplished. And that fairer approach is reaping immediate benefits for 86 percent of NFIP policyholders. This is what was projected, and it is what is occurring. Nearly two-thirds of policyholders have found that the new pricing approach feels just like the past: they see annual incremental increases that resemble the past trajectory, with the smallest increases used to keep pace with the increased cost of materials and labor.

In addition, nearly a quarter of all NFIP policyholders are seeing price decreases. In some instances, that is $200 a year in savings. In other cases, that can be upwards of $1,000. Think about that. In a time of high inflation – the costs of material and labor soaring – these policyholders are experiencing a *cheaper* price on their flood insurance. These reductions help a wide range of consumers. Yes, low- and middle-income households are benefiting from these reductions, but it is not restricted or targeted. Where the risk is lower and price consideration is warranted, any eligible policyholder can see these reductions.

Now some are highly critical of Risk Rating 2.0 – particularly those among the 14 percent of policyholders that have seen premium increases from the new approach. I am sure there are cases that require individual attention to ensure the calculations are perfectly applied. But insurance has a price, and that price is driven by risk. Whether it is due to the higher replacement cost of the structure, the escalated value of the home, or a more precise understanding of the flood risk on a given parcel, higher rates are grounded in sound actuarial practices. Ironically, the criticisms

I've heard of Risk Rating 2.0 have little to do with the actual risk measurements themselves – the data, methods, and accuracy. Instead, *the criticisms focus on the difficulty of living with the heightened awareness and cost of their flood risk.*

In a time when so many point to the effects of climate change and its growing effect on severe weather's impact on our homes, we cannot be duplicitous. You cannot say that the flood risk is growing *and* then expect the price of that risk to be cheaper. That does not compute. There is no greater risk communication tool than a pricing signal.

Congress has already devised a safety valve for those experiencing increases in their flood insurance premiums: the cap on annual price escalation. Maybe Congress should pull the 18% individual rate increase cap down a few points. But it is neither legal (under the National Flood Insurance Act) nor moral *to lie to the American people who live at risk of flooding* and tell them they are safe from harm when they are not.

## Cracking the Affordability Code

For those who can afford to pay the cost of the risk associated with their home, they should carry that load entirely. It is part of the cost of ownership. Yet not everyone chooses where they live; not everyone can afford the impacts that may befall their home.

According to sociological research, disabled, elderly, low income, and other vulnerable people are less likely to prepare for disasters, evacuate safely, avoid physical or psychological trauma, or recover quickly and fully. Low-income residents account for a meaningful percentage of the population in many coastal communities and other areas that face climate risk, often living in the most vulnerable types of housing.

Just as low-income households are least able to withstand the physical dangers of natural disasters, they are likewise least able to withstand the associated financial burdens – including the cost of flood insurance. I encourage this Congress and FEMA to identify ways to assist low- and moderate-income households to lessen the financial burden of flood insurance. The NFIP's affordability program should focus on these low- and moderate-income families, be tied to area median income, and capped so that eligibility does not extend beyond 400% of the Federal Poverty Guidelines. Further, Congress must decide how much money it wants to invest into this affordability program annually. The NFIP *cannot* pay for such a program with its premium revenue, particularly considering the burden rising interest rates will place on FEMA's debt payments. Moreover, you cannot pay for a national affordability program through cross-subsidies—it is inequitable and undermines the financial stability of the program.

While means-tested subsidies may be part of this solution, so too must policies, programs and financial incentives that address flood insurance affordability at its root cause: the flood risk itself. Now that the NFIP has become more risk sensitive through Risk Rating 2.0, reducing the flood risk of homeowners in flood-prone areas through community and property-level mitigation will have a direct, positive impact on flood insurance affordability. Addressing flooding in the context of climate change means smarter development and land use decisions, coupled with a clear-headed approach to strengthening the resilience of existing homes. These steps, such as home elevation, can be costly, and government programs providing cost-effective support to financially assist property owners making such investments may be necessary. Such support could take the form of tax credits for resilient investments, or incentives in federal housing programs for homeowners that invest in resilience.

In addition, existing programs, such as FEMA's Building Resilient Infrastructure and Communities (BRIC) and the Flood Mitigation Assistance grant program, can help FEMA address flood insurance affordability and improve individual and community resilience at the same time. A current legislative proposal – the Community Disaster Resilience Zones (CDRZ) Act of 2022 (S. 3875/H.R. 7242), which would establish a statutory structure to identify and designate communities that are the most in need and most at risk to natural hazards like flooding – would help even more by directing public and private sector resilience investments to where they are needed most.

## BREAKING THE CYCLE

There is a place where affordability, resilience, and the financial health of the NFIP intersect – the hallways and rooms of those individual homes that experience repetitive, catastrophic flood losses. Reforming how we assist the families living in these properties should be a priority for this Congress.

When a homeowner experiences their first big flood loss, they look for a way to build back quickly and lay the framework for a better tomorrow. When that same homeowner experiences a follow-on catastrophic loss, they start looking for a way out. Yet FEMA's repetitive loss home acquisition programs (buyouts) take years – often culminating five years after the event. This is both unhelpful and duplicates expenditures. In that time, the NFIP would have paid out two claims, often exceeding the value of the policy, and then pay for a buyout later. They pay to rebuild the house (twice) and then pay to demolish it.

Let me describe one flood disaster survivor I met following Hurricane Harvey. I was at my desk late one evening in late August 2017, four days into the churn of Harvey's rain and destruction over Houston. My staff had all gone home, and my phone rang. I don't know that anyone expected me to answer a call so late, but out of an instinctive impulse I answered. A lady told me she was looking for "Mr. Roy Wright. I believe he leads the flood program." She introduced herself as Edith and said, "I need some help." Edith began to explain that she was a National Flood Insurance customer who had experienced a large flood loss to her Houston home over Memorial Day weekend in 2015. Her claim had been adjusted and paid, and Edith's family had put their house back together. Then came the Tax Day flood of 2016. Again, Edith filed a claim, it was paid, and again, she put her house back together. And as the rain of Hurricane Harvey poured over her home in those last days of August in 2017 – just 16 months after the previous disaster – she was Googling ways to sell her home or be bought out. My name came up.

Edith didn't want a third claim paid. Edith wanted to start over.

Edith wanted to start FEMA's buyout process that very day.

Except FEMA does not have an expedited way to do such a thing. Buyouts involve a protracted process of homes being designated as repetitive or severe repetitive loss. That leads to a homeowner expressing interest to their community. The participating NFIP community then needs to make application to the state. The state then prioritizes requests and waits for FEMA's next grant cycle. FEMA makes awards for buyouts that then kicks off more review. But for the displaced families (often living with other family because their home is uninhabitable) as the primary players in this drama, that bureaucratic process might be fine. But when there is repeated devastation, this process this not only brings undue mental health pressure, it also wastes resources.

Despite some attempts working with Congress to get some temporary authority in the emergency appropriation bills in 2017, FEMA could not find a way to meet Edith's needs in a timely fashion.

There are several pathways to meet this need in something close to real time. The recently introduced Casten-Blumenauer bill offers a clear way forward. Offer the buyout *at the point* of the catastrophic claim – the very time Edith called me seeking help. This would be good for the homeowner and make financial sense for FEMA. Plowing the indemnified claim value into the acquisition project reduces the overall cost to FEMA and expedites the recovery timeline for the impacted family.

* * *

In closing, I would like to thank you for the recognizing the importance of both physical and financial resilience as Americans continue to contend with devastating floods across our country. I appreciate the opportunity to share some of our ideas with you today.

AMERICAN ACADEMY *of* ACTUARIES

*Objective. Independent. Effective.™*

May 24, 2022

| | |
|---|---|
| The Honorable Emanuel Cleaver | The Honorable French Hill |
| Chairman | Ranking Member |
| Subcommittee on Housing, Community Development and Insurance | Subcommittee on Housing, Community Development and Insurance |
| U.S. House of Representatives | U.S. House of Representatives |
| Washington, D.C. 20515 | Washington, D.C. 20515 |

Via Email

Dear Chairman Cleaver and Ranking Member Hill:

On behalf of the Property and Casualty Extreme Events and Property Lines Committee of the American Academy of Actuaries[1], I am writing to share the committee's perspectives on the reauthorization and proposed changes to the National Flood Insurance Program (NFIP), and specifically the five bills that the subcommittee will be considering during the hearing, *Reauthorization and Reform of the National Flood Insurance Program*, on Wednesday, May 25. As Congress considers important updates or changes to this critical program, the committee suggests the following considerations:

- **Avoiding Pricing Disparity and Funding Problems**—Currently, surcharges are imposed on NFIP policies to help pay for the Federal Emergency Management Agency's (FEMA) flood mapping program and the repayment of the NFIP's debt to the U.S. Treasury. If similar surcharges are not imposed on privately issued insurance policies, there will be an artificial pricing disparity between private insurance coverage and those offered by the NFIP. In addition, any net migration of policies from the NFIP to the private market will result in a reduction in funds for flood mapping and debt retirement. In the proposed legislation being considered by the subcommittee is language that would address flood mapping and pricing concerns.
- **Resolving the Debt Question**—The NFIP's current debt to the U.S. Treasury of $20.5 billion (plus annual interest charges of around $400 million) is almost entirely the result

[1] The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

of claims paid out after mega-storms such as Hurricane Katrina, Superstorm Sandy, Hurricane Harvey, and Hurricane Ida. The Congressional Budget Office, the Government Accountability Office, FEMA, and the American Academy of Actuaries' Casualty Practice Council all have noted that the NFIP's premium income by itself is not sufficient to cover "normal" year losses, purchase reinsurance, and repay debt from mega-storms. A realistic limit should be set on what the NFIP can be expected to pay through cash flow and reinsurance, with some form of public absorption of losses beyond that. The legislation before the subcommittee would address this concern by treating the indebtedness as a public debt of the United States.

- **Making Data Available**—The NFIP has accumulated a great deal of historical flood loss data that would be helpful to private insurers should they contemplate entering this market. Making historical loss data accessible to insurers and analysts could facilitate growth of the private market and help to make NFIP operations more transparent. The legislation before the subcommittee would make helpful changes in this regard by creating a data exchange program.
- **Modernizing Flood Mapping**—The NFIP's flood mapping and risk assessment standards were established in the 1970s and have not kept pace with changes in technology and methods (such as improved catastrophe models, lidar measurements, and more data analytics) used in the insurance industry. Updating the NFIP's flood mapping technology and assessments would help to modernize the program, better align it with current insurance industry practices, and improve the accuracy of ratings. The legislation before the subcommittee would further help by directing the NFIP to modernize its practices.
- **Changing the NFIP Mitigation Program**—Taking steps to reduce future losses is an important way to help policyholders and protect taxpayers. The NFIP currently spends most of its mitigation funds on upgrades to properties that have already suffered losses while providing little help to homeowners who want to act to proactively avoid future losses. The legislation before the subcommittee would provide funding ($200 million) for the flood mitigation grant program.
- **Aligning Coverages**—NFIP policies differ from private insurance policies in several ways, including providing replacement costs, living expenses, business interruption coverage, and adjustments to limits of coverage. Making these benefits available to NFIP policyholders at appropriate prices would improve their protection and help to better align the program with other coverages that are available in the private market. The legislation before the subcommittee would help move the NFIP in this direction by addressing replacement cost, but would not address other aforementioned differences.
- **Taking Into Account Rising Sea Level**—Rising sea level is an observed fact[2], with non-storm coastal flooding now occurring regularly in some areas and with more frequent "sunny day" high-tide nuisance flooding in many areas of the United States[3]. This presents challenges both in the number of properties that are at risk and in the expected

[2] https://climate.nasa.gov/vital-signs/sea-level/

[3] https://tidesandcurrents.noaa.gov/HighTideFlooding_AnnualOutlook.html

> increase in the severity of damage from future storms. The long-term financial solidity of the NFIP may be at risk if local building codes are not revised with regard to the potential for future events that exceed current assumptions. The legislation before the subcommittee does not include language that would address concerns about expected changes in sea level and potential impacts on the NFIP.

The Property and Casualty Extreme Events and Property Lines Committee identifies possible extreme events (low frequency-high severity events that could generate extremely large property/casualty losses). The committee also identifies issues relevant to the treatment of such risks including sizing, insurability, pricing, funding, reserving, capital management, and loss mitigation. Included in the committee's charge is the monitoring of federal, state and international catastrophe legislation and regulation. For more information, please read our September 2020 monograph, *The National Flood Insurance Program: Challenges and Solutions*. You may also find useful the Actuaries Climate Index, which contains measurement of several climate-related indicators including rainfall and sea level.

If you have any questions or wish to discuss these comments, please feel free to contact Rob Fischer, Senior Casualty Policy Analyst, at fischer@actuary.org.

Sincerely,

Steve Kolk, MAAA, ACAS
Vice Chair, Extreme Events Committee
American Academy of Actuaries

American Bankers Association
Building Success. Together.

**Kirsten Sutton**
Executive Vice President
Congressional Relations & Legislative Affairs
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May 24, 2022

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
United States House of Representatives
Washington, D.C. 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
United States House of Representatives
Washington, D.C. 20515

Dear Chairwoman Waters and Ranking Member McHenry:

The American Bankers Association appreciates the House Financial Services Subcommittee on Housing, Community Development, and Insurance holding this important hearing on Reauthorization and Reform of the National Flood Insurance Program.

A long-term reauthorization of the NFIP continues to be a high priority issue for the ABA and our members, as stability in the NFIP is essential to ensuring that borrowers in flood prone areas can access the insurance needed to protect their properties and the collateral securing their mortgage loans. The ongoing series of short-term extensions of program authority — and the potential for lapses in authority — destabilize the mortgage process.

There is a growing focus by banks and regulators to ensure that physical risks posed by climate change are adequately addressed. The availability of flood insurance, and particularly of the NFIP, is an essential element of those efforts and long-term reauthorization of the program is vital to a coordinated approach to ensuring resiliency of the housing finance system and to the continued ability of low and moderate income borrowers to access mortgage credit.

We urge the members of the House Financial Services Committee to advance legislation to reauthorize the NFIP on a long-term, five-year basis and to include in that legislation a requirement for the prudential agencies to update the Interagency Questions and Answers Regarding Flood Insurance on a recurring and regular basis. This is another longstanding priority for the ABA and our members, as this guidance is essential to ensuring that borrowers have the coverage necessary to protect their properties.

Sincerely,

Kirsten Sutton

cc: Members of the House Committee on Financial Services

Vison & Action **Anthropocene Alliance**
info@anthropocenealliance.org

**anthropocenealliance.org**

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
4340 O'Neill Office Building
Washington, D.C. 20024

May 30, 2022

Dear Chairwoman Waters and Ranking Member McHenry,

The undersigned individuals and organizations write today to thank you for your important work on the issue of flooding and flood insurance, and to ask for your help.

We understand that your committee will soon begin deliberations on reauthorization of the National Flood Insurance Program. As you do so, we urge you to press the Federal Emergency Management Agency (FEMA) to act quickly on allowing payment of monthly premiums and to assure that new legislation also provides clear authority for FEMA to offer flood premium assistance to the families that need it most.

As flood survivors, we know the costs of flooding too well. We also know that flooding can catch you by surprise, occurring in neighborhoods that have previously been safe and dry. Even a modest level of flooding can cause extensive damage, destroying family treasures, budgets, and peace of mind.

Flood insurance can make all the difference in the speed and extent of a flood survivor's recovery. And while we appreciate that the National Flood Insurance Program -- the flood insurance provider for most of us – must collect enough in premiums to pay claims, we are concerned about equitable pricing.

The good news is that FEMA's new insurance pricing system, Risk Rating 2.0, incorporates more information about different types of flood threats than previously, providing a more honest view of the level of risk. That's something we value.

In addition, it recognizes that repairs to modest homes cost less than repairs to larger, higher-value homes tells, and that proximity to water is a significant factor in flooding. That means the system is fairer. In fact, many thousands of insurance policyholders will enjoy a decrease in price under 2.0.

However, while Risk Rating 2.0 lowers the price for about 23% of homeowners who had existing policies, some who -- like many of us – live in risky areas may still find it difficult to pay the price for this important protection.

In addition, as you can certainly understand, many people faced difficult financial circumstances over the past two years and simply could not afford the large bills that came due at policy renewal time. Some of us who were unable to continue our policies are now facing substantially increased rates and once again will have difficulty paying for the coverage we know we need. Among the families and individuals who need your help for either lowering the price of insurance or assuring that the costs can be spread into smaller monthly payments are those living in poverty, seniors on fixed income, and historically underserved. Former members of the military and new entrepreneurs and their families may also struggle to pay the full cost of insurance, particularly in one yearly lump sum.

We were happy to hear that the Build Back Better bill included provisions for financial assistance to policyholders at the lower levels of income. But regardless of the fate of that bill, we ask you to consider flood insurance program revisions that will help those most in need to protect themselves and their homes. We are not asking for a free ride for anybody -- we all need to pay our fair share for better flood protection. But some level of assistance to lower the price of insurance for lower-income families is clearly called for. We believe such a program should focus on homes that serve as primary residences – not vacation homes -- with varying levels of assistance, based on need.

As we continue fighting for flood protections and mitigation in our own communities, we respectfully ask you and your colleagues to help us and our neighbors by pressing FEMA to make a monthly bill option available quickly and by including a flood-insurance affordability program in any reauthorization bill that the Financial Services Committee moves forward. We appreciate your consideration of these views.

