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NFIP is under water

By SPENCER GAFFNEY

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 during 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 last 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.

"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.

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 waterfront properties. Their lobbying, and the desires of the citizens who live on the high-risk coasts and flood plains, keep the program going.

The policies themselves are written by independent insurance agencies such as Allstate, with government approval. They get to keep as much as 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.

Austin Perez, environmental policy representative for the National Association of Realtors, said “it’s not true” the NFIP encourages rebuilding in sensitive areas. Instead, he said, it allows residents to live in 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,” Perez said. “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 grinds to a halt. Perez estimated 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.