

Insurance from floods underwater

Nation's flooding safety net is \$18 billion in the red, much from repetitive claims

**By SPENCER GAFFNEY
WASHINGTON BUREAU**

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WASHINGTON — The first warning sign was a house in Humble.

Between 1977 and 1995, the National Flood Insurance Program paid out \$806,591 for repeated storm damage to a suburban Houston home that was valued at \$114,480. If you think the math doesn't add up, you're not the only one.

The federal government's program to protect coastal residents from nature's devastation has coughed up more than \$8 billion over the past 15 years for more than 150,000 troubled properties that have filed multiple claims for storm damage.

And that's just one problem for a program that was designed to be an essential economic safety net to hundreds of thousands of coastal residents but has come under attack for the way it manages its money and fulfills its mission. Critics say the program, rather than acting as a safety net against catastrophic damage from hurricanes, has become a taxpayer-funded subsidy to coastal home owners and real estate interests to build and buy homes in high-risk areas.

Because of the problem caused by repetitive losses, 1 percent of properties account for between 25 and 30 percent of the claims it pays. The number of "repetitive loss" homes more than doubled in the past 15 years. What's more, the devastation wrought by Hurricanes Katrina and Rita in 2005 has left the program deeply in debt with little or no hope of stemming the tide of red ink.

Hemorrhaging \$200 million a year, the National Flood Insurance Program now owes the Department of Treasury more than \$18 billion - money an April report from the Government Accountability Office says the program is unlikely to be able to pay back.

"Sadly, very little has really been accomplished on the ground compared with the exploding magnitude of the problem," said David Conrad, a water resources specialist for the National Wildlife Federation who has studied the flood insurance program.

A big deal for Texas

The program's future is of acute interest to Texas. The state receives more money from the flood insurance program than any other state, more than \$2 billion in 2008, the most recent year for which comprehensive figures are available.

Until the National Flood Insurance Program was instituted in 1968, people living along the coasts or in high risk areas had no access to insurance. When a flood hit, they paid out of pocket or got disaster aid from the state or federal government. The NFIP was meant to use the premiums it takes in from most of its policies to pay off claims.

Now, the NFIP supports entire industries: the banks that sell mortgages to homes with flood insurance, the construction workers who repair and rebuild the homes, the insurers who write the policies for homeowners on behalf of the government, and the real estate agents who sell the lucrative waterfront properties. Their lobbying, and the desires of the citizens who live on the high-risk coasts and flood plains, keep the program going after more than 40 years.

The policies themselves are written by independent insurance agencies like Allstate with government approval. They get to keep up to 17 percent of the premium.

"You're doing the same work, you're getting paid the same, but you don't have the risk," said Mark Calabria, director of financial regulation studies at the libertarian Cato Institute. "The flood insurance program allows people to live where they wouldn't live otherwise."

Taxpayers' risk reduced?

Austin Perez, environmental policy representative for the National Association of Realtors, says "it's not true" that the NFIP encourages rebuilding in sensitive areas. Instead, he says, it allows residents to live in at-risk coastal areas with some degree of confidence they will not be ruined financially.

"If there were no flood insurance, the taxpayers would pick up the bill in the form of disaster relief," said Perez. "This program actually reduces the risk to taxpayers in the event of the flood."

The flood insurance program must be periodically reauthorized by Congress. When it occasionally lapses, as it did earlier this year, the world of coastal real estate has ground to a halt. Perez estimated that 1,400 closings on homes were delayed or cancelled when flood insurance wasn't available. (Flood insurance is required on homes with federally backed mortgages.)

Flood program officials declined to comment, but Craig Fugate, administrator of the Federal Emergency Management Agency, which oversees the program, admitted to a congressional committee earlier this year that the program needs to be reformed.

However, he warned against long-term delays in reauthorization and funding, saying "shorter-term lapses in the NFIP's authorization could be costly."

Campaign contributions

One result of this repeated reauthorization process is a steady flow of campaign cash from real estate interests to lawmakers who decide the program's fate. All the House members who co-sponsored the bill to continue the NFIP through September received campaign contributions from the National Association of Realtors: \$49,000 among eight representatives.

Texas lawmakers are divided about the program's future.

"The American people know already that the National Flood Insurance Program is in trouble," said Republican Rep. Jeb Hensarling of Dallas. "Why are we going to add to this burden?"

But for coastal lawmakers like Rep. Ruben Hinojosa, D-Mercedes, whose South Texas district has been hit hard by hurricanes and flooding, reauthorizing the NFIP long term is a top priority.

"We in South Texas are no strangers to natural disasters, especially flooding," said Hinojosa. "That is why we must have a solid National Flood Insurance Program in place."

spencer.gaffney@hearstdc.com