Yours sincerely,

Harriet Festing, Anthropocene Alliance, FL
Kathleen Sullivan, Stop Elmhurst Flooding, IL
Susan Liley, Citizens' Committee for Flood Relief, MO
Kevin McKinney, Flood Victms of Richwood, TX

Melanie Brevis, Lafayette Parish Flood Forum, LA
Ben Hirsch, West Street Recovery, TX
Ric Bertsch, Ocean City Flooding, NJ
Gordon Jackson Jr., Biloxi NAACP Environmental and Climate Justice Committee, MS
Rebecca Jim, Local Environmental Action Demanded Agency Inc., OK
Frances Acuna, Go Austin Vamos Austin, TX
Debra Campbell, A Community Voice, LA
Arthur Johnson, Center for Sustainable Engagement, LA
Susan Lyons, Groundswell Charleston, SC
Lea Harper, FreshWater Accountability Project, OH
Gabriella Velardi-Ward, Coalition for Wetlands and Forests, NY
Darshan Elena Campos, PhD, Somos Semillas Antillanas, PR
Monica Esparza, Renewal of Life Trust, VA
Barbara Weckesser, Cherokee Concerned Citizens, MS
Rebecca McSwain, Save James Island, SC
Michelle Smith, Community In-Power and Development Association Inc., TX
Rachel Heerema and Lorena Venegas, 10,000 Hawks, CT
Sharon Fisher, The Clinch Coalition, VA
Diane Henry, Residences Working Against Huron River Flooding, MI
Jan Dietrick, 350 Ventura County Climate Hub, CA
Alecia Brewster, South Carolina Interfaith Power & Light, SC
Carmen Reynolds, Whispering Pines Concerned Citizens, FL
Jacqueline Echols, South River Watershed Alliance, GA
Robin Schwartz, Duwamish River Community Coalition, WA
Dawne Dunton, Saving Island Green Wildlife & Beyond, SC
Gloria G. Horning, Higherground Pensacola, FL
Dara Hartigan, Save our Soundside, Inc., FL
Yvonka Hall, Northeast Ohio Black Health Coalition, OH
Kevin W. Shockey, Ahora Inc., PR

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99 M Street SE
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May 25, 2022

The Honorable Emanuel Cleaver
Chairman
Subcommittee on Housing, Community Development and Insurance
House Financial Services Committee
Washington, DC 20510

The Honorable French Hill
Ranking Member
Subcommittee on Housing, Community Development and Insurance
House Financial Services Committee
Washington, DC 20510

Dear Chairman Cleaver and Ranking Member Hill,

On behalf of America's credit unions, I am writing regarding the hearing entitled, "Reauthorization and Reform of the National Flood Insurance Program." The Credit Union National Association (CUNA) represents America's credit unions and their 130 million members.

Many credit unions offer mortgages to members around the country, including in areas covered by flood insurance requirements, and CUNA strongly supports your efforts to pass long-term reauthorization of the National Flood Insurance Program (NFIP) through 2027. We also recognize that continuing reforms may be necessary to improve the actuarial footing of the NFIP and to ensure stability in the housing market in affected areas. At the same time, it is vital that flood insurance premiums remain affordable so that families in parts of the country where flood insurance is required are not shut out of the opportunity to own a home.

We appreciate the thoughtful set of legislative discussion drafts produced by your committee, each aimed at addressing a different aspect of the flood insurance program. Beyond the necessary long-term reauthorization of the NFIP in the National Flood Insurance Program Reauthorization Act of 2022, CUNA further applauds the committee's efforts to ensure that the cost of flood insurance premiums is rooted in the actual flooding risk of the property, including the improvement, expansion and modernization of floodplain mapping; the refunding of premiums paid on properties inadvertently included in special flood hazard areas; and the reduction of premiums based on the implementation of flood mitigation steps.

On the other hand, we have reservations about the proposed pilot program to establish flood insurance premium discounts through means-testing in the bill. While CUNA strongly supports improvements to ensure flood insurance premiums are affordable, means-based discounts on flood insurance may create unintended consequences. For example, the discount could create a perverse incentive for further concentration of affordable housing in flood-prone areas. Less expensive housing is often older, located in flood zones where property itself is less expensive, and built with substandard materials that cannot withstand extreme weather.[1] The number of affordable housing units in the United States exposed to

[1] Teresa Wiltz, *Climate Change Is Making the Affordable Housing Crunch Worse*, PEW Stateline (August 30, 2019), available at https://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2019/08/30/climate-change-is-making-the-affordable-housing-crunch-worse.

extreme coastal water levels and therefore at risk of flooding is projected to triple by 2050.[2] While the bill's provisions regarding mitigation may be somewhat helpful in improving the resiliency of housing in these areas, the committee should avoid further exacerbating this problem. If the committee choses to proceed in this direction it should do so with the upmost caution and ensure that the pilot program fully and thoroughly studies the longer-term effects of these discounts.

Finally, regarding the proposed data exchange program, CUNA asks the committee to consider expansion of participation in that program to mortgage originators and mortgage servicers regarding loans secured or intended to be secured by non-first-position liens. When making a mortgage loan secured by a junior position lien, the junior lienholder is required to ensure that adequate flood insurance coverage is in place through the first-position lienholder, and, if it is not, they are required to purchase sufficient additional insurance coverage to meet the mandatory purchase requirements.[3] For closed-end secondary mortgages, the junior lienholder is required to escrow the insurance premiums if the first-position lienholder is not already doing so.[4] Even where sufficient flood insurance may be in place and escrowed by the first lienholder, if the junior lienholder later discovers that the first lien has been discharged and they have moved into the first lien position, they are obligated to reestablish sufficient coverage and escrow those premiums unless an exception applies.[5]

Because of these compliance obligations and the need to ensure that property located in a flood hazard area remains protected, junior position lienholders are at the mercy of communication from first lienholders for information. There are few existing channels for this type of communication between lienholders on a property, and oftentimes lack of sufficient coverage may not be discovered for several years until a loan is renewed or refinanced. Access to information about the existence and amount of coverage on would be tremendously useful to meeting these compliance obligations and avoiding a lapse in coverage when a first position lien is satisfied and/or discharged. Providing access to this information to mortgage originators and services would reduce compliance burden and protect consumers against unexpected losses resulting from insufficient or lapsed coverage through their former first-position lienholder.

Regarding the "National Flood Insurance Program Administrative Reform Act of 2022," CUNA urges the committee to include a representative with knowledge of mortgage origination and the housing finance sector on the Federal Flood Insurance Advisory Committee. A significant amount of the implementation and execution of the NFIP is dependent on the participation of mortgage lenders. Consumers often interact for the first time with the NFIP through the home-purchase or refinance experience. As both mortgage originators and lienholders, mortgage lenders are significant stakeholders in the NFIP. Given the significant role mortgage lenders play in the NFIP, it is appropriate for the Federal Flood Insurance Advisory Committee to retain and consider their perspective and expertise. The committee should require that the mortgage lending representative who serves on the committee come from a community development financial institution with experience with mortgage lending operations, various federal housing financing programs, and the secondary market.

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[2] M K Buchanan et al, *Sea Level Rise and Costal Flooding Threaten Affordable Housing*, Environmental Research Letters 15 (2020), available at https://iopscience.iop.org/article/10.1088/1748-9326/abb266/pdf.

[3] *See*, 12 CFR 22.5(a)(2)(ii) (OCC); 12 CFR 208.25(e)(1)(ii)(B) (Board); 12 CFR 339.5(a)(2) (FDIC); 12 CFR 614.4935(a)(2) (FCA); and 12 CFR 760.5(a)(2) (NCUA).

[4] *See*, 12 CFR 22.3(a) (OCC); 12 CFR 208.25(c)(1) (Board); 12 CFR 339.3(a) (FDIC); 12 CFR 614.4930(a) (FCA); and 12 CFR 760.3(a) (NCUA).

[5] *See*, 12 CFR 22.5(a)(3) (OCC); 12 CFR 208.25(e)(1)(iii) (Board); 12 CFR 339.5(a)(3) (FDIC); 12 CFR 614.4935(a)(3) (FCA); and 12 CFR 760.5(a)(3) (NCUA).

Finally, regarding the bill to limit the annual increases in premiums and surcharges under the National Flood Insurance Program, CUNA supports a decrease in the cap on cost increases from 18 to 9 percent.

A strong, sustainable, and affordable NFIP will serve the best interests of our nation's housing market for years to come, and we commend your work to reauthorize this vital program in a fiscally responsible way. On behalf of America's credit unions and their 130 million members, thank you for holding this important hearing.

Sincerely,

Jim Nussle
President & CEO

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National Association of Federally-Insured Credit Unions

May 24, 2022

The Honorable Emanuel Cleaver
Chairman
Committee on Financial Services
Subcommittee on Housing, Community Development and Insurance
U.S. House of Representatives
Washington, DC 20515

The Honorable French Hill
Ranking Member
Committee on Financial Services
Subcommittee on Housing, Community Development and Insurance
U.S. House of Representatives
Washington, DC 20515

**RE: Tomorrow's Hearing, "Reauthorization and Reform of the National Flood Insurance Program"**

Dear Chairman Cleaver and Ranking Member Hill:

I am writing on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) in conjunction with tomorrow's hearing to express our support for an extension of the National Flood Insurance Program (NFIP). As you are aware, NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 130 million consumers with personal and small business financial service products.

NAFCU encourages Congress to enact a long-term reauthorization to reform and modernize the NFIP, and we stand ready to work with Congress in this regard. However, with the NFIP in danger of lapsing at the end of September, it is critical that Congress enact an extension of the program in time to ensure that the NFIP is not disrupted. NAFCU appreciates the urgency with which Congress is acting to prevent this vital program from lapsing, as a lapse of the NFIP will leave millions of homeowners at risk and create disruptions and uncertainty in the housing market.

It is with this in mind that NAFCU strongly urges you to support an extension of the National Flood Insurance Program. Should you have any questions or require additional information, please do not hesitate to contact me or Chad Adams, NAFCU's Senior Director of Legislative Affairs, at (703) 842-2265 or cadams@nafcu.org.

Sincerely,

Brad Thaler

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the Subcommittee on Housing, Community Development, and Insurance

Statement

of the

National Association of Mutual Insurance Companies

to the

House Financial Services Committee Subcommittee

on Housing, Community Development and Insurance

Hearing on the

**Reauthorization and Reform of the National Flood Insurance Program**

May 25, 2022

The National Association of Mutual Insurance Companies (NAMIC) is pleased to provide comments to the Committee on Financial Services Subcommittee on Housing, Community Development and Insurance regarding the reform and reauthorization of the National Flood Insurance Program (NFIP).

NAMIC membership includes more than 1,500 member companies. The association supports regional and local mutual insurance companies on main streets across America and many of the country's largest national insurers. NAMIC members companies write $323 billion in annual premiums. Our members account for 67 percent of homeowners, 55 percent of automobile, and 32 percent of the business insurance markets. Through our advocacy programs we promote public policy solutions that benefit NAMIC member companies and the policyholders they serve and foster greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.

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**Unique Role of Insurance Industry in Managing Climate and Flooding Risk**
NAMIC greatly appreciates the Subcommittee on Housing, Community Development and Insurance holding today's important hearing examining the reauthorization of the NFIP. Since its creation the NFIP has impacted the lives of millions across the nation and has grown even more vital in the face of increasing climate risks.

For its part, the insurance industry has been very engaged in resiliency efforts as the threat of climate change grows more severe. For example, in 2010 the Insurance Business and Home Safety Research Center opened. This facility engages in practical and meaningful scientific research to learn about building safety, and those lessons are then shared with the public. NAMIC one year later, further embraced the fight to combat the effects of severe weather and flooding risk through its role in forming the BuildStrong Coalition, which brings together a diverse group of members to work on resilience and resiliency funding. The Coalition was among those expressing support for stronger building codes and mitigation funding and was among the organizations that celebrated the passage of the transformational Disaster Recovery Reform Act which is making billions of dollars available to communities across the nation to mitigate against the effects of natural disasters and flooding events through the creation of the Building Resilient Infrastructure and Communities Program.

Just this year, on April 5, the House of Representatives voted overwhelmingly in bipartisan fashion to advance H.R. 5689, the Resilient AMERICA Act which builds on the Disaster Recovery Reform Act. The Resilient AMERICA Act contains important policies designed to save lives and maximize taxpayer dollars in the face of a changing climate by redirecting existing resources to invest more in upfront resiliency and give states and localities increased flexibility to utilize resources before the next disaster.

**Important Role of the National Flood Insurance Program**
Congress created the NFIP in 1968 to address the increasing costs of taxpayer-funded disaster relief for flood victims and reduce the amount of uninsured damage to private property caused by flooding. Over the last 50 years, the program has been instrumental in helping millions of American property owners minimize

the serious financial loss they would otherwise have suffered due to catastrophic flooding. However, as we have seen in the wake of recent catastrophes, the NFIP – which has been operating through a series of short-term extensions – would benefit from targeted reforms to better protect policyholders and taxpayers.

Since the end of fiscal year (FY) 2017, the NFIP has had 19 short-term reauthorizations. Reforms to the program are long overdue and the NFIP's authorization is set to expire on Sept. 30, 2022. While avoiding a lapse in the program's authorization is crucial to policyholders across the nation, reauthorizing the program on a long- term basis is also essential to providing certainty and stability to the millions of policyholders and the many sectors of our economy that rely on a functioning NFIP. Most notably, the NFIP remains on a fiscally unsustainable path for both the housing and insurance markets. Policyholders relying on continuing coverage at renewal and those involved with supporting the program deserve stability rather than the uncertainty of short-term extensions.

As Congress crafts legislation to reauthorize the program, NAMIC offers the following suggestions to address the shortcomings of the NFIP.

**The Use of Actuarially Sound Rates**

Inadequate rates that do not reflect the actual costs and risks of living in a high-risk flood zone are the source of many of the NFIP's problems. This has the effect of encouraging poor land use and irresponsible development in high-risk areas, thereby increasing the total potential losses incurred in a flooding event.

Since the NFIP was established, there has been a substantial population increase in flood-prone coastal states, which now account for a very large portion of the NFIP's portfolio. One reason for the population increase in flood-prone areas is that NFIP subsidies mask homeowners' true flood risk. Masking risk also has the effect of residents not taking necessary mitigation measures or utilizing resilient construction techniques, which leave them even further exposed to risks associated with flooding. The NFIP must continue to move toward the use of risk-based rates, which is the premise of the Federal Emergency Management Agency's (FEMA) Risk Rating 2.0.

Risk Rating 2.0 is the biggest overhaul of the NFIP since the program's inception in 1968 and is leveraging data to calculate the real flood threat for each individual home covered by the program. FEMA's Risk Rating 2.0 – using pricing methodology that is more accurate and tailored to risk – has now been implemented for both new business and existing business (on a rolling basis, as renewed). NAMIC supports this move to risk-based pricing within the NFIP. Through Risk Rating 2.0, every home will be rated on an individual basis instead of on outdated and often inaccurate flood maps. Gradually, over time, Risk Rating 2.0 will align rates with actual flood risk to increase equity; ensure homeowners are aware of their true flood risk; and place the program on a path towards greater fiscal soundness.

**Addressing Affordability**
While the program must continue to advance toward actuarial sound rates, such a move could create affordability issues for some homeowners. To reduce potential affordability issues, NAMIC supports phasing in rate increases over a number of years to prevent instant and undue hardship for some homeowners currently paying subsidized rates. NAMIC further recognizes that some policyholders will need financial assistance because even rate increases implemented incrementally over time could prove too costly. As such, NAMIC supports establishing a targeted, need-based program to assist homeowners facing affordability issues. We also note that any subsides offered must be fully transparent rather than hidden within the insurance mechanism – homeowners should be fully aware of the real risks of where they live.

**Increasing Choices for Policyholders**
The vast majority of households are without sufficient flood coverage, and robust stakeholder collaboration is necessary to ensure that more Americans are prepared to protect their homes financially and physically from a flood. The private market may offer additional options to sufficiently insure more American households. The largest impediment to increasing private-sector involvement and creating more choices for flood insurance policyholders has been the subsidized rates of the NFIP. Since private-sector insurance companies must charge risk-based premium to remain viable and in compliance with state laws governing rates, it is difficult to compete with government rates that do not reflect the cost of the risk. Efforts to increase private-sector participation in the flood insurance marketplace must consider that, where there are government subsidies, private companies would be asked to sell a similar product at in many cases a much higher price.

The current NFIP "continuous coverage" requirement may be a barrier to policyholders opting for private flood insurance. If a policyholder leaves the NFIP, they are barred from preferred treatment if they later elect to return to the program. Today, homeowners with lapsed NFIP policies could be subject to a substantial rate increase whether they go uninsured or elect to protect their home with private flood insurance. To treat those that chose private flood insurance the same as those that go uninsured unfairly burdens the private market. A commonsense way to help encourage more private involvement in the flood insurance market could be to expand what qualifies as continuous coverage. If a consumer with a grandfathered policy finds a less expensive policy in the private market and later decides to return to the NFIP they should not experience a substantial rate increase based on having left and returned to the program.

Looking forward, NFIP reauthorization legislation should also take steps to foster private-sector participation and ensure maximum participation from insurers in FEMA's Write-Your-Own (WYO) Program, which serves the vast majority of all flood insurance policyholders. It is important to avoid adopting approaches that would reduce WYO participation in the NFIP – such as those that would cap the amount WYOs can be reimbursed from FEMA for serving policies. The NFIP should avoid complicating claims processing or attempting to further suppress flood insurance rates, which could limit options for consumers and may ultimately raise costs for taxpayers. In this vein, it will be integral to the long-term success of the NFIP that as FEMA continues to implement Risk Rating 2.0 it works closely with its partners, including those in the WYO program and in the agent community, to better serve their customers.

