



# Issue Fact Sheet

NMHC/NAA Joint Legislative Program • Suite 540 • 1850 M Street, NW • Washington, DC 20036 • (202) 974-2300 • Fax (202) 775-0112 • [www.nmhc.org](http://www.nmhc.org)

## NATIONAL FLOOD INSURANCE PROGRAM REAUTHORIZATION

### Background

The National Flood Insurance Program (NFIP) was created to provide insurance coverage that is otherwise unavailable in the private market to residential and commercial properties; manage the flood plain; and identify and map the nation's flood plains in Flood Insurance Rate Maps (FIRMs). The program was intended to be financially self-supporting, with insurance premiums covering operating expenses and insurance claims. Until 2004, the program remained financially sound—it used its borrowing authority three times but paid the Treasury back with interest.

However, major disasters and hurricanes in 2004 and 2005 caused the NFIP to assume more than \$18 billion in debt. Now, the future financial stability and overall program structure of the NFIP are questionable. According to the Government Accountability Office, the program is not actuarially sound due to the number of policyholders who pay subsidized rates and the large number of repetitive-loss properties (those with two or more losses in a 10-year period) in the NFIP portfolio. Another problem that has contributed to the program's deficit is that a large number of property owners located in flood plains do not purchase coverage despite a mandatory purchase requirement.

Congress is now faced with reforming the NFIP to return it to some semblance of self-sufficiency. High on the list of reforms is to make the program actuarially sound by phasing out subsidized rates for most commercial and residential properties. Legislative proposals also include: updating maps of 100-year flood plains; increasing coverage limits; adding business interruption coverage; and establishing a Technical Mapping Advisory Council to ensure flood maps reflect true flood risk.

Controversy over how to accomplish reform has resulted in failure to enact a reauthorization bill. Instead, the program has been operating on several short-term extensions passed by Congress since 2008. The most recent extension will permit the program to write and renew policies through May 31, 2012.

### NMHC/NAA Position

NMHC/NAA support a long-term reauthorization of the NFIP, including reform measures such as increasing limits for multifamily properties, offering optional business interruption coverage and improving the rate mapping process. We also support allowing properties built before their community's flood insurance rate maps were completed, known as pre-FIRM buildings, to continue to obtain coverage at the subsidized rates.

### Current Status

On July 12, 2011, the U.S. House of Representatives passed its version of flood insurance reform (H.R. 1309, the National Flood Insurance Reform Act of 2011) by a vote of 406 to 22. Sponsored by Representative Judy Biggert (R-IL) and supported by NMHC/NAA, the bill makes several reforms to improve the financial integrity and stability of the program.

Of key importance to the apartment industry, the bill extends the program for five years, through September 30, 2016. The measure phases out subsidized rates and phases in actuarial rates for several property categories, including second houses, vacation houses, commercial properties, repetitive-loss properties and those with lapsed policies. More important, apartment properties, which serve as the primary residences of millions of Americans, are not identified among those proposed to lose the subsidized rate. Other provisions include increased coverage limits tied to inflation; the addition of business interruption coverage; and provisions to improve the accuracy of rate maps.

The Senate passed its version of a bill (S. 1940), introduced by Senator Tim Johnson (D-SD), out of committee in December 2011. The bill, which largely contains similar provisions to the House bill, now awaits floor consideration. NMHC/NAA is currently engaged in a multi-industry coalition effort to move the Senate bill to the floor for a vote, moving this reform bill one step closer to the finish line.

## **Relevant Committees**

House Committee on Financial Services

Senate Committee on Banking, Housing, and Urban Affairs

## **NMHC/NAA Contact**

**Jeanne McGlynn Delgado**

**Vice President of Business and Risk Management Policy**

**NMHC/NAA Joint Legislative Program**

**202/974-2344**

**[jdelgado@nmhc.org](mailto:jdelgado@nmhc.org)**

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