

MEMORANDUM

To: Members of the Committee on Financial Services

From: Committee Staff

Date: April 25, 2023

Subject: April 28, 2023, Subcommittee on Housing and Insurance Hearing Entitled “The Reauthorization of the National Flood Insurance Program: FEMA’s Perspective”

On Friday, April 28, 2023, at 9 a.m. in Room 2128 of the Rayburn House Office Building, the Subcommittee on Housing and Insurance will hold a hearing entitled “The Reauthorization of the National Flood Insurance Program: FEMA’s Perspective.” This hearing will examine the current status of the National Flood Insurance Program and FEMA’s efforts to modernize the program as part of the Committee’s reauthorization process during the 118th Congress. Testifying at the hearing will be:

Mr. David Maurstad, Assistant Administrator, Federal Insurance Directorate, Federal Emergency Management Agency (FEMA)

Background: The Need for Flood Insurance

Floods are the most common, most expensive, and most deadly natural disaster that communities across the United States experience. Reports reveal approximately 90 percent of all U.S. natural disasters also involve flooding from any number of sources, including inland flooding, flash floods, and flooding from seasonal storms.¹ While such events have long been a concern, recent experiences have shown that flooding has become both more frequent and severe. The Federal Emergency Management Agency’s (FEMA) 50+ year old National Flood Insurance Program (NFIP), which is by far the nation’s leading provider of flood insurance coverage, has experienced two of its top five, four of its top ten, and ten of its top 20 costliest flood events all in the last decade alone.² Previously, the NFIP dealt with only two \$1+ billion flood events prior to its most costly flood, which was Hurricane Katrina in 2005. Since then, the NFIP has experienced eight \$1+ billion flood events.

The damage from flooding can be extremely costly to both human safety and property. The National Weather Service has reported an average of 98 deaths per year over the last decade due to flooding,

¹ The Insurance Information Institute “Facts about Flood Insurance,” available at: <https://www.iii.org/article/facts-about-flood-insurance>.

² FEMA “Significant Flood Events,” available at: <https://nfipservices.floodsmart.gov/reports-flood-insurance-data>.

including nearly 150 fatalities in 2021 alone.³ Additionally, according to FEMA, just one inch of flood water in a home can cause up to \$25,000 in damage.⁴ In 2019, the average NFIP flood claim payout was over \$32,000.⁵ As a result, the overall economic cost of flood damage in the U.S. was estimated to be approximately \$17 billion per year from 2010-2018, more than quadruple from the \$4 billion per year cost in the 1980s.⁶

Background: The NFIP

The NFIP was created by Congress in 1968. It is by far the nation’s leading provider of flood insurance coverage, selling roughly 93 percent of all residential flood coverage in the country. Homeowners and businesses can purchase government-backed flood insurance through the NFIP if they are in one of 22,000 participating communities that have agreed to implement FEMA’s local floodplain management regulations and building codes. Under Section 102 of the Flood Disaster Protection Act of 1973, homeowners who have a federally-backed mortgage in certain high-risk areas with a 1 percent or higher chance of annual flooding (“Special Flood Hazard Areas”) are required to purchase flood insurance. Properties that are required to purchase flood insurance comprise just over half of all NFIP policies, with the remaining policies purchased voluntarily in areas with lower risks.

The NFIP currently provides coverage to roughly 4.7 million policyholders (4.5 million of which are residential policies) with over \$1.3 trillion in total insurance coverage-in-force.⁷ Properties insured by the NFIP include single family homes (roughly 70 percent of policies), condos and multi-family buildings (roughly 20 percent), and other non-residential buildings like businesses, churches, and farms. In total, the NFIP collects approximately \$4.7 billion in annual combined premiums and fees from its policyholders. In addition to the revenue it collects, Congress has statutorily authorized the NFIP to “temporarily” borrow up to \$30.425 billion from taxpayers, which must be repaid with interest. In 2017, Congress canceled \$16 billion of NFIP debt after experiencing new losses from Hurricanes Harvey, Maria, and Irma. However, currently, the NFIP still owes taxpayers over \$20.5 billion in debt and maintains just under \$10 billion in remaining borrowing authority. It also pays approximately \$400 million to the U.S. Treasury in interest expenses annually.