**Increasing Investment in Mitigation**

The insurance industry plays a unique and meaningful role in the disaster mitigation and recovery process. The industry serves as a leader in promoting pre-disaster loss-prevention techniques and stands shoulder-to-shoulder with the federal government and emergency responders to help victims recover and rebuild after a catastrophe. As we have seen in recent years, mitigation efforts are fundamental to reducing risks and therefore to improving the solvency of the NFIP. Mitigation activities would protect homeowners' property and possessions, as well as reduce the costs of claims associated with the NFIP. According to the National Institute of Building Sciences, mitigation measures and the use of more resilient construction have been proven to better protect properties from damage caused by natural disasters.

Smart investments in mitigation result in saving lives, properties, and taxpayer dollars. However, the upfront costs of such measures may be beyond the means of some homeowners. Congress could meaningfully change the resilience trajectory for many people and places by including in NFIP reauthorization legislation new tools that facilitate homeowners being better able to utilize modern building codes in undertaking retrofits to protect their homes from flooding risk. Indeed, enabling a scaled approach to additional retrofit work acknowledges the reality that 70 percent of the built environment is aging and not close to meeting current building standards. An increased commitment to retrofits will strengthen the foundation of residential resilience and contribute significantly to decrease flood losses in the nation. Additionally, any reform legislation should address the issue of repetitive loss properties. NAMIC believes an increase to FEMA's repetitive loss buyout authority would help end the cycle of rebuilding and repairing properties that continuously suffer severe flood damage.

**A Path Forward**

More than 90 percent of natural disasters in the United States include severe flooding, so it is imperative that Congress take the needed steps to provide long-term NFIP stability to policyholders. Congress must move swiftly to enact public policies that will ensure our nation's communities – and importantly, underserved communities – are fortified against the devastation caused by severe flooding. As lawmakers on the Committee on Financial Services work to craft legislation, NAMIC urges Congress to provide a long-term reauthorization of the NFIP that contains reforms designed to create more certainty for policyholders by putting the program on a path towards solvency. It should be noted that, since 2005, the NFIP has paid over $5 billion in interest to the Department of the Treasury. Due to catastrophic floods as far back as 2004, the program currently carries significant debt. In 2017, Congress forgave $16 billion of NFIP debt but today the program still has over $20 billion in debt owed to the U.S. Department of the Treasury.

So, what is the path forward? NAMIC encourages the Subcommittee to consider sustainable approaches that address affordability concerns for low- income policyholders while avoiding those that would suppress the use of actuarial, risk-based rates. Additionally, NFIP reauthorization and reform legislation should include provisions designed to create more choices for policyholders while protecting the NFIP's existing delivery mechanism, increase funding for mitigation activities, and create new tools and incentives for communities, including underserved communities, to take steps to protect themselves from the risk of flooding.

NATIONAL ASSOCIATION OF REALTORS®

May 24, 2022

The Honorable Emanuel Cleaver
Chair
House Financial Services Subcommittee on Housing, Community Development and Insurance
2335 Rayburn House Office Building
Washington, D.C. 20515

The Honorable French Hill
Ranking Member
House Financial Services Subcommittee on Housing, Community Development and Insurance
1533 Longworth House Office Building
Washington, DC 20515

Dear Chair Cleaver and Ranking Member Hill:

On behalf of the 1.5 million members of the National Association of REALTORS®, thank you for holding this hearing on reauthorization and reform of the National Flood Insurance Program (NFIP). Congress has passed 21 short-term NFIP extensions since 2018, increasing uncertainty in real estate markets and risking 40,000 home sales each month. It is time for Congress to come together and support a long-term NFIP reauthorization with meaningful reforms to modernize mapping, incentivize risk mitigation, and strengthen consumer choice between NFIP and private flood insurance.

REALTORS® support the NFIP Reauthorization Act of 2022, which updates legislation by Chair Maxine Waters (D-CA) and Rep. Patrick McHenry (R-NC) that passed the Financial Services Committee last Congress. The discussion draft includes the following provisions:

- **Reauthorizes the NFIP through September 30, 2027.**
- **Encourages a more robust private market to help close the flood insurance gap.**
    - Clarifies that federal continuous coverage requirements can be satisfied by NFIP or private flood insurance (sec. 401); and
    - Refunds NFIP premium when there is a duplicate private flood coverage (sec. 106).

- **Modernizes mapping for better risk assessments.** These provisions would enable FEMA to use modern and accurate risk assessment tools, like those currently used in North Carolina, to automatically remove low-risk properties from high-risk areas while accounting for additional flood risk factors:
    - Authorizes additional funding authority for flood mapping (sec. 201);
    - Expands mapping from one-third of the stream miles to all areas of the U.S. (sec. 204(a));
    - Provides for property-specific mapping and a digital display (sec. 204(b));
    - Assists communities with mapping urban and future flooding (secs. 203 and 204(c)); and
    - Adds a real estate representative to the Technical Mapping Advisory Council (sec. 211)

- **Ensures consumers are charged fair rates and enhances affordability through mitigation.** REALTORS® support more accurate and transparent pricing through Risk Rating 2.0: Equity in Action. Subsidizing premiums ultimately keeps homeowners in harm's way, but the mitigation-centered approach proposed in this legislation will ensure reasonable rates and prevent devastating flood losses:
  - Authorizes funding for flood mitigation grant programs (sec. 306);
  - Expands NFIP coverage for the increased cost of compliance after flooding (sec. 301);
  - Allows NFIP to consider community repetitive flood loss efforts when making financial assistance determinations (sec. 302).

- **Requires NFIP to disclose claims history directly to buyers and renters (sec. 404)**. While all 50 states require disclosure of known material adverse facts and conditions, such as past flood damage, and realtor.com® has augmented state laws by displaying flood risk factors on home listings, lack of public awareness remains an issue. REALTORS® do not support conditioning NFIP eligibility on a FEMA disclosure form, but we believe making NFIP claims data available would achieve the same objectives at a lower cost.

All of the above reforms have broad bipartisan support. Packaged together, these provisions would help create a more financially stable program while ensuring NFIP better communicates risk, emphasizes mitigation, and strengthens consumer choice.

Again, thank you for holding this hearing. We look forward to continuing to work with you and your colleagues in Congress to find a way forward on reauthorizing and reforming this critical program.

Sincerely,

Leslie Rouda Smith

Leslie Rouda Smith
2022 President, National Association of REALTORS®

cc: House Financial Services Subcommittee on Housing, Community Development and Insurance

**TESTIMONY OF ROBERT G. RASH, PE, PLS**

**CEO AND CHIEF ENGINEER, ST. FRANCIS LEVEE DISTRICT OF ARKANSAS**

**WEST MEMPHIS, ARKANSAS**

**SUBMITTED TO**

**UNITED STATES HOUSE COMMITTEE ON FINANCIAL SERVICES**

**SUBCOMMITTEE ON HOUSING, COMMUNITY DEVELOPMENT AND INSURANCE**

**"REAUTHORIZATION AND REFORM OF THE NATIONAL FLOOD INSURANCE PROGRAM"**

**MAY 25, 2022**

The following joint statement is presented on behalf of the St. Francis Levee District of Arkansas, the Mississippi Valley Flood Control Association, the Fort Bend County Economic Development Council Flood Management Committee, the Missouri Levee and Drainage District Association, and the Association of Levee Boards of Louisiana.

**The St. Francis Levee District of Arkansas**, established in 1893 by the Arkansas Legislature as the first improvement district in the state, is responsible for operating and maintaining 411 miles of levees and appurtenant infrastructure in northeast Arkansas. Our system has passed federal levee inspections for more than 60 consecutive years while reliably protecting residential areas, manufacturing, agriculture, and other infrastructure on more than two million acres of land across seven counties. The St. Francis Levee District, with levees, pumping stations, backwater areas, and floodways is a critical component of the Mississippi River and Tributaries Project that has prevented $2.021 trillion in flood damages, including $194.9 billion in 2020, to generate an extraordinary 116.8 to 1 return on investment.

**The Mississippi Valley Flood Control Association** was created in 1922 to promote the consensus homeowner, flood protection, and inland navigation interests of the seven-state region participating in Mississippi River Valley Flood Control and Navigation projects, including the States of Illinois, Missouri, Kentucky, Tennessee, Arkansas, Mississippi, and Louisiana. Since 1980 MVFCA has expanded to include the watershed states from St. Paul, MN to the Gulf of Mexico. The Association involves over 150 entities including levee boards, drainage districts, municipalities, port and harbor commissions, state agencies, nonprofits, and businesses from the Mississippi River Watershed, a contiguous region that occupies 41% of the land area of the United States.

**The Fort Bend County Economic Development Council Flood Management Committee of Sugar Land, Texas**, was established in 2021 because of concerns about the long-term systemic effects of the new National Flood Insurance (NFIP) pricing methodology, Risk Rating 2.0. Our organization includes public and private sector leaders who advocate for our regional flood protection network of 19 major levee and drainage systems. Over $20 billion in property investment and approximately 150,000 residents are protected by nearly 100 miles of levees and drainage infrastructure, nearly 27 percent of the total taxable value of Fort Bend County. Our accredited flood protection systems have been funded using only local dollars and more than $750 million has been invested for systems planning, design, construction, and upkeep. Exemplary floodplain management practices by the two largest cities in Fort Bend County, Sugar Land and Missouri City, have been recognized by the Federal Emergency Management Agency (FEMA) with class 6 and class 7 Community Rating Service ratings, respectively.

**The Missouri Levee and Drainage District Association** was established in the immediate aftermath of the Great Flood of 1993, the worst such U.S. disaster since the Great Mississippi

Flood of 1927. Our membership, representing both rural and urban leveed areas, includes levee and drainage districts from areas throughout the Midwest, farming operations, industrial and commercial businesses, and individuals. We support these and other entities by working closely with federal, state, and local agencies, as well as quasi-public and private organizations, toward improvement of conditions along the Missouri River and its tributaries.

**The Association of Levee Boards of Louisiana** is made up of the state's 23 individual levee boards and we work closely with Federal and state agencies to contain and manage floodwaters along our major waterways, from the northernmost reaches of Louisiana to the waters of the Gulf of Mexico. More than half of our precious land is in a flood plain, and 41 percent of the continental U.S. drains into the Mississippi River Basin. This creates a unique situation in our state, where flooding is a part of the history we share, and a part of the future we are working hard to control. Thanks to the constant diligence and monitoring by the state's 23 individual levee boards, rains very rarely have the disastrous results they once had for our state's citizens. "Without Flood Control, Nothing Else Matters."

**Summary Statement**

In the United States, where coastal and inland floodplain areas are home to more than 50 percent of the nation's population and gross domestic product, our groups join with others who support long-term reauthorization of the NFIP to ensure the availability of affordable flood insurance. While there are no easy fixes in the pursuit of flood insurance premium affordability and fairness, risk communication, NFIP solvency, and economic flood damage reduction, our organizations recognize the important role that Congress has laid on flood insurance to protect the financial system, Federal financial guarantees, and the efficiency of real estate markets. In reauthorizing and adjusting the NFIP, we also believe it is important to integrate the role that flood insurance plays in the choices people make about the use of the floodplain and the decisions that governments make about providing infrastructure to protect against floods as there are important interrelationships.

As the Federal sector moves toward risk-based premiums, it is essential that we have transparency in the computation of premiums and that we use equivalent, reproducible methods to compute flood losses for setting both NFIP premiums and for making mitigation and infrastructure investment decisions. We must do this so that we can move our flood responses closer to optimal choices among the "multiple means" as recommended by the late Gilbert F. White, who many call the "father of floodplain management."

It is regrettable that FEMA has chosen a completely opaque method to set flood insurance premiums that is not easily correlated with the way organizations like the Corps of Engineers compute average annual flood damage – a method that is transparent and peer reviewed. The method used to compute flood insurance premiums should be widely accessible so we can also easily see the relationship between computed flood insurance premiums and flood mitigation.

The geography and history of the Mississippi River Valley, the Brazos River Valley and Texas Gulf Coast, the entirety of Louisiana, and the Missouri River and its tributaries make clear that our future is tied to successful flood damage reduction and access to affordable flood hazard insurance. These interdependent aims have guided our decisionmaking since before inception of the NFIP. Our significant local investment in federally recognized flood projects and local adoption and enforcement of floodplain management standards have given rise to trillions of dollars in land value and improvements. We are concerned that the value of these investments and the future of our communities are being threatened by poorly supported policy proposals, including Section 209 of the House Financial Services Committee (HFSC) NFIP Reauthorization Discussion Draft and the new FEMA Risk Rating 2.0 (RR2.0) pricing methodology for NFIP premiums. The balance of this testimony will focus on specific concerns related to HFSC Sec. 209 and RR2.0.

**(I) Section 209 "New Zone for Levee-Impacted Areas" from NFIP Reauthorization**

Levee Locations Across the U.S., Source: U.S. Army Corps of Engineers at https://levees.sec.usace.army.mil/#/map-viewer

Levees Everywhere

The National Levee Database (NLD) managed by the Corps and FEMA indicates that 16.8 million people live or work behind a levee. Levees help protect more than $2 trillion of property, 4,500 schools that enroll over 2 million students, and 5.3 million buildings. As depicted in the above NLD graphic and explained by the Corps in a March 2018 report, "these [levee] systems are integral with society, with about a mile of Corps levees for every McDonald's restaurant in the United States." Communities in all 50 states, the District of Columbia, Puerto Rico, and Guam rely on levees and flood walls to help lessen catastrophic flooding, increase land availability for habitation, agriculture, and industry, and protect the U.S. financial system from instability that might result from large-scale flood events.

Accredited Versus Non-accredited Levees

Importantly, while levees are everywhere, not all levees are the same in terms of their size, the amount of people and treasure they help protect, or performance. Of the 6,972 levee systems registered in the NLD, the Corps and FEMA report that 1,474 systems are either accredited by FEMA on NFIP flood maps as substantially reducing the flood hazards posed by a 1-percent-annual-chance-flood or provisionally accredited with as yet incomplete documentation demonstrating compliance with 44 CFR 65.10. By contrast, 5,498 levee systems are not accredited by FEMA. In approximate terms, this means that only one in five of the red levee location markings shown in the above NLD graphic represents an accredited or provisionally accredited levee system.

The areas landward of accredited levee systems, in general, are not subject to mandatory flood insurance purchase. Non-accredited levee areas are identified on flood maps as high-risk or SFHAs where NFIP floodplain management regulations must be enforced and where the flood insurance purchase mandate applies for residential and commercial properties with mortgages from federally regulated or insured lenders.

The important responsibility of managing floodplain development, frequently involving local land use regulation, flood insurance, building standards, and other nonstructural hazard mitigation approaches, is guided by FEMA in partnership with land use regulation and zoning agencies at the local level. In most cases, those local regulatory agencies are not the same as the owner-operators of flood control projects. Nonetheless, floodplain management requirements impact the ability of infrastructure owner-operators to perform their urgent duties to provide reliable flood protection, and their concerns with changes to the floodplain management requirements, including expansion of SFHAs, are valid.

HFSC Draft Section 209 Penalizes Communities with Accredited Levees

Section 209 of the House Financial Services Committee (HFSC) draft NFIP Reauthorization Act of 2022 authorizes the FEMA Administrator to determine risk in leveed areas absent rulemaking.

It similarly allows the Administrator to bypass the flood mapping and attendant public notice and congressional notification procedures specified at 42 U.S.C. 4101 while allowing for imminent application of mandatory insurance landward of accredited levees. Section 209 sets a transitional premium level in those areas (which is expected to increase premiums from low to moderate risk for some leveed areas), directs that FEMA proceed to implement new internally developed (and under Risk Rating 2.0, unchallengeable) "risk-based" premiums in such areas, while also applying SFHA land use regulations.

The Section 209 approach fails to recognize the important distinctions between accredited and non-accredited levee systems and the enduring, overwhelmingly effective accreditation process altogether. For communities that have made the sacrifice to plan, build, operate and maintain world class infrastructure, no good deed shall go unpunished under Section 209. Indiscriminate designation of areas behind all levees as SFHA with attendant land use regulations and flood insurance purchase mandates would summarily overturn the decades-long Federal commitment to accommodate diverse local needs and circumstances, incentivize local project funding sufficiency, and foster exemplary local operation and maintenance of projects that contribute optimal, economic flood protection through reliable, high-performance levees. The unsupported Section 209 approach risks flouting the teachings of Professor Gilbert White to make use of multiple means, including the full array of sound structural and nonstructural approaches, to reduce the incidence of catastrophic flooding.

Section 209 Should Either Be Stricken or Clarified

Some may try to argue that Section 209 maintains the status quo on application of the SFHA mandatory insurance purchase and land use requirements behind accredited levees. If true, it is unclear what purpose the provision serves. The lack of clarity and purpose underlying Section 209 mandates that it be stricken from this or any legislation. In lieu of removal of Section 209 altogether, Congress must clarify its intent such that nothing in the provision shall affect the exemption of properties from mandatory insurance in levee-impacted areas protected by levees accredited under 44 CFR 65.10. Further, in implementing the proposed

Section 209 approach, it should be specified that the Administrator shall not include any levee-protected area in an SFHA requiring mandatory flood insurance coverage and land use requirements unless the Administrator first carries out fully all requirements related to identification and mapping of flood-prone areas under the National Flood Insurance Act of 1968 [42 U.S.C. 4001 et seq.].

