# Senate Banking Committee NFIP Reauthorization Overview Featuring R Street's Jerry Theodorou

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The Senate Committee on Banking, Housing, and Urban Affairs held a hearing Thursday to discuss the reauthorization and reform of the National Flood Insurance Program (NFIP).

Founded in 1968 following a wave of devastating floods from the Mississippi River, the NFIP—managed by the Federal Emergency Management Agency (FEMA)—provides a federally backed option for flood insurance for homeowners, renters and businesses across the United States. Today, the NFIP remains the primary source of flood insurance policies in the United States, often at highly subsidized rates. The last full reauthorization of the program occurred in 2012 and expired in 2017. It has since undergone 21 short-term reauthorizations without any necessary reforms and must be renewed by Sept. 30, 2022.

Committee Chairman Sherrod Brown (D-Ohio) opened the meeting by referencing the recent devastating flooding at Yellowstone National Park and asserting the need for flood-mitigation funding. Ranking Member Pat Toomey's (R-Penn.) opening remarks focused on the brokenness of the NFIP and the need for major reform to give homeowners access to more options for flood insurance via private market participation. Both sides of the aisle expressed concern about the burden placed on American taxpayers who currently subsidize the fiscally unsound program and agreed that major reform is vital.

The primary topics of discussion during the hearing were the foundational issues of the program, the new pricing methodology, increasing competition through the use of the private market, repetitive loss properties and the program's affordability.

### Repairing a Broken Program

Lawmakers agreed that the NFIP is in desperate need of repair, both functionally and financially. Sen. Toomey discussed the heavy subsidies the program receives, stating that they have borrowed from the Treasury for 11 of the past 22 years, with the NFIP systematically underpricing policies. The NFIP currently holds over $20 billion in debt and, as recently as 2017, had $16 billion in debt forgiven following several devastating hurricanes.

In his opening remarks, R Street's Finance, Insurance and Trade Policy Director Jerry Theodorou discussed the issue of growing populations in flood-prone areas, noting that the percentage of Americans living in coastal communities has grown 45 percent since the NFIP's inception. The program has unintentionally incentivized development in these areas due to its subsidized pricing and has sent false signals to homeowners about the inherent risk. This is despite one of the founding goals of the NFIP to disincentivize building in flood-prone areas.

Expert witness Peter Van Doren of the Cato Institute discussed the issue of grandfathered rates, in which homeowners become accustomed to paying far less than actual market rates, making it more difficult to adjust rates to an economically sound point.

## Risk Rating 2.0

A new pricing model to modernize policies in the NFIP, called Risk Rating 2.0, began its rollout late last year. The goal of this model is to give premiums that "better reflect a property's flood risk"—a vital step forward in repairing the program. Sen. Toomey signaled his approval of Risk Rating 2.0, noting that 23 percent of policyholders were overpaying and would see a decrease in their policy according to the new methodology. Many of the heavily subsidized policies belong to higher-value homes—an inefficiency that will be phased out over time with the introduction of Risk Rating 2.0.

## Actuarially Sound Rates and Increasing Competition

Though one of the original goals of the NFIP was to keep private insurers competitive in the space, they are consistently priced out of the market due to the program's heavy subsidies and artificial rate caps. It is estimated that the NFIP provides over 95 percent of the flood insurance policies across the country and that only one in 10 Americans carry a policy on their home.

Private-market participation will remain low as long as the program is subsidized, and the program will remain in debt year after year, leaving homeowners with less product availability. The introduction of competition to the marketplace will give homeowners access to better products outside of the NFIP's strict policy limits, such as maximum policy limits of $250,000. Risk Rating 2.0's movement toward actuarially sound rates is a step in the right direction of encouraging private insurers to sell policies.

## Repetitive Loss Properties

Repetitive loss properties are one of the most severe issues with the NFIP, accounting for only 1 percent of properties in the NFIP but 25 to 30 percent of flood claims. Several of the most egregious examples of repetitive loss properties in the NFIP were shared during the testimony, including a home in Mississippi worth $69,000 that flooded 34 times in 32 years, costing the NFIP $663,000 in claims payments. Not only is this an unfair burden on the program and the taxpayers who fund it, but it also provides no incentive for homeowners to mitigate their property's risk.

## The Plight of the Disadvantaged

Many of the properties most at risk of flooding are concentrated in low-income communities. FEMA estimates that 26 percent of NFIP policyholders in Special Flood Hazard Areas are considered low income. Expert witness Jana Henderson of the Mississippi Emergency Management Agency discussed the need for mitigation funding and mitigation premium credits—a goal that was echoed by Chairman Brown.

Theodorou discussed the need for means-tested assistance programs to allow low-income property owners to afford flood insurance—an attractive proposal across the aisle.

## R Street Institute Position

The R Street Institute supports the long-term reauthorization of the NFIP and Risk Rating 2.0, which is a necessary step forward in matching insurance rates to their actual risk. We support major reform for repetitive loss properties, including homeowner mitigation efforts. We continue to support growing private-sector options for flood insurance to give consumers a broader range of options and lessen the burden on the taxpayer.