Since its creation, the NFIP has been subject to periodic congressional reauthorizations every few years to review its operations and stability. For example, reauthorizations were enacted in 1990, 1994, 2004, and most recently in 2012. The NFIP requires congressional authorization to have the

³ National Weather Service “Weather Related Fatality and Injury Statistics,” available at: <https://www.weather.gov/hazstat>.

⁴ FEMA “Myths vs Facts: The True Cost of Flooding,” January 1, 2022, available at: <https://community.fema.gov/PreparednessConnect/s/article/Myths-vs-Facts-The-True-Cost-of-Flooding>.

⁵ FEMA “Historical Flood Risk and Costs,” available at: <https://www.fema.gov/data-visualization/historical-flood-risk-and-costs>.

⁶ Testimony of FEMA’s Michael Grimm to Committee on Science, Space and Technology, February 27, 2020, available at: <https://www.fema.gov/fact-sheet/michael-grimm-testimony-committee-science-space-and-technology>.

⁷ NFIP “Policies in Force by Occupancy Type/Zone,” available at: <https://nfipservices.floodsmart.gov/reports-flood-insurance-data>.

legal authority to renew existing or enter into new flood insurance contracts with policyholders, actions which cannot be undertaken during a lapse in authorization (though the program always retains the ability to pay claims on any current insurance contract). The NFIP's last formal 5-year reauthorization expired at the end of September 2017. Since then, the NFIP has been subject to three brief lapses and 25 short-term extensions, nearly all of which have been enacted as a part of the congressional appropriations process and not through legislation initiated by the Financial Services Committee.

Focus of the Hearing

The April 28 hearing will mark the second in an ongoing series of hearings on the topic of flood insurance planned by the Committee during the 118th Congress. The Committee has traditionally received testimony from FEMA to better understand the status of the NFIP and FEMA's efforts to modernize the program as part of the Committee's reauthorization process. This testimony plays an important role in the reauthorization process by keeping Congress informed of changes made to the NFIP's operations as well as helping to focus attention on areas in need of legislative reform. However, FEMA has not appeared before the Committee since March of 2017. Assistant Administrator Maurstad is expected to update the Committee during the hearing on changes that have taken place with the NFIP over the last six years. Topics to be discussed include:

- ***Current Financial Status of the NFIP***

In general, the NFIP is funded from premiums, fees, and surcharges paid by NFIP policyholders, payments from any triggered reinsurance or private sector risk transfer agreements, and borrowing from the Treasury when those resources are insufficient to pay its obligations. As of November of 2022, the NFIP had approximately \$8 billion in combined resources on hand (\$5 billion in its National Flood Insurance Fund and \$3 billion in its Reserve Fund) along with \$9.9 billion in remaining U.S. Treasury borrowing authority. Since then, those finances have been put under additional stress from the cost of last fall's Hurricane Ian. FEMA initially estimated Hurricane Ian "*could potentially result in NFIP claims losses between \$3.5 - \$5.3 billion,*"⁸ which would make it the fourth costliest flood event ever behind Hurricanes Katrina and Harvey and Superstorm Sandy.

- ***Risk Rating 2.0***

To incorporate industry best practices and technology into its models, FEMA has begun modernizing its pricing methodology through a new system called Risk Rating 2.0 (RR2.0). RR2.0, the first reform relating to NFIP risk calculation since 1968, is designed to deliver rates that are actuarially sound, equitable, easier to understand, and better reflect an individual property's actual flood risk. First

⁸ FEMA press release "FEMA Projects Up to \$3.5 - \$5.3 Billion in Hurricane Ian Flood Insurance Claims Payments," dated November 20, 2022, available at: <https://www.fema.gov/press-release/20221110/fema-projects-35-53-billion-hurricane-ian-food-insurance-claims-payments>.

announced in March of 2019, FEMA’s implementation of RR2.0 began in October 2021 for new policies and was completed on April 1, 2023. It now applies to 100 percent of all NFIP policyholders.

RR2.0 uses new technology, data, and flood models to assess various factors for individual properties, including their frequency of flooding, the types of flooding experienced by the property, their proximity to flood sources, specific structural characteristics, and the replacement cost value of the structure. According to FEMA, RR2.0 will:

- Reflect an individual property’s risk;
- Reflect more types of flood risk in rates;
- Use modern actuarial practices to set risk-based rates;
- Provide rates that are easier to understand for agents and policyholders; and
- Reduce complexity for agents to generate a flood insurance quote.