The Benefits of Accredited Levee Systems

Objective analysis of accredited levee system performance reveals that diligent levee owner-operators, in partnership with local zoning agencies and the Corps and FEMA, have indeed reduced the incidence of flood loss in their communities. The accredited 11-state Mississippi River and Tributaries Project authorized by the 1928 Flood Control Act has prevented $2.021 trillion in cumulative damages to generate a remarkable 116.8 to 1 return on investment. During epochal May 2015 rainfall across Texas, accredited Corps flood control projects maintained by local sponsors prevented more than $13 billion in flood damages. And during the unprecedented 279 days of Midwest flooding in 2019, flood control operations prevented $2.4 billion in damages in Missouri and Kansas. In January of this year, the German-based global reinsurance company, Munich Re, published a report indicating that Hurricane Ida caused $65 billion in damage but that the rebuilt levee system in New Orleans "withstood the storm surges, thereby preventing much higher losses... ...and that the investments there were absolutely worth it." The reality in hundreds of communities is that federally accredited levees continue to serve the communities they protect and the Nation and, with a single notable exception, have not failed.

The horrific losses and suffering experienced by victims of the 2005 Hurricane Katrina-related failure of a levee system in New Orleans are anomalous for certified and federally accredited levees in the United States over the last several decades. Even considering the New Orleans tragedy, we have not experienced systemic financial crises or bank failures as the consequence of accredited levee failure. The inspections, surveillance, and use of technological advancements that underlie Federal levee accreditation have worked to both increase life safety and secure the same financial protection outcome as that intended by Congress for application of mandatory insurance under the National Flood Insurance Act. With New Orleans as an undeniably tragic exception, the Nation has thankfully not experienced a history of accredited levee failures that threaten the financial system or justify the Section 209 approach which, incidentally, was rejected by Congress 10 years ago during debate on the Biggert-Waters Act of 2012. Our good fortune in areas protected by accredited levees is what the Federal government expected when communities that sacrificed to construct levees and sustain Federal accreditation were given the promise that their sound projects would protect them not only from floods, but also imposition of mandatory insurance and expansive Federal land use regulation.

The extremely low current risk to the financial system and its stability posed by accredited levees can also be put into a much larger context. On May 10, 2022, the Senate Banking Committee received testimony from Secretary of Treasury Janet Yellen on the annual report of the Financial Stability Oversight Council. During the hearing Senator Toomey, the Ranking Member of the Committee, asked the Secretary, "Can you name a single financial institution in America that has failed as a result of a severe weather event in the last 50 years?" The Secretary could not name such an event. Senator Toomey went on, "Every single year we have blizzards, we have hurricanes, we have wildfires and sometimes they are horrendous, and some of them have been recent. But we've never had a single financial institution fail much less the entire financial system. So, I think it's pretty clear and actually I think Chairman Powell acknowledged there's no physical risk that's even remotely imminent." Any risks posed to the Federal interest in our financial system from accredited levees could unfold over time, but at present they are certainly not imminent, nor even apparent.

Section 209 Unintended Consequences

Section 209 represents a sudden hard turn on decades-long policy for leveed areas that essentially mandates a new form of taxation in the guise of arbitrary insurance premiums, seemingly levied for revenue rather than actuarial purposes. It could easily incentivize residents to demand that levee districts, after satisfying debt service obligations, cease levying taxes for operation and maintenance and instead rely solely on the "protection" provided by the NFIP to avoid paying a tax for levee maintenance and another for flood hazard coverage. Critically, Section 209 would result in a precipitous decline in residential and commercial property values, depressed realtor commissions, a reduction in overall taxable market value and necessitate reduction in governmental services or increased tax rates, while frustrating local performance of sound community floodplain management practices.

Levee owner-operators of accredited systems have spent considerable time, effort, and resources over the decades to achieve reliable, economic flood protection for their residents and business owners. Earning and keeping FEMA accreditation of levees on flood maps to avoid SFHA designation and associated mandates and regulations have further incentivized levee owner-operator commitments to levee system operation and investment. There is no known Federal analysis demonstrating that accredited levees pose a substantial risk for protected communities nor is there any known Federal analysis to justify termination of the longstanding exemption from mandatory flood insurance or land use requirements for areas protected by accredited levees.

Sampling of Affected Areas Around the United States

According to data from the Corps-FEMA managed National Levee Database, Sec. 209 will impose new mandatory flood insurance purchase requirements on families, businesses, and local communities in the following areas with accredited levee systems. Please see the attached Exhibit beginning on page 16 for a sampling of affected areas represented by HFSC Members.

(II) **FEMA Risk Rating 2.0 Methodology**

The NFIP pricing overhaul by FEMA, called "Risk Rating 2.0" (RR2.0), went into effect for existing policyholders on April 1, 2022, despite broad bipartisan concerns over how RR2.0 has been developed, tested, and presented to the public. There are also concerns about the long-term impacts that RR2.0-calculated premiums will eventually have on premium affordability, property values, property resale, and local revenues. For many, the ultimate full-risk actuarial cost calculated by FEMA under RR 2.0 is being hidden by an 18 percent annual price increase limit installed by Congress after explosive FEMA premium hikes in 2013.

<u>FEMA's Data Disclosure Gap</u>

The drastic changes by FEMA under RR2.0, ostensibly being used to better reflect flood risk using a blend of public and proprietary information and tools, are alarmingly devoid of requisite underlying data and assumptions. We are reminded of the regrettable outcomes that arose from implementation of rate reforms authorized in the Flood Insurance Reform and Modernization Act of 2012. The immediate, exorbitant premium rate increases of the 2012 Act prompted Congress to mitigate the harmful effects less than two full years later, in 2014. Clearly the unprecedented overhaul now being executed by FEMA through RR2.0, which risks precipitous declines in residential and commercial property values with derivative impacts, warrants closer scrutiny.

The internally developed RR2.0 plan plainly lacks the transparency that policyholders and government decisionmakers require to test FEMA methodologies and verify the accuracy and fairness of their methods, data, and future premiums.

The minimum data needed for communities to assess Risk Rating 2.0 include—

1. The flood elevations and flood frequency curves at the locations in each community used (or assumed) to generate the full array of premiums from rating factors;
2. The estimated average annual losses (with confidence intervals or error bands) at the locations in each community used to develop the premiums;
3. The results of the "generalized linear models" used to develop the rating factors based on such parameters as "distance from the water," "elevation above the water," "foundation type," etc., including the confidence intervals, error bands and p-values

(i.e., measure of the probability that an observed difference could have occurred just by random chance) for the estimates;

4. Documentation of how the flood and storm models use Monte Carlo methods to draw artificial years from an imaginary set of probability relationships together with the assumed events, consequences, and probabilities (Casino Premiums) to forecast possible outcomes; and

5. The extent to which estimates of premiums reflect modeled events, consequences and probabilities that have rarely, perhaps never, occurred in the flood history, e.g., levee failures and over-topping, unobserved flood flows, unobserved flood stages, etc.

<u>H.R. 7364, the "Stop Flood Insurance Rate Hikes Act"</u>

Until such time that requisite information is made publicly available and adequately tested, NFIP policyholders should be provided the option to select either the legacy approach or the new RR2.0 approach, depending on their individual circumstances. FEMA must be compelled to provide the necessary information that is fundamental to assessing and communicating flood risk, and to pricing it appropriately.

Bipartisan legislation to achieve this policyholder protection outcome was introduced and referred to the HFSC on April 1, 2022. H.R. 7364 by Representatives Garret Graves, Bill Pascrell and others would require FEMA to—

- Make the new RR2.0 chargeable premium rates optional vs. mandated, giving policyholders the option to request the legacy (or lower) premium calculation approach until FEMA justifies its program overhaul by satisfying all requirements;
- Inform policyholders of their legally available premium options;
- Make available to the public and demonstrate all data, methods, and assumptions used to establish chargeable premium rates under RR2.0;
- Fully disclose the actual, unhidden RR2.0 costs to individual NFIP policyholders by providing two expressions of the new FEMA approach for their home or other property:

(a) their total full-risk actuarial premium as unconstrained by the annual (temporary) premium increase cap set by federal law (not currently available from FEMA); and (b) the upcoming 12-month chargeable premium rates that are lowered (temporarily) by federal law;

- Complete and publish a comprehensive assessment of the broad economic and social impacts of implementing RR2.0 over a 20-year period, accounting for affordability and availability of NFIP flood insurance, property values, and non-federal government revenues otherwise used to support local services (e.g., public education, first responders, public works, and parks and recreation);
- Supplement and revise, as appropriate, the 2018 (pre-RR2.0) Record of Decision for the final Nationwide Programmatic Environmental Impact Statement associated with impacts from RR2.0-related modifications to the NFIP;
- Demonstrate that the chargeable premiums under RR2.0 are based on data and methods of sufficient quality, objectivity, utility, and integrity to be reliable under government-wide Office of Management and Budget (OMB) guidance used to implement the Federal Information Quality Act;
- Conduct a public notice and comment rulemaking consistent with the Federal Administrative Procedure Act, which would also include a fair, transparent, and streamlined process to manage policyholder disputes over chargeable premium rates and other factors under the new overhauled RR2.0 approach;
- Publish the distribution of chargeable premium rates by county with and without the premium rate caps to permit short and long-term assessment of the economic and social justice impacts of RR2.0; and
- Submit a report to Congress detailing the findings and outcomes of having completed the preceding disclosure, economic and environmental analysis, data quality assurance, public notice and comment, and cost distribution requirements.

FEMA is acting with astonishing disregard for the rights of individual citizens to understand and, if necessary, challenge their government – moreover, without regard to the Information Quality

Act implementation requirements. Policyholders from coast-to-coast have the right to understand the data and processes used by FEMA to calculate the estimated flood risk and government-issued insurance costs for their homes or commercial properties. It is unconscionable that the technical underpinnings and real-world costs and benefits of RR2.0 are being concealed by the government. Allowing for full transparency, data reliability, policyholder appeals, and public participation on the government-run NFIP is not only in keeping with federal law, but also increases the chance for successful outcomes. RR2.0 is not exempt from these realities. Doing otherwise risks public mistrust, swift declines in residential and commercial property values, failure to accurately communicate flood risk, and further harm at the expense of the policyholder.

NFIP policyholders should be provided the option to select the legacy approach or the new RR2.0 approach, depending on their individual circumstances, until FEMA provides the necessary information that is fundamental to assessing and communicating flood risk, and to pricing it appropriately. Policyholders and policymakers should be confident in FEMA assessments before the implementation of this new, unfamiliar, and untested flood insurance rating system that threatens financial and regulatory devastation in coastal and riverine America — areas that host more than half of the nation's population and GDP. Nearly identical legislation, the "Homeowner Flood Insurance Transparency and Protection Act" (S. 3934) was introduced in the Senate on March 28, 2022, by Senator Cindy Hyde-Smith.

**Conclusion**

We have laws and administrative guidelines promulgated by OMB to protect the quality, objectivity, utility, and integrity of information disseminated and used by Federal agencies. Longstanding, bipartisan administrative requirements are in place under the Administrative Procedure Act to ensure good government and open and transparent consideration of regulatory actions. These requirements are being bypassed as the agencies seek to overhaul their treatment of levees in Federal programs. Both FEMA and the U.S. Army Corps of Engineers, who are working together on key NFIP elements, continue to restrict public information disclosure, formal peer review, and solicitation and consideration of public input. Too many of these important public protections are being set aside.

Some proponents find that the FEMA RR2.0 approach represents change that is “long overdue” and that it should “increase public confidence in the program” while “putting NFIP on stronger financial footing.” Others, including FEMA, are making similar claims about the need to charge rates that more accurately reflect risk. All those statements might be true, but no one can know because the core underlying data and assumptions used to produce RR2.0 have not been made available and there can be no confidence that new premiums are reproducible for an individual property or that leveed areas are fairly treated.

We request that Congress step in before it is too late. Pass the legislation introduced by Graves-Pascrell and Hyde-Smith to compel FEMA to fill the RR2.0 data gaps, abide by the terms of peer review and reproducibility under the Information Quality Act, reinstate effective rights of appeal for policyholder premium-setting, and guarantee meaningful public participation opportunities through rulemaking.

Thank you for the opportunity to submit these views.

ENCLOSURE

**EXHIBIT**

**Sampling of Affected Areas Around the United States**

According to data from the Corps-FEMA managed National Levee Database, families, businesses, and local communities with *accredited levee systems* in the following areas will face new mandatory flood insurance purchase requirements and Federal land use regulation under Sec. 209 of the HFSC draft NFIP Reauthorization.

| County, State | Location | System | Length (mi) | Population | Property Value ($M) | Buildings |
|---|---|---|---|---|---|---|
| Clay County, MO | North Kansas City | North Kansas City Levee | 8.96 | 26,703 | $4,400 | 1,658 |
| | Birmingham | Birmingham | 11.03 | 1,113 | $489 | 209 |
| Jackson County, MO | Kansas City | East Bottoms | 9.49 | 16,539 | $5,600 | 751 |
| | Kansas City | CID, Central Industrial District | 4.9 | 15,858 | $2,320 | 341 |
| | Kansas City | GSA Bannister/Dodson Complex | 3.66 | 925 | $2,800 | 91 |
| | Sugar Creek | MRLS 351-R | 16 | 245 | $80 | 140 |
| | | | **54** | **61,383** | **$15,689** | **3,190** |
| *Rep. Emanuel Cleaver (MO-5) w/ 54 accredited levee miles, protecting 61,383 people, and property valued at $15.7 Billion with 3,190 structures (homes and businesses)* | | | | | | |
| Pulaski County, AR | England | North Little Rock to Gillette | 53.27 | 7,842 | $921 | 3,799 |
| | Wrightsville | Head of Fourche Island to Pennington Bayou | 21.39 | 2,828 | $266 | 176 |
| | Little Rock | Riverdale Private Levee | 2.89 | 2,046 | $223 | 249 |
| | North Little Rock | North Little Rock Levee and Floodwall | 2.97 | 368 | $44 | 116 |
| | Little Rock | Rock Creek Levee | 0.59 | 115 | $11 | 49 |
| | Roland | Roland Drainage District | 4.09 | 101 | $12 | 45 |
| | Little Rock | Little Rock Flood Protection | 7.51 | 26 | $5,680 | 14 |
| Faulkner County, AR | Conway | Faulkner County Levee District No. 1 | 6.73 | 254 | $78 | 30 |
| | | | **99** | **13,580** | **$7,235** | **4,478** |
| *Rep. French Hill (AR-2) w/ 99 accredited levee miles, protecting 13,580 people, and property valued at $7.2 Billion with 4,478 structures (homes and businesses)* | | | | | | |
| Fort Bend County, TX | Missouri City | Sienna Levee Systems | 0.61 | 8,791 | $1,990 | 3,346 |
| | Missouri City | Palmer MUD Levee | 4.12 | 97 | $12 | 33 |
| | | | **5** | **8,888** | **$2,002** | **3,379** |
| *Rep. Al Green (TX-9) w/ 5 accredited levee miles, protecting 8.888 people, and property valued at $2.0 Billion with 3,379 structures (homes and businesses)* | | | | | | |
| | Bluetown | Lower Rio Grande Levee System | 129.67 | 272,073 | $32 | 77,654 |
| Cameron County, TX | Lasana | Lower Rio Grande Right Floodway System | 57.41 | 112,770 | $15 | 40,314 |
| Hidalgo County, TX | Indian Hills | Lower Rio Grande Left Floodway System | 44.76 | 107,181 | $10 | 31,083 |
| | Mission | Mission Levee System | 22.79 | 66,766 | $8 | 17,970 |
| | | | **255** | **558,790** | **$66** | **167,021** |
| *Rep. Vicente Gonzáles (TX-15) w/ 255 accredited levee miles, protecting 558,790 people, and property valued at $66 Million with 167,021 structures (homes and businesses)* | | | | | | |

