

Testimony

of

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on

The National Flood Insurance Program

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Introduction

Good afternoon Chairwoman Waters, Ranking Member Moore-Capito, and distinguished Members of the Subcommittee. It is my privilege to appear before you today on behalf of the Department of Homeland Security and the Federal Emergency Management Agency (FEMA) to discuss the National Flood Insurance Program (NFIP).

As the Subcommittee continues the process of reauthorizing this program, it is important that we first look at the original intent and purpose of the NFIP. When Congress created NFIP 42 years ago, the nation had just experienced a series of deadly and costly natural disasters. We needed to address the escalating costs of flooding associated with these disasters, and we needed to provide financial relief to those who were most at-risk for flooding. We recognized, however, that the private sector insurance market was not able to provide a vehicle for insuring these properties.

With these concerns in mind, Congress passed the National Flood Insurance Act of 1968 and established NFIP. The program was created to:

- Protect communities from flood damage through state and community floodplain management regulations;
- Provide our citizens with affordable flood insurance to better indemnify property at risk to flooding; and
- Reduce the financial burden on the federal government for disaster assistance.

While the principles of NFIP are straightforward, its implementation is more difficult—an effective flood management strategy requires that every homeowner at risk of flooding participate in the National Flood Insurance Program and purchase flood insurance.

Challenges to Managing the National Flood Insurance Program.

Over the last decade, the federal government has undertaken a comprehensive update of flood maps. This effort was widely supported by all levels of government, citizens and the private sector, as better information would be available to understand our risks for flooding and other disasters.

Though these maps are generally well-received and provide better information, they do have financial consequences. Lenders require that individuals who are mapped into the Special Flood Hazard Area (SFHA) purchase insurance; although we empathize with individuals who face financial hardship and cannot afford to purchase flood insurance, we are bound by the laws that govern the program. At my direction, FEMA staff has searched for ways to exercise the maximum amount of flexibility as allowed by the statute. We have explored strategies that would ease the financial burden on individuals who have been newly mapped into the SFHA, and we continue to work with communities that have a definitive plan to repair their levees.

While much has changed in the 42 years since Congress created the NFIP, the basic need for a fiscally sound and comprehensive flood management strategy has not. As Congress considers reform for the program, we offer several issues for your consideration.

First, we need to look at risk holistically for the entire hydrological cycle, understanding that we have to manage water as a resource. Second, development in high-risk areas is not managed by the federal government; use is managed locally, and decisions to build in those areas should be accompanied by paying for appropriate risks. We need to develop solutions for those that already live in high-risk areas and ensure that appropriate insurance coverage continues to be available. Third, we have to find better ways to communicate risk; in particular, we need to explain to ordinary citizens what a 100-year flood plain and a 500-year flood plain mean in terms of their actual risk.

Fiscal Challenges Now Facing the National Flood Insurance Program

One of the major challenges we now face is finding a way to alleviate the program's current debt burden. Hurricanes Katrina, Rita and Wilma drove \$18.7 billion in debt to the Treasury. Since fiscal year 2007, we have paid approximately \$2.4 billion in interest on the debt. While we have been able to pay off nearly \$600 million in principal during 2008 and 2009, extremely mild hurricane seasons and current low interest rates will not continue indefinitely. It is unlikely that we will ever retire this debt, and we continue to pursue debt forgiveness. The program's borrowing authority is currently capped at \$20.775 billion, and the \$2.075 billion that the Program is authorized to borrow before reaching that cap should be sufficient to address the program's needs for fiscal year 2010 provided there is no catastrophic flood event.

The Subcommittee will hear testimony today about H.R. 1264, the Multi-Peril Insurance Act. This bill would amend the National Flood Insurance Act of 1968 to allow for the purchase of multi-peril coverage and optional separate windstorm coverage. We are concerned that under a multi-peril federal program, the liability for multi-peril insurance, which is currently absorbed by the private property insurance market, would be transferred to the U.S. Treasury and, ultimately, to the American taxpayer.

Notwithstanding the bill's language, a Federal program will face pressures to set aside risk-based pricing and offer subsidized government insurance. If it lowered insurance prices below the actuarially-fair value, a Federal program would encourage people to take on more risk than if they faced the full expected costs of damages. In addition to the riskier behavior, Federal Government participation in the wind insurance market would displace private markets, and mandate an unfair cross-subsidy burden on taxpayers.

FEMA's Efforts to Improve and Strengthen the National Flood Insurance Program

In the past two decades, FEMA has engaged in a number of efforts to solicit valuable input on how the NFIP should be improved. In 1998, FEMA gathered input from a wide array of stakeholders that culminated in the June 2000 report, "Call for Issues, Status Report."

Shortly thereafter, FEMA solicited the assistance of the American Institute for Research. Between 2001 and 2006, the Institute conducted an evaluation of the NFIP and ultimately prepared a series of detailed reports that helped further develop the program so that it would continue to meet the needs of the public and fulfill its Congressional mandate to reduce federal expenditures for disaster assistance and flood control.

NFIP Reform Working Group

In anticipation of the upcoming reauthorization of the NFIP, I established an internal NFIP Working Group to develop policy recommendations for comprehensive reform.

Phase I of that effort began with an NFIP Listening Session, which took place in Washington, D.C., last November. Nearly 180 participants, representing a broad spectrum of program stakeholders, including Federal, state, local and tribal governments; associations, non-profits and the private sector, were given the chance to have their opinions heard. The listening session was designed to engage our partners, stakeholders and customers, hear their perspectives concerning the key issues facing the program, identify where there is common understanding and document the diversity of opinions concerning the optimum implementation of the NFIP. The Phase I Final Report, entitled "NFIP Stakeholder Listening Session: Findings and Next Steps," has recently been released.