FEMA has called the advent of RR2.0 “*a transformational leap forward*” enabling it “*to set rates that are fairer and ensure rate increases and decreases are both equitable.*”⁹

According to FEMA, several statutory requirements contained in the NFIP will not change in RR2.0. These include, among others, the existing 18 percent statutory annual limit on policyholder rate increases, requirements to utilize flood insurance rate maps (FIRMs) for mandatory purchase and floodplain management, and discounts to policyholders in communities that participate in the NFIP’s Community Rating System (CRS).

- ***FEMA’s Increased Focus on Mitigation***

FEMA makes limited funding available to mitigate risks before and after flooding through two NFIP-specific programs, the Increased Cost of Compliance (ICC) and Flood Mitigation Assistance (FMA) programs. ICC is an individual insurance product designed to help aid policyholders who have experienced flood damage. If purchased, ICC coverage provides up to \$30,000 per claim to each policyholder to rebuild their home in a more resilient manner. FMA is a grant program for communities to reduce or eliminate the risk of repetitive flood damage to NFIP-insured buildings. The FMA program is supported by a portion of all premium dollars collected and was funded at \$175 million for FY23.

More recently, FEMA has enhanced its overall focus on pre-disaster mitigation efforts. Pre-disaster mitigation is an important component of lowering overall costs. FEMA has observed that hazard mitigation against all natural perils saves an average of \$6 for every \$1 spent on federal mitigation

⁹ FEMA “Risk Rating 2.0: Equity in Action,” available at: <https://www.fema.gov/flood-insurance/risk-rating>.

grants.¹⁰ FEMA’s current flagship pre-disaster mitigation effort is the Building Resilient Infrastructure and Communities (BRIC) grant program.

Created by Congress in 2018, BRIC is an at-large FEMA program funded from its Disaster Relief Fund (DRF) account, and not a part of the NFIP. However, the BRIC program is designed to help communities increase their natural disaster resiliency through grants to states and local governments for pre-disaster mitigation projects and capacity-building. These efforts could help decrease flood damage to NFIP-insured properties and thus reduce the NFIP’s overall costs. FEMA’s FY24 budget request includes an estimated \$1 billion set aside for the BRIC program. The BRIC program is also funded from a six percent set aside of the estimated aggregate amount of certain Stafford Act defined grants that are made to federally declared major disasters.¹¹

- ***FEMA’s NFIP Legislative Reforms Package***

In May of 2022, FEMA formally transmitted to Congress a package of 17 legislative proposals to reform the NFIP, stating that “*the NFIP requires structural change to ensure that individuals and communities have a sustainable program to provide the assistance they need when they need it for decades to come.*”¹² FEMA’s package of reforms centered around four main principles: (1) ensuring greater deployment of flood insurance; (2) strengthening climate resilience; (3) reducing disaster suffering; and, (4) establishing a sound and transparent financial framework for the NFIP. Assistant Administrator Maurstad has stated that this package of proposals reflects the Administration’s priorities for multi-year NFIP reauthorization.

The 17 proposals included in the package cover a wide variety of topics. Some of the items in FEMA’s 2022 reform package include:

- moving to a 10-year reauthorization process;
- implementing a new means-tested affordability assistance pilot program for lower income policyholders;
- increasing the NFIP’s maximum coverage limits;
- prohibiting coverage for Excessive Loss Properties and new construction in high-risk areas;
- implementing new uniform flood disclosures in real estate transactions;
- requiring mandatory appropriations to the NFIP in years when premium collections fall below expected loss levels; and,
- canceling all of the NFIP’s outstanding debt.

Neither the House nor the Senate took action on these legislative proposals during the 117th Congress.

¹⁰ FEMA Fact Sheet “Natural Hazard Mitigation Saves Interim Report,” June 2018, available at: https://www.fema.gov/sites/default/files/2020-07/fema_mitsaves-factsheet_2018.pdf.

¹¹ FEMA Congressional Budget Justification Fiscal Year 2024, pages 412-413, available at: <https://www.dhs.gov/publication/congressional-budget-justification-fiscal-year-fy-2024>.

¹² FEMA letter to the Honorable Kevin McCarthy, dated May 11, 2022.