| County, State | Location | System | Length (mi) | Population | Property Value ($M) | Buildings |
|---|---|---|---|---|---|---|
| San Diego County, CA | San Diego | Tijuana River 2 | 1.96 | 6,690 | $1,250.0 | 905 |
| | Chula Vista | Sweetwater River 2 | 2.32 | 3,261 | $325.0 | 190 |
| | Chula Vista | Sweetwater River 1 | 2.28 | 1,796 | $136.0 | 558 |
| | San Diego | Tijuana River 1 | 1.77 | 3 | $8.5 | 3 |
| Imperial County, CA | Winterhaven | Reservation Levee (Ft. Yuma Indian Res.) | 17.05 | 2,806 | $486.0 | 1,050 |
| | | | **25** | **14,556** | **$2,206** | **2,706** |
| *Rep. Juan Vargas (CA-51) w/ 25 accredited/provisional levee miles, protecting 14,556 people, and property valued at $2.2 Billion with 2,706 structures (homes and businesses)* | | | | | | |
| Polk County, IA | Des Moines | DES MOINES, IA - DM II - RDB DES MOINES RIVER / LDB RACCOON RIVER | 3.14 | 44,753 | $2,680 | 323 |
| | Des Moines | DES MOINES, IA & SE DM - SW PLEASANT HILL RED ROCK REMEDIAL WORKS | 10.56 | 7,938 | $1,870 | 859 |
| | West Des Moines | WEST DES MOINES & DES MOINES, IA | 4.27 | 3,053 | $550 | 1,360 |
| | Des Moines | Des Moines, IA - LDB Des Moines River (Birdland) | 1.47 | 2,283 | $175 | 183 |
| | Des Moines | DES MOINES, IA - DM III - RDB DES MOINES RIVER / RACCOON RIVER | 2.1 | 1,993 | $183 | 860 |
| | Des Moines | DES MOINES, IA - RR I - RDB RACCOON RIVER | 1.65 | 1,686 | $160 | 65 |
| | Des Moines | Des Moines, IA - RDB Des Moines River (Central Place) | 1.11 | 1,168 | $227 | 149 |
| | Carlisle | AVON STATION, IA - RED ROCKS REMEDIAL WORKS | 2.06 | 309 | $31 | 129 |
| | Des Moines | DES MOINES WATER WORKS LEVEE | 0.75 | 0 | $0 | 0 |
| | Council Bluffs | L-627 MO River LB & Indian Creek RB | 15.35 | 29,357 | $3,080 | 10,580 |
| Pottawattamie County, IA | Council Bluffs | Omaha - Missouri River RB | 13.26 | 8,375 | $1,600 | 3,320 |
| | Council Bluffs | L-624 MoRiv LB & Indian LB & Mosquito Creek RB | 8.86 | 6,305 | $769 | 2,142 |
| | Council Bluffs | MOSQUITO CREEK TIEBACK | 0.51 | 1,265 | $617 | 9 |
| | Council Bluffs | L-624-627-611-614 - Mosquito Cr & Upper Pony Cr | 8 | 102 | $47 | 94 |
| | Council Bluffs | L-611-614 - Upper Pony Creek LB & Lat 1B RB | 2.57 | 30 | $2 | 5 |
| | Council Bluffs | COUNCIL BLUFFS LEVEES | 0.68 | 0 | $173 | 1 |
| Montgomery County, IA | Red Oak | Red Oak - East Nishnabotna LB | 2.89 | 2,382 | $323 | 1,180 |
| Mills County, IA | Pacific Junction | L-601 - Watkins Ditch RB - Watkins DD | 7.68 | 557 | $41 | 302 |
| | Mills County | L-611-614-MoRiv LB & Upr Pony Creek LB & L1B LB | 25.65 | 398 | $153 | 409 |
| | Emerson | Emerson - Indian Creek RB | 0.03 | 55 | $9 | 47 |
| | Bartlett | L-594-601 | 14.62 | 155 | $37 | 119 |
| | | | **127** | **112,164** | **$12,727** | **22,136** |
| *Rep. Cindy Axne (IA-3) w/ 127 accredited levee miles, protecting 112,164 people, and property valued at $12.7 Billion with 22,136 structures (homes and businesses)* | | | | | | |

| County, State | Location | System | Length (mi) | Population | Property Value ($M) | Buildings |
|---|---|---|---|---|---|---|
| | Flat Rock | Quality Mills | 0.43 | 3 | $0 | 3 |
| | | | **1** | **36** | **$24** | **27** |

*Rep. Patrick McHenry (NC-10) w/ 1 accredited levee mile, protecting 36 people, and property valued at $24 Million with 27 structures (homes and businesses)*

| County, State | Location | System | Length (mi) | Population | Property Value ($M) | Buildings |
|---|---|---|---|---|---|---|
| Fairfield County, CT | Stamford | Stamford HSPP | 2.02 | 8,381 | $1,140 | 1,300 |
| | Norwalk | Norwalk Riv RB* | 0.26 | 257 | $40 | 49 |
| * Accredited, overtopped 1955, breach possible | | | **2** | **8,638** | **$1,180** | 1,349 |

*Rep. Jim Himes (CT-4) w/ 2 accredited levee miles, protecting 8,638 people, and property valued at $1.2 Billion with 1,349 structures (homes and businesses)*

| County, State | Location | System | Length (mi) | Population | Property Value ($M) | Buildings |
|---|---|---|---|---|---|---|
| DuPage County, IL | Warrenville | Bower School Berm Levee | 0.23 | 0 | $0 | 4 |

*Rep. Sean Casten (IL-6) w/ 1/4 accredited levee mile, apparently protecting a school (property value not provided for public facilities)*

| County, State | Location | System | Length (mi) | Population | Property Value ($M) | Buildings |
|---|---|---|---|---|---|---|
| St. Charles County, MO | St. Charles | BOSCHERT CREEK WEST | 1.95 | 2150 | $377 | 336 |
| | St. Charles | Elm Point Levee System | 4.26 | 733 | $62 | 306 |
| | St. Peters | St. Peters Old Town Levee System | 3.34 | 538 | $54 | 134 |
| | St. Peters | Lakeside 370 Levee System | 4.12 | 25 | $11 | 8 |
| | St. Charles | BOSCHERT CREEK EAST | 1.66 | 0 | $0 | 0 |
| | | | **15** | **3,446** | **$504** | **784** |

*Rep. Blaine Luetkemeyer (MO-3) w/ 15 accredited levee miles, protecting 3,446 people, and property valued at $504 Million with 784 structures (homes and businesses)*

| County, State | Location | System | Length (mi) | Population | Property Value ($M) | Buildings |
|---|---|---|---|---|---|---|
| St. Louis County, MO | Chesterfield, | Monarch Chesterfield Levee District | 12.04 | 7,971 | $2,070 | 511 |
| | Maryland Heights | Riverport Levee District | 2.58 | 5,350 | $256 | 25 |
| | Valley Park | Valley Park Levee | 3.1 | 3,301 | $538 | 484 |
| | Maryland Heights | Howard Bend Levee District | 8.16 | 1,483 | $337 | 132 |
| | Maryland Heights | WASTEWATER TREATMENT PLANT LEVEE | 0.77 | 0 | $0 | 0 |
| | | | **27** | **18,105** | **$3,201** | **1,152** |

*Ann Wagner (MO-2) w/ 27 accredited levee miles, protecting 18,105 people, and property valued at $3.2 Billion with 1,152 structures (homes and businesses)*

***More than 600 miles of accredited levees, protecting nearly 800,000 people, and property valued at over $44 Billion with more than 200,000 structures!!!***

Source: NLD at https://levees.sec.usace.army.mil/#/map-viewer (accessed May 20-23, 2022)

**United States House of Representatives**

**House Financial Services Committee**

**Subcommittee on Housing, Community Development and Insurance**

"Reauthorization and Reform of the National Flood Insurance Program"

May 25, 2022

Statement of the American Property Casualty Insurance Association

## Introduction

The American Property Casualty Insurance Association (APCIA) respectfully submits this statement to the House Financial Services Subcommittee on Housing, Community Development and Insurance for its hearing entitled "Reauthorization of the National Flood Insurance Program." Flooding has long been, and continues to be, the most significant cause of property damage resulting from natural disasters in the United States. Yet, time and time again following natural disasters, we find that a majority of Americans are uninsured or underinsured as it relates to flood damage.

APCIA represents nearly 60 percent of the U.S. property casualty insurance and reinsurance market with the broadest cross-section of home, auto, and business insurers of any national trade association. APCIA members protect families, communities, and businesses in the U.S. and across the globe. Our members write 76 percent of the private flood insurance in the U.S. and 73 percent of the flood insurance provided by companies through the Write-Your-Own (WYO) program, in partnership with the Federal Government. APCIA offers a unique perspective on these important issues; and we look forward to working with this Committee as it considers reauthorization and reform legislation.

The National Flood Insurance Program (NFIP) is an important component of a broader strategy to address the nation's needs with regards to flood prevention and flood insurance. APCIA strongly supports a long-term reauthorization of the NFIP, without a lapse and offers the following general comments on important issues facing the NFIP, with the goal of improving resiliency and increasing the number of consumers that are insured against devastating flooding.

In addition, APCIA commends the work of this Committee last Congress, when under the strong leadership of both the Chairwoman and the Ranking Member, a five-year reauthorization with important reforms was passed out of the Committee with unanimous support. While unanimous support for flood insurance legislation is rare, as history has shown, long-term stability for consumers under the program is only achievable when both sides come together in a bipartisan fashion to work in the best interest of all stakeholders involved. We look forward to that tradition continuing in this Committee this Congress and future Congresses.

**Improve the NFIP for Policyholders, Taxpayers, and Industry Partners**

A long-term reauthorization of the NFIP is essential to provide stability and certainty to the millions of NFIP policyholders and industry partners. The program's 21st short-term reauthorization expires on September 30, 2022. As seen in the past, a lapse in reauthorization of the NFIP would cause significant economic damage by preventing thousands of real estate closings, while presenting policyholders with limited choices to protect what is typically their largest financial asset. A long-term reauthorization allows the NFIP to continue to provide uninterrupted service to over five million flood insurance policyholders and provides stability and predictability for consumers, WYO insurance companies, and the real estate market.

The NFIP is an important program. Like many important programs, however, there is room for reforms. That is why we welcome conversations like the one the Committee is having today to explore potential changes that are in the best interest for all stakeholders involved. Additionally, we recognize that outside of the legislative process, FEMA has made significant strides since the last long-term reauthorization (in 2012) to improve the program through administrative reforms.

APCIA has long advocated for risk-based, actuarial rates because they help consumers understand their true risk of loss and help more property owners make better decisions about protecting their homes. However, as FEMA shifts to actuarial rates, Congress should include means-based affordability programs for those in need.

As both Congress and FEMA consider future reforms, APCIA respectfully urges consideration of ways to improve and strengthen the WYO program, which will allow the insurance companies that are on the ground administering this program to better educate consumers and market NFIP policies. This growth in the engagement of the private sector will result in increasing take-up rates and closing the uninsured gap that is evidenced time and again after a major storm.

Unfortunately, over the last several years, we have seen a steady and dramatic decrease in the number of private insurers willing to participate in the WYO program due to burdensome requirements and an increase in reputational risk due to government action, or in some cases inaction. As the Committee is aware, FEMA, via the WYO arrangement, cut the WYO reimbursement rate for 2019. In order to continue to encourage private sector delivery of NFIP policies, it is important that WYO companies not face any additional cuts to the reimbursement rate.

**Improve Flood Resilience**

The importance of mitigation cannot be understated when it comes to addressing our nation's risk for flood-related property damage. In 2018, the National Institute of Building Sciences (NIBS) issued the Natural Hazard Mitigation Saves: 2018 Interim Report. Generally, the report found a benefit cost ratio of "$6 for every $1 spent through mitigation grants funded through select federal agencies."[1] When it comes to flooding the benefit cost ratio could be as high as 7:1.

As the NIBS data shows, mitigating on the front end can save lives, reduce property damage, and limit taxpayer exposure in terms of disaster relief spending after a catastrophe strikes. Money spent on mitigation is money well spent and for that reason, APCIA is encouraged by the Committee's attention to mitigation.

In addition to mitigation efforts by individual property owners, two of the most effective tools to increase the overall resiliency of a community are strong, uniform building codes and responsible land use policies that promote public safety and reduce the severity of property damage. The Insurance Institute for Business and Home Safety (IBHS) conducted a study following Hurricane Charley in 2004. IBHS found that homes impacted by Hurricane Charley that were built to the most modern standard of the building code incurred a 40% reduction in the frequency and a 60% reduction in the severity of property damage compared to homes constructed to older building code standards.[2]

**Accurate Flood Risk Mapping**

In order to effectively mitigate against a particular risk, that risk needs to be clearly identified. When it comes to flooding, accurate flood insurance maps are critical not only for risk assessment for property owners, but tools that communities rely upon in establishing smart floodplain management through zoning and building codes.

Reliable, up-to-date, and accurate maps are a foundational component of risk identification, communication, and pricing. As such, FEMA should update flood maps expeditiously, and timely communicate those changes. Using modern methods to ensure accurate mapping continues to be a goal of FEMA; and APCIA strongly believes that Congress should appropriate the necessary funds for this purpose. APCIA is encouraged by the focus that the Committee has placed on the accurate flood maps, including the use of technologies such as Light Detection and Ranging (LIDAR) surveys, which can produce high-resolution, accurate maps. Once we have current and reliable flood insurance maps, the Federal Government and communities must use these to prioritize the limited resources they have to ensure a resilient and protected community.

**Expand and Enhance Consumer Access to Protection**

Far too few property owners purchase flood insurance. FEMA estimates that more than 40 million properties may be at risk of flooding. Yet, there are just over five million NFIP policyholders in the U.S. In 2016, the year Hurricane Harvey hit Texas, the United States experienced 19 major flooding events, with total losses estimated at $15 billion of which only $4.3 billon was insured.[3] It is clear that a protection gap exists when it comes to flood insurance.

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[1] National Institute of Building Sciences, "Natural Hazard Mitigation Saves: 2018 Interim Report," (2018) Page 1. https://cdn.ymaws.com/www.nibs.org/resource/resmgr/mmc/NIBS_MSv2-2018_Interim-Report.pdf

[2] Insurance Institute for Business & Home Safety, https://disastersafety.org/ibhs-public-policy/building-codes/

[3] http://www.iii.org/fact-statistic/catastrophes-us

One important factor that must be considered in attempts to close this protection gap is related to the affordability of flood insurance. Unfortunately, we have seen increasing instances where policyholders are struggling to be able to pay for their flood insurance premiums while also affording other life necessities. This places them in the untenable position of not being able to protect their home, which is often their largest investment and a vehicle for creating and ensuring generational wealth, from flooding. That is why APCIA supports means-based affordability programs that will ensure that those in need of assistance, have access to it.

Another effort in increasing the number of homeowners and business owners that purchase flood insurance is promoting ways to give consumers more options when it comes to flood insurance. That includes encouraging the growth of the private flood insurance market to compliment the NFIP by providing tailored coverage to property owners. Additionally, more competition provides more product choices (e.g., coverages, limits, deductibles), and eventually more affordable and competitive premiums for consumers and businesses as more companies vie for flood insurance business.

APCIA continues to be concerned that existing FEMA regulations regarding continuous coverage could suppress the benefits that consumers would receive as a result of lender acceptance of private flood insurance. While APCIA fully believes that this punitive regulation could be fixed by FEMA under current law, we applaud the efforts of Congresswoman Kathy Castor and Congressman Blaine Luetkemeyer to champion a legislative fix. Additionally, APCIA thanks both Chairwoman Waters and Ranking Member McHenry for recognizing the importance of this issue and including Congresswoman Castor's and Congressman Luetkemeyer's legislation in the 2019 bipartisan Committee-passed bill.

**Conclusion**

A stable NFIP will benefit all interested stakeholders including policyholders, taxpayers, WYO companies, and the real estate market. A long-term reauthorization of the program is key to the program's stability, along with increased investments in accurate mapping and mitigation. Mitigation investments clearly pay dividends by promoting public safety and reducing property damage following flood events. APCIA appreciates that the committee passed a bipartisan, 5-year NFIP reauthorization in 2019, which included a number of APCIA priorities such as important resiliency measures and continuous coverage. APCIA encourages the committee to continue this tradition of bipartisanship. Thank you for the opportunity to submit these comments for the House Financial Services Subcommittee on Housing, Community Development and Insurance hearing "Reauthorization of the National Flood Insurance Program." APCIA is ready and willing to provide any assistance to today's hearing participants on flood insurance issues.

NMHC NATIONAL MULTIFAMILY HOUSING COUNCIL

NAA NATIONAL APARTMENT ASSOCIATION

May 25, 2022

| | |
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| The Honorable Emmanuel Cleaver II<br>Chairman<br>Subcommittee on Housing and Insurance<br>House Financial Services Committee<br>2335 Rayburn House Office Building<br>Washington, DC 20515 | The Honorable French Hill<br>Ranking Member<br>Subcommittee on Housing and Insurance<br>House Financial Services Committee<br>1533 Longworth House Office Building<br>Washington, DC 20515 |

Dear Chairman Cleaver and Ranking Member Hill:

The National Multifamily Housing Council (NMHC) and National Apartment Association (NAA) applaud the Committee for calling a hearing entitled "Reauthorization and Reform of the National Flood Insurance Program (NFIP)." We appreciate the Committee exploring the issues facing the NFIP in advance of the program's needed reauthorization before September 30, 2022. We strongly support the efforts of Congress to ensure the NFIP is functioning properly and continues to reduce taxpayer funded disaster assistance for flooding.

For more than 25 years, the National Multifamily Housing Council (NMHC) and the National Apartment Association (NAA) have partnered on behalf of America's apartment industry. Drawing on the knowledge and policy expertise of staff in Washington, D.C., as well as the advocacy power of 145 NAA state and local affiliated associations, NAA and NMHC provide a single voice for developers, owners and operators of multifamily rental housing. One-third of all Americans rent their housing, and 40 million of them live in an apartment home.

Like the broader real estate community NMHC and NAA understand that the future stability of the property insurance market and its ability to withstand the continued occurrence of catastrophic events must remain a top concern of our sector. With floods being the most common natural disaster in the United States, the NFIP ensures that affordable flood insurance is available at all times, in all market conditions for every at-risk rental property. These include more than just high-rise multifamily properties in urban centers and extend across every state to include rental homes of all sizes and types. Ensuring that all rental properties continue to have access to affordable, quality flood insurance through the NFIP is a top priority for our membership to not only protect their property investment, but to help manage the increasing costs of providing housing that is affordable.