We are now conducting Phase II of the effort, which is a thorough analysis of the feedback that we have received. In addition to conducting an in-depth analysis of comments we received during the NFIP Listening Session, we will also reexamine findings and recommendations received in the 2006 American Institute for Research NFIP Evaluation Report, as well as the Call for Issues: Status Report published in 2000. During Phase III FEMA will begin the process of finalizing options for consideration in the development of an Administration approach to NFIP reform which we will share with the committee when completed.

We are also working closely with the Government Accountability Office (GAO) to resolve issues associated with the GAO's high-risk designation of the Program. In 2006, GAO placed the NFIP on its High-Risk List and stated that comprehensive reform was necessary. I have asked FEMA staff to work closely with GAO to identify actions that can be taken immediately to resolve some of these issues. GAO is currently reviewing the oversight and management of the NFIP to include how FEMA manages contracts, personnel, finances, and information technology assets associated with the program. I know FEMA can improve the oversight and management of the NFIP from an internal perspective. To improve the guidance the NFIP and other FEMA programs receive, I have reorganized the administrative and management organizations in the agency and placed them under the Mission Support Bureau, headed by a highly experienced Senior Executive Service manager.

Flood Insurance Rate Maps

In fiscal year 2003, FEMA began to digitize and update its flood insurance rate maps. Many of these maps were 20-30 years old and no longer accurately reflected flooding hazards. At the close of fiscal year 2009, FEMA had issued modernized flood insurance rate maps in preliminary format for over 80 percent of the nation's population in approximately 13,000 communities, and approximately three quarters have now been finalized (covering more than 60 percent of the nation's population in about 7,700 communities). While we have seen an overall increase in the size of the SFHA by roughly 7 percent nationwide, we have also seen an approximate 1 percent net decrease in the number of housing units located within SFHA.

We are committed to finishing this important work. By the end of fiscal year 2010, we expect to have preliminary flood insurance rate maps issued for over 90 percent of the nation's population. Further, as draft maps are released, we will continue to provide ample opportunity for the public to comment before they are finalized.

Efforts to Increase Awareness and Community Participation

Like any insurance pool, expanding the risk pool is important for the NFIP. Mandatory purchase of flood insurance is required for mortgage holders in a flood plain in order to obtain a mortgage. However, many people do not know that they can purchase flood insurance even if they are not in a flood plain. As such, we are committed to an annual objective of five percent net growth in the number of NFIP policies in force. We are evaluating several strategies to reach this goal, which are under development:

- FEMA tries to reach the lending institutions that mandate insurance coverage on mortgages. We provide a great deal of technical assistance to regulators and lenders through training sessions, guidance materials and regular communication with federal lending regulators, Government Sponsored Enterprises, federal agency lenders, and the lending community.
- We continue to improve and extend the reach of the NFIP's national marketing, advertising and public awareness campaign, *FloodSmart*. This campaign uses television, radio, print and online advertising, direct mailings and public relations activities to inform consumers about the risk of flooding, as well as the availability and benefits of flood insurance. These communications drive homeowners, renters and businesses to call their own flood insurance agents, call FEMA's toll-free referral center for more information, or visit FloodSmart.gov, where they can assess their risk, estimate their premiums and locate agents in their areas (as well as use tools such as the Cost of Flooding, Flood Risk Scenarios and current mapping status updates).
- We continue to improve insurance agents' understanding of the NFIP by providing both web- and classroom-based training. This spring, we are launching a professional flood insurance designation program for insurance and other professionals whereby practitioners that pass three exams can earn the Associate in National Flood Insurance designation from the American Institute for Chartered Property Casualty Underwriters.
- Lastly, our strategy to increase participation in the NFIP includes promotion of the Community Rating System (CRS). The CRS is a voluntary program that provides flood insurance premium discounts to policyholders in communities that adopt and enforce floodplain management programs with standards that exceed NFIP minimums. The CRS includes 10 rating classes providing successively greater insurance premium discounts, based upon the floodplain management practices of a community. The NFIP had 31 new communities join the CRS in fiscal year 2009, raising the total number of CRS communities to 1,110 last fiscal year. The Program also had 89 CRS communities achieve class improvements, thereby qualifying policyholders for additional flood insurance discounts.

NFIP Enrollments have increased significantly over the last few years. Currently, over 21,000 communities participate in the NFIP. FEMA enrolled 467 new communities in FY09, 424 new enrollees in FY08 and 233 new enrollees in FY2007.

Conclusion

We learned two very valuable things from the listening sessions. First and foremost, we learned that the NFIP still provides an essential service to the American people that would be otherwise unavailable or unaffordable. Second, we confirmed that the NFIP requires meaningful reform.

We were reminded of the importance of the NFIP when the program's authority expired briefly in March and again in April. With the lapse in authority, new flood insurance policies could not be written, leading to the possible delay of thousands of citizens seeking mortgage loans that require flood insurance as a precondition to settlement. Although regulators overseeing the lending industry have not precluded loans being made in cases when flood insurance is unavailable, lenders are encouraged to carefully evaluate their risks. As flood insurance policies expire, they cannot be renewed and claims cannot be paid on these policies. In the event of a flood, policyholders unable to renew their policies will face the financial consequences either on their own or with very limited federal disaster assistance if the President issues a disaster declaration. While the program needs longer-term reform, shorter terms lapses in the NFIP's authorization could be costly. Citizens rely on this program to give them access to insurance for flooding—there is no other effective private or public sector backstop to assist people in repairing property and recovering a flood event.

The work we have to do to comprehensively reform the NFIP is considerable. This program provides a financial backstop for millions of citizens, while at the same time reducing disaster assistance expenditures. We look forward to continuing to work with the Subcommittee to provide a long-term reauthorization and comprehensive reform. I would be happy to answer any questions you may have.