We acknowledge that the NFIP comes with its challenges and agree that further reforms are necessary to protect the long-term financial viability of the program. As Congress looks to make further reforms to the program to improve the program's long-term affordability and solvency, outlined below are the multifamily industry's priorities as we move towards reform and reauthorization of the NFIP this year. We believe these proposals could offer significant improvements to the efficiency, affordability and long-term health of the NFIP for the multifamily industry.

- **Long-Term Authorization**: The NFIP has been operating on a series of short-term extensions that began in 2008. The stop-gap measures continually create an environment of uncertainty for multifamily property owners and managers who rely on this program for coverage in the absence of a high level of private sector participation. In the unfortunate times of a lapse in NFIP authorization, many real estate transactions across both the residential and commercial sectors cannot legally be closed without this critical protection in place.

  - NMHC and NAA strongly urge Congress to prevent disruption in the marketplace and pass a long-term reauthorization of the NFIP that maintains the government's backstop before it is set to expire on September 30, 2022, because the NFIP remains the primary source of flood coverage for multifamily developers, owners and operators.

- **Mapping**: It is common for apartment owners to have their properties misclassified as being in high-risk flood zones, or Special Flood Hazard Areas (SFHA). The process to correct an inaccurate and erroneous FEMA flood map is overly complex and financially burdensome. The onus is wrongly on property owners to prove maps inaccurate, who incur engineering and surveying expenses and spend vast amounts of time to appeal under the current system. Inaccurate maps not only have financial repercussions for existing property owners, but also have a chilling effect on development in inaccurately zoned areas, which is problematic in a time of a rental housing shortage.
  - NMHC and NAA encourage Congress to continue to prioritize and provide sufficient resources to more frequently update FEMA's flood maps to reduce the number of inaccuracies that detrimentally effect multifamily industry and, most importantly, their residents. FEMA had a goal of updating its flood maps at an interval of not less than every five years, which would achieve this goal; however, FEMA has not been provided sufficient resources to meet that goal.
  - NMHC and NAA recommend Congress require FEMA to improve the efficiency of the overall mapping process to reduce cycle time and costs and improve the mapping appeals process to make it more affordable, transparent, and less time-consuming for both communities and property owners.

- **Risk Rating 2.0:** FEMA's Risk Rating 2.0 program is intended to move rate setting to a more detailed and structure specific system. But as implementation begins, concerns remain over the process for property owners to challenge flawed designations and the maps and related criteria on which they are based.
  - Greater transparency around Risk Rating 2.0 is needed. Under the new rate setting process, FEMA does not clearly demonstrate premium setting methodology or potential premium savings for proactively implementing costly mitigation measures to property owners or their insurance representatives. NMHC and NAA encourage Congress to require FEMA to improve transparency around Risk Rating 2.0 and develop a manual or guide to demonstrate premium calculation with clear considerations for mitigation measures that could impact NFIP premiums.
  - Documentation requirements under Risk Rating 2.0 are burdensome, difficult and cause confusion for multifamily property owners. Under Risk Rating 2.0 underwriting, FEMA is requiring new data points that were never required before. For example, FEMA is now requiring property owners to submit replacement costs for each structure, along with supporting documentation, such as an appraisal, every three years. While condominium associations

typically obtain a new appraisal every three years, multifamily owners do not because commercial appraisals are very expensive and are unnecessary unless a multifamily property is being sold or refinanced. FEMA made a bad assumption about appraisals from not talking with multifamily owners and, in turn, placed an unnecessary and costly burden on the multifamily industry at a time of unprecedented housing affordability challenges. NMHC and NAA encourage Congress to require FEMA work with the NMHC and NAA to better understand the multifamily business and then to streamline the documentation process under Risk Rating 2.0 to prevent burdening property owners with unnecessary and costly documentation requirements.

- **Flood Risk Mitigation:** FEMA currently administers several mitigation grant programs in an effort to reduce damage, claims and overall risk in the event of a natural disaster such as flooding. NMHC and NAA strongly support pre-disaster mitigation programs to lessen fiscal pressure upon the NFIP and taxpayers more broadly. That said, while apartment communities are not explicitly excluded from eligibility for existing FEMA funds, the grant programs are overwhelmingly focused on primary, single-family homes. Even further, FEMA has only recently focused attention on the importance of mitigation efforts for properties that cannot benefit from traditional mitigation techniques like building elevation. Unfortunately, many of the recommendations for alternative methods of mitigation that FEMA has made to property owners are impractical for apartment communities and the majority would not afford any flood insurance premium reduction despite the large cost of implementation.
    - NMHC and NAA urge Congress to require FEMA to undertake further actuarial work and issue alternative mitigation guidance specific to multifamily property owners that is both realistic, cost effective and would result in premium reductions under the NFIP.
    - NMHC and NAA ask that Congress expressly authorize small businesses and apartment firms to be eligible for existing mitigation programs or consider establishing a multifamily and commercial property specific mitigation grant program to address the unique challenges faced by these property owners.
    - NMHC and NAA encourage Congress to raise the amount of the Increased Cost of Compliance (ICC) coverage in the NFIP policy for commercial and multifamily properties to $500,000 and make this higher limit a separate, optional limit that is not part of the current $500,000 maximum building coverage limit.

- **Allow for Blanket NFIP Policies:** Current mandatory purchase requirements require multifamily property owners secure coverage for each structure on their properties that lie in a FEMA-designated Special Flood Hazard Area (SHFA: A & V Zones). Often, this means that multifamily owners must secure a separate NFIP policy for multiple buildings throughout the same apartment community, all of which require separate deductibles and policy renewals.
    - NMHC and NAA urge Congress to provide a property owner the option to secure just one "blanket" NFIP policy with higher limits than the current NFIP

maximum limits for building and contents coverage, so that the higher blanket limit could efficiently provide coverage all of their at-risk structures on a given property or throughout their portfolio. This change would greatly streamline and enhance the business efficiency of using the NFIP.

- **Business Interruption Coverage**: Property owners fortunate enough to be able to purchase flood insurance through the private sector also frequently purchase Business Interruption coverage to help restart operations and defray the financial impacts surrounding the relocation of business services, resident relocations, and other expenses. This coverage should be available to NFIP policy holders as well and would allow property owners to resume normal operations quicker and get residents back into their homes after a disaster in a timelier manner.
    - Because the private flood market writes flood coverage for only 30-40% of multifamily buildings in SFHA, and the private market does not allow for the purchase of only Business Interruption Coverage as a stand-alone flood insurance product, the NFIP must allow for Business Interruption Coverage. NMHC and NAA urge Congress to support the creation of Business Interruption Coverage as a new and additional type of coverage with its own coverage limit, separate from building and contents coverage, under the NFIP for multifamily and commercial policies.

- **Align NFIP Single Family & Multifamily Claim Reimbursement:** Currently, multifamily property owners receive Actual Cash Value (ACV) for claim payments from FEMA while single-family homeowners and condominiums receive Replacement Cost Value (RCV) for their losses. The discrepancy places multifamily property owners at a disadvantage because they often suffer the same, if not more, flood damage.
    - NMHC and NAA encourage Congress to direct FEMA to move NFIP multifamily and commercial building coverage from ACV to RCV claim reimbursement, since FEMA's objective is to provide RCV coverage on homes and buildings where people live as their primary residence. Multifamily residents use their rental apartments as their primary residence, so FEMA should afford RCV to sufficient claim payments to bring their residences back to pre-loss conditions too.

- **Support a Robust Private Flood Market/Continuous Coverage Requirement**: NMHC and NAA believe that a robust private flood insurance market has a multitude of benefits for both property owners and taxpayers through increased competition, enhanced market efficiencies and reduced financial demands on taxpayers. While Congress and federal banking regulators have taken significant steps to improve acceptance of private flood insurance policies in meeting federal mandatory purchase requirements, pain points remain that hamper the private market and harm consumers. An outstanding issue that Congress should look to address is ensuring both private and NFIP coverage satisfies the federal government's requirement of "continuous coverage" and allows policyholders to return to the NFIP coverage at a later date.

- NMHC and NAA encourage Congress to consider including continuous coverage protections for property owners in the next NFIP reform and reauthorization package.

We thank you for the opportunity to present the views of the multifamily industry as you begin deliberations to reauthorize and reform the NFIP. The NFIP's reauthorization is a key priority for the apartment industry given the critical role the program plays in helping multifamily firms mitigate the financial risk of flooding events. We stand ready to support the efforts of Congress to make the necessary improvements to the program to ensure its long-term success, affordability, and viability.

Sincerely,

Douglas M. Bibby
President
National Multifamily Housing Council

Robert Pinnegar
President & CEO
National Apartment Association

CC: House Financial Services Committee

**SMARTERSAFER.ORG**
Americans for Smart Natural Catastrophe Policy

May 25, 2022

The Honorable Emanuel Cleaver
Chairman
House Financial Services Subcommittee on Housing, Community Development, and Insurance
2335 Rayburn HOB
Washington, DC 20515

The Honorable French Hill
Ranking Member
House Financial Services Subcommittee on Housing, Community Development, and Insurance
1533 Longworth HOB
Washington, DC 20515

Dear Subcommittee Chair Cleaver and Subcommittee Ranking Member Hill:

SmarterSafer is a national coalition made up of a diverse chorus of voices which champions a united front for environmentally responsible and fiscally sound approaches to natural catastrophe mitigation and the promotion of public safety. SmarterSafer commends the House Financial Services Subcommittee on Housing, Community Development, and Insurance for holding this hearing and continuing to examine ways to improve the National Flood Insurance Program (NFIP). SmarterSafer believes that continued research, risk evaluation, mitigation strategies, and active engagement with the private sector will help promote an improved version of the NFIP in advance of a badly needed long-term reauthorization of the program.

The NFIP is a central part of the federal disaster response apparatus. The purpose of the NFIP is to offer affordable insurance coverage to property owners, renters, and businesses, including more than 5 million homeowners[1] nationwide. The growing strength of floods and the storms that can cause them are increasingly straining the financial health of the NFIP. Over the past two decades, the program has been hit with major losses from a series of powerful storms forcing large scale payouts from the program, including Hurricane Katrina ($16.2 billion), Hurricane Harvey ($8.9 billion), Superstorm Sandy ($8.8 billion), Hurricane Irene ($1.3 billion), and Hurricane Irma ($1.1 billion), and more recently, Hurricane Ida ($1.5 billion).[2] Unfortunately, the situation has resulted in the Federal Emergency Management Agency (FEMA) paying out claims at an unsustainable rate, borrowing approximately $40 billion from U.S. taxpayers to date.[3]

Given that climate change and its impacts are spreading quickly across the country, it is almost impossible to predict where the next disaster will strike and how much that disaster will cost. That is why it is important for every community to be prepared for the mounting threats associated with climate-related flooding. As the subcommittee engages on NFIP-related conversations, SmarterSafer advocates for a long-term reauthorization to create a more consistent and stable financing regime. Our coalition believes that the use of modernized flood maps is the first step to combat flood risk properly and effectively. However, a comprehensive approach to combating flood risk should also look at the existing infrastructure and how additions to the infrastructure, specifically green and nature-based infrastructure, can help promote climate-

[1] https://sgp.fas.org/crs/homesec/R45999.pdf
[2] https://www.iii.org/fact-statistic/facts-statistics-flood-insurance
[3] https://www.banking.senate.gov/newsroom/minority/toomey-lets-use-nfip-reauthorization-as-an-opportunity-to-move-it-in-the-right-direction

resilience. Floodplain management should not be static but instead should be allowed to change to fit the unique physical and economic circumstances of each community.

The conversations around the NFIP must include ways to prioritize and incentivize pre-disaster mitigation. Pre-disaster mitigation is a far more cost-effective approach than post-disaster recovery and rebuilding efforts. Additionally, nature-based mitigation efforts, including the restoration of wetlands, dunes, and other coastal barriers, make communities more resilient to increased flood risk. NOAA estimates that U.S. coastal wetlands alone provide $23.2 billion in storm protection each year. During Hurricane Sandy, wetlands reduced damages by more than 22 percent in more than half of the areas directly affected by the storm. [4] On inland waterways, researchers have found that wetlands provide $237 billion a year in benefits for flood mitigation and groundwater recharges.[5] These natural features will provide important wildlife habitats, assist in creating outdoor recreational opportunities, and help restore tourism activity. Investments into restoration and resilience projects will also help confront the climate crisis by naturally sequestering more carbon and bolstering community resilience to wildfires, hurricanes, and flooding while advancing environmental justice by removing pollution from our air, water, and soils. Greater emphasis needs to be placed on natural infrastructure and the surplus of benefits available when used in tandem with gray infrastructure.

SmarterSafer also firmly supports Risk Rating 2.0, which was recently implemented on April 1, as it better addresses premium pricing misalignments in measuring risk. Many communities[6] have come out in favor of Risk Rating 2.0, especially communities that see regular riverine flooding.[7] While evidence has shown that a significant number of NFIP policyholders will see lower rates with data-driven Risk Rating 2.0 premiums, we also believe it is important that the federal government bear in mind the impact that any unexpected premium increases could have on vulnerable populations.

While financially intimidating at first, there are many actions that can be done to make the NFIP and Risk Rating 2.0 a sustainable reality. Even though grants are available, many small communities do not have the capacity to apply for grants to start these projects. SmarterSafer recommends supporting grant writing and technical assistance though the NFIP to ensure that all communities have a fair chance at accessing these grants. Additionally, SmarterSafer supports creating a diverse range of grant sizes, large and small, to capture more communities at different levels and stages of their mitigation journey. SmarterSafer also suggests that Congress reexamine tax incentives to better promote and help communities maintain their mitigation measures. Lastly, Congress should strive to reward high mitigation standards that can serve as models for other communities to follow.

SmarterSafer recognizes the many years of bipartisan cooperation the Committee has invested in flood risk protection and reform of the NFIP. We applaud the thought and effort behind the National Flood Program Reauthorization Act of 2022 as it will help to ensure that at-risk communities are financially and physically protected against increasing flood risk. We also support the intent behind H.R. 7842 "The Protecting Families and the Solvency of the National

[4] https://coast.noaa.gov/data/nationalfacts/pdf/hand-out-natural-infrastructure.pdf
[5] https://www.ducks.org/conservation/conserving-wetlands-waterfowl/the-many-benefits-of-wetlands-conservation
[6] https://www.hannibal.net/opinion/letter-small-river-towns-need-risk-rating-2-0-for-national-flood-insurance/article_3e6d6ae8-c25a-11ec-9e19-676c2254cba1.html
[7] https://www.thegazette.com/guest-columnists/flood-insurance-updates-are-long-overdue-for-iowa/

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Flood Insurance Program Act of 2022" introduced by Rep. Casten (D-IL), to facilitate an improved and more robust voluntary buyout process for NFIP policyholders. The coalition, however, does have concerns over legislative attempts to cancel the indebtedness of the NFIP and to impose caps on premium increases. Any such measures should only be considered if they are accompanied by meaningful programmatic reforms that moves the NFIP towards financial solvency and actuarial rates that reflect the risk borne by policyholders.

We appreciate your consideration of the aforementioned suggestions to create a more sustainable NFIP that benefits policyholders, the environment, and taxpayers. We are confident that, with your leadership and dedication, we will see tangible change. As always, SmarterSafer stands ready to be a resource to the committee as it continues to work to safeguard NFIP.

Respectfully,

SmarterSafer Coalition

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## MEMBERS

### Environmental Organizations

American Rivers
Center for Climate and Energy Solutions (C2ES)
ConservAmerica
Defenders of Wildlife
National Wildlife Federation
Natural Resources Defense Council (NRDC)
Surfrider Foundation

### Consumer and Taxpayer Advocates

Coalition to Reduce Spending
National Taxpayers Union
R Street Institute
Taxpayers for Common Sense
Taxpayers Protection Alliance

### Insurer and Reinsurer Interests

Association of Bermuda Insurers and Reinsurers (ABIR)
The Chubb Corporation
Liberty Mutual Group
National Association of Mutual Insurance Companies (NAMIC)
National Flood Association
Reinsurance Association of America
Swiss Re
USAA

### Mitigation Interests

Natural Hazard Mitigation Association

### Housing

Habitat for Humanity
National Housing Conference
National Leased Housing Association

## ALLIED ORGANIZATIONS

Allianz of America
American Conservation Coalition
American Consumer Institute
American Property Casualty Insurance Association (APCIA)
Center for Clean Air Policy
CoreLogic
Friends of the Earth
Institute for Liberty
Zurich Insurance

BIG i[SM]

Independent Insurance Agents
& Brokers of America.

**STATEMENT OF THE**
**INDEPENDENT INSURANCE AGENTS & BROKERS OF AMERICA**

**U.S. House Financial Services Committee, Subcommittee on Housing, Community Development and Insurance**

**Reauthorization and Reform of the National Flood Insurance Program**

**May 25, 2022**

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Founded in 1896, the Independent Insurance Agents & Brokers of America (IIABA or the Big "I") is the nation's oldest and largest association of independent insurance agents and brokers, representing more than 25,000 agency locations united under the Trusted Choice brand. Trusted Choice independent agents offer consumers all types of insurance—property, casualty, life, health, employee benefit plans and retirement products—from a variety of insurance companies. As explained further below, the Big "I" supports a long-term reauthorization of a modernized and transparent NFIP that would increase take-up rates for flood insurance, both in the NFIP and the private market, and calls on Congress to extend the NFIP before it expires on September 30, 2022.

**I. The Big "I" supports passage of a long-term extension of the NFIP before the program expires on September 30, 2022.**

The last long-term reauthorization of the NFIP occurred a decade ago when Congress passed the Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters), which reauthorized the program through September 30, 2017. Since then, Congress has debated how to best reform the program and the NFIP has seen numerous short-term extensions as well as a few brief lapses. Most recently, in March of 2022, Congress acted to extend the program through September 30, 2022. The Big "I" commends Congress for their recent efforts to extend the program without allowing a lapse. In doing this, Congress recognized the critical role the NFIP plays in the U.S. housing market and the overall economy. As such, the Big "I" urges Congress to yet again extend the program before it expires on September 30, to avoid unnecessary economic disruption.

While it is most important that the NFIP does not lapse, the Big "I" also implores Congress to work to pass a long-term reauthorization of the program. Every time the program is set to expire, the private companies that partner with the NFIP to administer the program must send notices to consumers, agents must work with clients to explain the ramifications of a potential expiration, and realtors and mortgage lenders must decide how to proceed when issuing and servicing mortgages that require flood insurance, all in an unsettled regulatory environment.

Additionally, NFIP staff are forced to shift limited resources to deal with potential program lapses and divert attention away from other important initiatives they are working on. Lapses and near lapses of the NFIP are also heavily covered by the news media. The public instability and uncertainty created by continual short-term extensions cannot only lead to concrete damages in the real estate and development market as well as the country's economy overall, but it also hinders the ability of the NFIP to successfully meet policyholder needs and ultimately undermines overall consumer confidence in the NFIP. Furthermore, this legislating by emergency distracts from the ultimate goal of reforming the NFIP.

**II. The Big "I" supports policies to increase take-up rates for flood insurance, whether in the NFIP or the private market, because an insured disaster survivor recovers more quickly.**

As Congress deliberates how best to make reforms to the NFIP, the Big "I" urges Congress to consider policies that would help more Americans obtain flood insurance coverage through the NFIP and the private market. Several severe storms in recent years have devastated multiple U.S. states and territories. Yet most of the Americans impacted by these storms were uninsured or underinsured. Furthermore, flooding caused by hurricanes and coastal events is only part of the story. A significant portion of flooding occurs outside of perceived high-risk areas from localized rain events for those living inland near rivers, creeks, and other bodies of water, or in low lying areas. Flooding is the most common and costly natural disaster and not enough property owners are insured against it. Put simply, where it rains it can flood.

While instituting policies to encourage property owners and communities to mitigate risk before disaster strikes and enforcing floodplain management standards and building codes in high-risk areas will go a long way in minimizing risk, flood insurance will always remain a necessary safety net for property owners. In that regard the NFIP is a vital government program as it is the primary source of flood insurance for U.S. property owners.

Outside of the NFIP there is a small but growing private insurance market. Historically, flooding has been a difficult risk to underwrite in the private market; however, advances in modeling and underwriting technology have contributed to market growth in recent years. Yet to date, the private insurance market covers only a small portion of flood risk nationally. While commercial flood insurance markets are more developed, private flood insurance on residential properties remains less common. Nonetheless, even FEMA has publicly acknowledged on multiple occasions that we need both the NFIP and an expanded private market if we want to noticeably increase flood insurance coverage for the country because an insured survivor–regardless of how they purchase their coverage–will recover more quickly and fully.

While some have expressed concern that a growing private market will harm the NFIP because private insurers will select the best risks from the NFIP, the Big "I" like FEMA believes that there is a necessary role for both the NFIP and the private market. As the private flood insurance market has grown in recent years—particularly in states where certain state level policies have encouraged market growth—there have not been significant decreases in NFIP policy counts. State regulated insurers have different ways of selecting and pricing risks via underwriting, meaning that a "good risk" to one insurer may be a "bad risk" to another insurer, depending on the insurer's overall risk portfolio.

Furthermore, there are over 125 million households in the U.S., but only five million of these households participate in the NFIP. Every year many homes that do not have flood insurance are flooded, and more

Americans need protection. Consequently, the Big "I" would be concerned with any policies that could impede the overall long-term growth of the private market and supports making legislative or regulatory changes to some aspects of the NFIP to facilitate immediate private market growth in high-risk flood zones, protect consumers, and help ensure consumers have affordable insurance choices.

For example, the Big "I" strongly supports H.R. 4699, the Continuous Coverage for Flood Insurance Act, introduced by Reps. Kathy Castor (D-FL) and Blaine Luetkemeyer (R-MO) which would clarify that private flood insurance can satisfy NFIP continuous coverage requirements. Under the NFIP's current system for underwriting flood insurance policies, for properties that were built to comply with or surpass the appropriate floodplain management standards in place at the time of construction only later to become subject to higher standards making the property no longer in compliance with minimum elevation requirements, the policyholder is eligible to maintain a preferred rate if continuous coverage is maintained. This is an important consumer protection and affordability measure to ensure that homeowners are not unfairly penalized with increased flood insurance rates due to changes in circumstance that are beyond their control if the homeowner has otherwise followed all appropriate regulations and guidelines.

However, under current NFIP rules it is not clear that private flood insurance could be used to satisfy these continuous coverage requirements. In some cases, the different underwriting guidelines followed by private insurance companies mean that even with grandfathered rates a consumer may find a less expensive policy in the private market. However, the risk of a substantial NFIP rate increase should the consumer later wish to return to the NFIP often makes insurance agents and brokers hesitant to recommend private flood insurance policies. As such, the Big "I" supports Congress passing legislation to clarify that if a consumer leaves the NFIP for the private market and conditions change such that the consumer must return to the NFIP they can do so without penalty.

The Big "I" also supports allowing refunds for unearned premiums for the mid-term cancelation of NFIP policies if a consumer elects to purchase a policy from the private flood insurance market. In the private property insurance market if a consumer cancels an insurance policy because they obtained insurance elsewhere that better meets their needs, they are generally entitled to a refund for any unearned premiums remaining on the term of the policy. However, under current NFIP guidance and regulations it is unclear if and when policy holders can obtain such refunds. This is also an important consumer protection and affordability issue. In fact, a November 2018 report by researchers at Wharton-U Penn identified NFIP regulations that only allowed policyholders to switch insurance providers at the time of their annual renewal as a barrier to more affordable private market policies for some consumers.

Making statutory and regulatory reforms to better allow consumers to utilize private market polices when such policies can provide more robust coverage than the NFIP at more affordable rates is only part of the efforts that are needed to increase take-up rates for flood insurance. Considering how the NFIP can better serve consumers is also important. As explained further below, the NFIP has recently changed how policies are rated in hopes of making policies more consumer friendly. The Big "I" hopes that this process will eventually help drive consumer understanding about flood risk and ultimately lead to more consumers seeking to purchase flood insurance.

Finally, FEMA created the Write Your Own (WYO) Program to increase the NFIP's policy base and geographic distribution of policies; improve service to NFIP policyholders through infusion of insurance industry knowledge and capacity; and provide the insurance industry with direct operating experience with flood insurance. This WYO Program operates as a partnership between FEMA and participating insurance companies that are reimbursed to write and service NFIP policies and 87% of policies are offered through this program. In order to determine that reimbursement, FEMA currently uses what the Big "I" believes is an appropriate proxy ratio based on five private market property/casualty expense ratios to determine reimbursement rates for companies. The WYO Program is a necessary component of the NFIP and the Big "I" opposes any policies that would harm the WYO Program, make it more complex, or otherwise place limits on the program in a manner that could negatively impact NFIP take-up rates.

**III. The Big "I" appreciates efforts to modernize and simplify the NFIP for the approximately five million property owners that rely on the program.**

The NFIP was originally created in 1968, and while many changes to the program have occurred since then it is important that steps are taken to continue to modernize the NFIP to ensure that it works for consumers in 2022. In addition to continuing efforts to implement changes to the program put in place by Congress in 2012 and 2014, FEMA is currently working on several initiatives to simplify the program.

For example, in recent years FEMA has managed current risk exposure and enhanced the future viability of the NFIP through the transfer of risk to private reinsurance companies and capital markets investors. Under current law, FEMA has the flexibility to shift an appropriate level of risk from the federal government to the private market through the NFIP Reinsurance Program by securing reinsurance at a fair and reasonable cost. This provides FEMA with an additional method to fund the payment of flood claims after catastrophic flood events.

Additionally, as of April 1, 2022, FEMA's new rating methodology, dubbed Risk Rating 2.0, is now in effect for all policies. Risk Rating 2.0 is the result of several years of FEMA working within their statutory authority toward modernizing the insurance products the NFIP offers to consumers in an effort to better reflect new technologies, current underwriting methodologies, and insurance industry best practices. The Big "I" understands the intent of Risk Rating 2.0 is to improve the experience that policyholders have with FEMA by (1) eventually making the rating process more transparent so that it is easier to understand a property's individual flood risk; (2) modeling rates to appropriately reflect the varying types of flood risk (e.g. heavy rain fall vs. storm surge); and (3) using more intuitive rating variables to streamline what is currently an unnecessarily complex underwriting process for consumers and agents. With this information, the Big "I" hopes that FEMA will have a better understanding of the NFIP's risk portfolio and how that portfolio is impacted by Congressional mandates, to best serve consumers.

The Big "I" is hopeful that these steps being taken to modernize NFIP underwriting via Risk Rating 2.0, including using advanced mapping and probabilistic modeling technologies, will eventually yield better risk communication for consumers helping to drive increases in take-up rates. However, the Big "I" also believes that the implementation of Risk Rating 2.0 will be critical to the program's success and that FEMA must work hand in hand with the WYO carriers and agents in order for the program's implementation to be successful. <u>As of now, the Big "I" believes that FEMA needs to do more to make the rating process more transparent as agents are having difficulty providing the reasoning as to why consumers rates are changing.</u> Moving forward, it is extremely important that FEMA communicates this information to WYO companies and insurance agents so that they can help consumers understand their flood insurance rates.

Successful implementation of Risk Rating 2.0 and simplification of the NFIP's complex underwriting process would have a positive impact for both consumers and agents. Not only would this help to drive consumer understanding of rates but the Big "I" is hopeful it will result in more agents being willing to partner with the NFIP. Despite the need for flood insurance, purchasing flood insurance can be a daunting and complex process, especially within the Special Flood Hazard Area (SFHA). Flood insurance can be one of the hardest products for an insurance agent to sell due to its complexity and current misperceptions about flood risk. As such, the Big "I" hopes that the Risk Rating 2.0 process will ultimately result in more insurance agent engagement with the NFIP.

Furthermore, by ensuring that the new rates better reflect individualized risk and rebuilding costs, the new rating structure should deliver more equitable rates for low-value homes. Rating for low-value homes was an issue flagged in the Affordability Framework that FEMA released in April 2018. Lastly, it is important to note that FEMA is working on Risk Rating 2.0 within their current statutory framework, meaning that these rates are still subject to the statutory caps on rate increases ensuring that affordability remains a priority. The Big "I" encourages Congress to work constructively with FEMA on these and other innovative approaches to modernizing the NFIP within the program's current statutory framework.

## IV. Conclusion

In conclusion, the Big "I" supports a long-term reauthorization of a transparent and modernized NFIP that would increase take-up rates for flood insurance, both in the NFIP and the private market, and urges Congress to extend the NFIP before it expires on September 30, 2021. Specifically, the Big "I" urges Congress to consider modest policy changes that could help grow the private market and protect consumers, such as clarifying requirements related to continuous coverage and mid-term cancellations. The Big "I" would also be concerned with any policies that could impede the overall long-term growth of the private market and any policies that would harm the WYO Program, make it more complex, or otherwise place limits on the program in a manner that could negatively impact NFIP take-up rates. The Big "I" believes these policies will help more Americans obtain flood insurance coverage through the NFIP and the private market. Finally, the Big "I" believes that Risk Rating 2.0, if properly implemented, has the potential to improve the NFIP experience for consumers, but better communication is necessary between FEMA and carriers/agents to ensure its success. The Big "I" thanks Congress for considering the important viewpoint of independent insurance agents and brokers on the NFIP and looks forward to continuing to work with Congress to close the flood insurance gap.

**Chairwoman Maxine Waters**
**Questions for the Record**
**Housing, Community Development, and Insurance Subcommittee Hearing entitled**
**"Reauthorization and Reform of the National Flood Insurance Program"**
**Wednesday, May 25, 2022 at 12 pm ET**

**Witnesses**

- **Dr. Carolyn Kousky**, Executive Director, Wharton Risk Center
- **Ms. Karen McHugh**, Missouri State NFIP Coordinator
- **Mr. Ariel Rivera-Miranda**, Founder and Agency Principal, Deer Insurance
- **Mr. Roy Wright**, President & CEO, Insurance Institute for Business and Home Safety

1. **Dr. Kousky**, in a 2021 report, RisQ, Inc. found a number of concerning NFIP disparities. For example, despite facing higher flood risks, communities of color are often located outside of the SFHA and homeowners of color are more likely to go uninsured. A 2020 analysis by the Urban Institute also found that even when homeowners in communities of color have flood insurance through the NFIP, they experience a higher rate of unpaid claims and a lower rate of claims are filed in some communities of color located within flood zones. What should legislative and administrative reforms to the NFIP include in order to address these disparities that risk being widened in the face of worsening climate change?

Recent research has highlighted troubling inequities when it comes to disaster preparedness and recovery. We know that lower income groups and racial minorities suffer disproportionately from disasters and recover less quickly than more privileged residents. Wealth inequalities are already substantial and increasing in the U.S. and can be compounded by disasters. Without financial safety nets, hazard events become disasters and are tipping points to deeper poverty, as households default on loans, accumulate debt, and exhaust savings.

A means-tested affordability program for any qualifying household would help ensure greater equity in recovery. Research has shown that those with insurance recover better and faster than those without insurance. Unfortunately, too many households cannot afford flood insurance and these are the very households that also are more likely to have insufficient savings for recovery, be locked of access to credit, and struggle to obtain sufficient or timely aid. Assistance on a sliding scale to help households afford flood insurance would be an important step to improving recoveries in the face of growing risk. Such a program could be coupled with means-tested assistance for investments in lowering flood risk through mitigation measures or buyouts.

2. **Dr. Kousky**, renters are a particularly vulnerable population when it comes to flood risk: even with adequate disclosure, they may not have the means to reside outside the floodplain, and they are not subject to the mandatory purchase requirement. How can ensure that renters are provided with adequate information and resources to obtain NFIP coverage or access housing outside the floodplain?

Almost all our flood disclosure laws are focused on owners. But we also need strong flood disclosure laws for renters. Only a handful of states currently have such laws requiring landlords to disclose flood history or flood risk to renters. Just this month, New York passed disclosure for renters, adding one more state to the list. These laws also need to make sure that disclosure takes place at the time of application, to give renters time to search for other units if the flood risk is too high. FEMA's recent legislative package to Congress suggests that as a condition of participation in the NFIP, communities be required to adopt flood disclosure laws for both owners and renters. This would help provide needed information to the rental market in the face of escalating risk.

Renters can obtain contents coverage through the NFIP, but many may not realize this option is available. We need better education of renters about the flood risks they face and their flood insurance options. Beyond replacing or repairing their contents, renters face another difficult challenge after large floods: they may be forced out of damaged property. In the aftermath of a flood, housing, particularly affordable rental housing, may be in short supply. This can force renters to have to commute long distances and/or will impose greater financial burdens on them as they struggle with higher rent. Policies targeted at quickly reestablishing affordable housing units post-disaster are critical for the recovery of renters.

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**Ms. McHugh**, Risk Rating 2.0 went into effect for all policies on April 1st. What have the impacts of the program looked like at the community level? How has the program affected the NFIP's Community Rating System?

**Ms. McHugh's Answer:**

**Honestly, it has been crickets. As the state coordinating office for the National Flood Insurance Program in Missouri, we have heard very few concerns from property owners or communities about Risk Rating 2.0, despite numerous calls regarding various flood insurance issues.**
**I believe that the effects of Risk Rating 2.0 have yet to appear in CRS Communities and so far, there has not been much of an impact. Many colleagues and I are concerned that discounts will not be allowed for CRS communities on policies that are already getting some other type of discount. This seems unfair, because CRS communities have worked hard for the CRS discount, which is well deserved in every case.**

**Mr. Rivera-Miranda/Ms. McHugh**, in the three-year period leading up to and including Hurricane Harvey, the Houston area experienced three "500-year" floods. Experiences like these have led to serious concerns about the accuracy of FEMA's flood maps. What more needs to be done to bring the floodplain maps to an adequate level for the public to rely on and be confident in using these FEMA maps? What additional changes or new directions may be needed?

**Ms. McHugh's Answer:**

**FEMA flood maps do not use recent rainfall estimates for calculating the flood, nor do they show an added layer for future floods, which Congress asked them to do in 2012. FEMA indicates they have not had enough mapping resources to incorporate future conditions. It is important the maps be accurate or people getting flooded will wonder why the maps did not give them that information.**

**ASFPM is concerned that key precipitation frequency information, generally supplied by NOAA's National Weather Service Atlas 14, and upon which FEMA flood maps are often based, has fallen years or in some cases decades out of date. Additionally, the current Atlas data does not reflect expected future trends in (often)-increasing precipitation and volume levels. Updating and adding likely future conditions to these basic predictive tools is now a critical need to increase both the accuracy of FEMA flood maps and for siting and design of critical infrastructure, and making community development decisions.**

**Any "risk" - and especially "flood risks" - can be challenging to understand, quantify, and communicate to the public, including landowners. The goal of the program is to reduce the chance for loss of life, in the process consistently shaping a community's development to reduce the chance of flooding damage. This reduces the cost of such damages moving forward. We like to talk about developing flood risk data versus simple mapping. Missouri, through FEMA's Cooperating Technical Partner Program, has successfully applied and been awarded grants through the Risk MAP program to support the development of good flood risk data statewide. Providing accurate flood risk results that community leaders can understand and believe in is the solid foundation of the program. Once community leaders understand the risk, they can be confident in communicating and enforcing smart floodplain management. Missouri is at an important crossroads; communities asking for good flood risk data and flood risk reduction solutions has never been higher. Missouri is the "show me" state, and our residents require that we show them the risk before they will believe in it. In the National Flood Insurance Program (NFIP), due process is important, and procedures must be followed so that the users of NFIP documents have confidence that the floodplain maps have the appropriate peer review, representing the actual flood conditions to the best of FEMA's ability. Adequate funding is crucial in order to reach that finish line.**

**Ms. McHugh**, in the past, this committee has heard testimony regarding the importance of strengthening and enhancing levels of community assistance in the National Flood Insurance Program, and specifically, about the value of authorizing an enhanced program to encourage further capacity building at the state, community levels for better floodplain management. From your experiences in Illinois and Missouri, what do you see as the role states currently play in NFIP community assistance, and what values could be gleaned if we were to grant FEMA additional authority and resources to support state and community assistance?

**Ms. McHugh's Answer:**
**My staff and I provide daily compliance solutions to our NFIP- participating communities in Missouri. We do this by performing Community Assistance Contact (CAC) visits and offering technical assistance by phone, online, or in person. Our**

**floodplain management staff will continue offering this one-on-one help with substantial damage determinations before and after flooding events. In addition, we will continue to create and present NFIP workshop trainings in both virtual and in-seat formats. Our website is one of the best in the nation, and our quarterly E-Bulletin's touch upon nearly every aspect of the NFIP. My staff of two and I assist 681 NFIP-participating communities with an annual budget of around $220,000. Congress' authorization of the Community Assistance Program, including providing annual funding at a minimum of $20 million, will ensure a support mechanism for building state capability to efficiently and effectively assist communities in managing and mitigating their flood risk. Communities in our state know me and my staff and contact us constantly to get assistance and training.**

**Ms. McHugh**, new homeowners may not realize they are buying a home that has a repetitive loss flood history. This is especially true for lower income homeowners and homeowners of color who are more likely to own a home in a flood zone. This also affects their ability to build wealth when their homes are damaged by flooding and they are unable to access financing or other assistance to rebuild their homes, which can diminish the benefits of investing in homeownership altogether. Do you think that a requirement to disclose flood loss history to prospective homebuyers would be beneficial? Can you discuss state efforts already underway to enhance flood risk disclosures that may serve as a good model?

**Ms. McHugh's Answer:**

**Yes, I do believe that a requirement to disclose flood loss history to prospective homebuyers would be very beneficial. I have worked nearly 30 years in the world of floodplain management regulation, and it has given me a personal perspective on several of ASFPM's reauthorization and reform priorities. It is of paramount importance that NFIP-participating states have authorizing legislation to provide full flood-risk disclosure for all property transactions prior to closing on sales or signing rental contracts. This is of particular significance to me because far too often I have listened to homebuyers sobbing on the phone, surprised to learn that their new house is in a high-risk floodplain. They learn this at the closing table, with no idea how they will pay for the required flood insurance. Even more distressing, some property owners have shared with me that they did not learn about their flooding risk until their home had already been flooded. Full risk disclosure should not stop with home ownership. A tenant recently told me of her shock when her rented unit's basement apartment flooded just seconds after she had removed her infant son from his crib. She had never been told that her rented home was in a high-risk floodplain with a history of flooding.**

**According to the Natural Resources Defense Council Score Card, only four (4) States - Texas, Oklahoma, Louisiana, and Mississippi - have good disclosure laws, while 21 States do not have any disclosure laws at all. Four (4) states have inadequate disclosure laws, while the remaining states have disclosure laws that are only partially**

**adequate. Homeowners have a right to know about their property's history of flood insurance coverage, damage claims paid, and whether there is a legal requirement to purchase flood insurance because of a past owners' receipt of federal disaster aid. It seems Congress can require this disclosure in a way that does not violate the privacy act.**

**Ms. McHugh**, currently, the law only requires homeowners to purchase flood insurance if they are within special flood hazard areas, and yet, most flooding occurs outside the special flood hazard areas. The mandatory purchase requirement tends to reinforce a false notion that only those inside these zones are at risk of flooding. What can we do to enhance consumer education on this issue and ultimately increase take up rates outside of current SFHAs?

**Ms. McHugh's Answer:**

**Our motto is: "Where it can rain it can flood." The key is to continually reach out to communities and listen to their needs. Missouri recently created a comprehensive "Quick Guide" to help state residents to become educated about flood risks and how to recover in the smartest way possible when their structure is damaged by a flood. This guide is a remarkable effort, and it was created because we listened to our communities and responded. If FEMA would add digital layers to the flood maps showing flood levels that can be expected 20 and 50 years in the future and the residual flood risk posed by levees, dams and other water control infrastructure, that will also help. Another approach that needs serious consideration is to expand the mandatory purchase requirement beyond the Special Flood Hazard Areas (SFHAs), especially in other areas of known flooding risk.**

**Chairwoman Maxine Waters**
**Questions for the Record**
**Housing, Community Development, and Insurance Subcommittee Hearing entitled**
**"Reauthorization and Reform of the National Flood Insurance Program"**
**Wednesday, May 25, 2022 at 12 pm ET**

**Witnesses:**

- **Dr. Carolyn Kousky**, Executive Director, Wharton Risk Center
- **Ms. Karen McHugh**, Missouri State NFIP Coordinator
- **Mr. Ariel Rivera-Miranda**, Founder and Agency Principal, Deer Insurance
- **Mr. Roy Wright**, President & CEO, Insurance Institute for Business and Home Safety

Below please find the written questions directed to Ariel Rivera-Miranda, followed by Mr. Rivera-Miranda's responses.

**Reauthorization**

1. **Mr. Rivera-Miranda, you have experience writing insurance policies and working directly with consumers across several vulnerable regions. Since the end of FY2017, the NFIP has been reauthorized 19 times, and has even experienced brief lapses in its authorization. Chairwoman Maxine Waters has proposed draft legislation to reauthorize the program long-term. What can you tell us about the real-life impacts you witness during times of market uncertainty or an outright lapse?**

    a. **How important is it that Congress provide a timely, long-term reauthorization of the NFIP?**

It is vital that Congress pass a long-term reauthorization of the NFIP. Every short-term extension provides another chance for the program to lapse. When the NFIP lapses, consumers are unable to renew existing policies or finalize the purchase of new policies. Pending real estate transactions may be disrupted, especially if they involve mandatory purchase properties, which are properties in flood-prone areas with federally backed mortgages that are required by federal law to have flood insurance. Plus, if a flood loss occurs during a lapse, claims may not be processed until the program is reauthorized. Prior NFIP lapses are estimated to have disrupted over 1,000 home sales per day, and, of course, the longer the lapse, the greater the disturbance.[1]

The roughly 20 short-term extensions over the last five years have been extremely disruptive for everyone associated with the NFIP, including policyholders. Even when the program does not lapse, the federal government and every facet of the insurance industry incurs costs associated with preparing for a lapse as the NFIP's next expiration date approaches. Agents, carriers, vendors, lenders, and FEMA itself all develop contingency plans to address an anticipated lapse. They need to spend financial and human resources planning for lapses whether the lapse occurs or not, and only a long-term reauthorization can avoid them. The program's effectiveness

[1] See https://www.nar.realtor/blogs/economists-outlook/how-many-home-sales-will-be-affected-by-a-nfip-lapse.

depends on certainty, and endless short-term reauthorizations are a breeding ground for uncertainty.

We also would like to see any reauthorization signed into law well in advance of the forthcoming September 30 deadline so that the expensive lapse-contingency planning described above can be avoided.

**Mapping**

4. **Mr. Rivera-Miranda/Ms. McHugh, in the three-year period leading up to and including Hurricane Harvey, the Houston area experienced three "500-year" floods. Experiences like these have led to serious concerns about the accuracy of FEMA's flood maps. What more needs to be done to bring the floodplain maps to an adequate level for the public to rely on and be confident in using these FEMA maps? What additional changes or new directions may be needed?**

As we saw in Houston, a "500-year" flood zone does not refer to an area that will only experience flooding once every 500 years. The U.S. has historically used a one-percent annual chance of flood as the basis of determining flood risk in the NFIP.[2] Areas at higher risk of flood were deemed "100-year" flood zones, which meant that properties in those zones were likely to flood once every hundred years; put another way, they had a one percent chance of flooding in any given year. A property located in a "500-year" flood zone has a 0.2 percent chance of flooding in any given year. So, it was thought, Houston-area properties had only a one-in-500 chance of experiencing flooding at least as severe as the floods generated by Hurricane Harvey in any given year. Actual experience has proven otherwise.

However, more recent research into the frequency and severity of flood losses has demonstrated that the construct of a 100- or 500-year flood zone is probably not the most useful way to consider the likelihood of a specific property flooding in any given year. Within FEMA and around the flood insurance industry, the shorthand phrasing of "100-year" and "500-year" floods are intentionally falling out of favor.

Flooding is becoming more common and more severe in areas we previously considered less flood prone. To bolster our evolving understanding of the likelihood of flooding in specific areas, PIA supports the mapping provision in Chairwoman Waters's legislation listed for the hearing. The provision would expand flood mapping to all areas of the United States using updated mapping technology that, to the extent available, allows users to view data at multiple levels of detail, including down to the property level. It would ensure that updated maps will be adequate for identifying future flood risk, and it would require that FEMA make the maps publicly available on its website. All these steps would help give members of the public a more accurate view of their flood risks.

In addition, Chairwoman Waters's discussion draft includes a provision that would create a pilot program to enhance mapping of urban flooding and better assessment of urban flood risk. This

[2] See https://www.fema.gov/glossary/flood-zones.

section also requires FEMA to utilize updated mapping technology, such as LiDAR, and provides for digital displays and property-specific mapping.

**<u>Debt, Affordability, and Inequity</u>**

5. **Mr. Rivera-Miranda, as someone who writes flood insurance policies, can you describe some of the affordability challenges that policyholders face? Do you find that the high costs are always risk-related or do you find that low-risk policyholders are cost-burdened by the numerous fees, surcharges, and assessments that are paid on top of the premiums? What about those that should have flood insurance but cannot afford it? Do you support proposals to lower these extra costs for policyholders and provide targeted financial assistance to ensure affordability?**

    a. **Mr. Rivera-Miranda, Risk Rating 2.0 is intended to make NFIP costs more equitable by factoring rebuilding costs into premium calculations. What have the real-world impacts on affordability looked like in the early stages of its implementation, particularly for low-income homeowners and renters?**

We strongly support RR 2.0 and gradually moving policyholders to full-risk rates because these changes will make the NFIP more solvent while also providing policyholders with more accurate information about their properties' flood risk. With better information, we hope property owners will learn more about their risk of flood, engage in mitigation efforts where needed, and, ultimately, purchase flood insurance that matches their risk.

However, the program must be made affordable for policyholders who will never be able to afford their property's full-risk rate and for those who may find themselves priced out of their homes because of increasing rates before those rates even reach full risk. Because agents regularly communicate with existing and prospective policyholders, they are already seeing the effects of RR 2.0 increases in some of the communities they serve. The NFIP does not have the luxury of choosing between full-risk rates and an affordability framework.

To maintain the number of current policies in force, minimize prohibitively expensive rates for renewals, and potentially increase the take-up rate, particularly in high-risk areas, the NFIP needs an affordability framework with means testing to ensure that flood insurance is not now and does not become out of reach for those who need it most. The past several years have been financially tumultuous for individuals, businesses, and the national economy. In some parts of the country, some property owners will find their full-risk rates to be unaffordable, whether they are new policyholders subject to full-risk rates immediately or existing policyholders experiencing the statutory maximum in allowable annual increases.

We support programs like the affordability proposal contained in Chairwoman Waters's legislation, which would provide targeted financial assistance to low-income policyholders.

**Floodplain Management and Mitigation**

**10. a. Mr. Rivera-Miranda, despite the island's high flood risk, less than 4% of households in Puerto Rico had flood insurance in 2018. What can be done to improve program uptake in Puerto Rico and similarly storm-vulnerable communities?**

The federal requirement to purchase flood insurance applies only to those with mortgages from federally backed lenders living in relatively high-risk areas. Even though it can flood anywhere, few homeowners voluntarily purchase flood insurance if they are not required to do so. Residents of Puerto Rico specifically would benefit from two essential acts by FEMA: a review of the island's existing flood maps and a more comprehensive educational campaign using a variety of media platforms. Additionally, affordability measures aimed at assisting low-income homeowners are critical to increasing the take-up rate in Puerto Rico. This is why we support Chairwoman Waters's affordability plan, which is targeted toward those of limited means.

PIA supports both the NFIP and the private market, and we would rather maximize the number of properties that have flood coverage than prioritize NFIP coverage over coverage offered on the private market or vice versa.

**Superstorm Sandy and Claims Reforms**

**11. Mr. Rivera-Miranda, one of the many lessons learned post Superstorm Sandy was the need for policyholders to better understand the terms of their coverage. As someone in the industry, do you agree that consumers sometimes don't know what their policy covers? Do you think that the proposal outlined in the legislation before us today to create a plain English disclosure for policyholders will help them to better prepare? Do you agree that the sales agent should sign the disclosure as well?**

Policy language can be difficult to understand, and the tendency to skip over fine print is common and not exclusive to flood insurance. That said, changes to disclosure requirements would be helpful for everyone involved in the process of obtaining an NFIP policy. Rep. Velazquez's draft legislation includes such a provision, and PIA supports it. This proposal requires the FEMA Administrator to create a coverage disclosure sheet for policyholders; the disclosure sheet would outline the coverage provided in the NFIP's standard flood insurance policy, including a description of the types of losses covered, a summary of the costs associated with the policy, and clear communication of the policy's full flood risk determinations.

The proposal also requires the disclosure to include an acknowledgement of it to be executed by both the policyholder and the insurer selling the policy on behalf of the NFIP. PIA supports this reform. I have no issue with requiring the agent to sign the disclosure and/or acknowledgement as well; it is in the interests of all parties involved in the process that everyone be on the same page as to what was offered and what was accepted.

Insurance Institute for Business & Home Safety®

Office of the CEO, Roy Wright

July 5, 2022

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Re: Questions for the Record: Housing, Community Development, and Insurance Subcommittee Hearing entitled "Reauthorization and Reform of the National Flood Insurance Program"

Chairwoman Waters, Ranking Member McHenry, Chair Cleaver, and Ranking Member Hill:

Thank you for the opportunity to participate as a witness in the Housing, Community Development, and Insurance Subcommittee Hearing entitled "Reauthorization and Reform of the National Flood Insurance Program". Below are responses to the Questions for the Record you directed at me.

**Risk Rating 2.0**

**Mr. Wright, Risk Rating 2.0 was developed with the goal of bringing NFIP rates in line with more accurate assessments of flood risk. Prior to its implementation, there were concerns about affordability under the new methodology. Now that it has gone into effect, what has been the average increase or decrease in policyholder rates? Are coastal areas seeing larger increases? And if so, how much larger? Do you think current rate caps have been effective so far in preventing dramatic fluctuations for policyholders?**

As I stated in my testimony, Risk Rating 2.0 is working as intended: nearly a quarter of policyholders have seen price decreases and nearly two-third of policyholders have experienced only incremental increases that are in line with the past. Further, the annual price escalation cap required by Congress provides a measure of protection from dramatic fluctuations for the 14 percent of policyholders that are seeing larger price increases. While price increases can be painful, particularly for those from low- or moderate-income householders, we cannot escape the reality that flood risk is increasing. Risk Rating 2.0 provides FEMA with a tool to reflect that increasing risk through a pricing mechanism. For low- and moderate-income families, Congress must decide in how much it wants to invest in a national affordability program that is separate and apart from NFIP premium revenue – paying for such program through cross-subsidies would be inequitable and further undermine the financial stability of the NFIP.

For more granular data regarding policyholder rates and regional impacts, I respectfully refer you to FEMA.

**Private Flood Insurance**

**Mr. Wright, a final rule implementing the legislative mandate that private flood insurance satisfy the mandatory purchase requirement went into effect in July of 2019. What have the primary effects of this rule been? Will additional legislative action be necessary? The federal financial regulators have released a rule clarifying the types of private policies that may be accepted by lenders in compliance with the mandatory purchase requirement. Do you think that this rule provides sufficient clarity, or do you think additional legislative action will be necessary?**

The final rule of the federal financial regulators regarding private flood insurance has been helpful in growing the private flood insurance market. However, private flood insurance take-up has been affected by FEMA's position that private flood insurance cannot be considered when determining continuous coverage. My understanding is that representatives from the insurance, banking, and realtor industries have asserted to FEMA that the agency does have this statutory authority, but FEMA has taken the position that it does not. H.R. 166, introduced by Congresswoman Kathy Castor (D-FL) and Congressman Blaine Luetkemeyer (R-MO), would provide explicit statutory authority for FEMA to consider private flood insurance when determining continuous coverage. I think this would be a helpful step toward an objective everyone seems to share: the continued development of private flood insurance options for consumers.

Respectfully,

Roy E. Wright
President & CEO
Insurance Institute for Business & Home Safety