

STATEMENT FOR THE RECORD
THE HONORABLE ADAM H. PUTNAM
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
Legislative Proposals to Reform the National Flood Insurance Program
APRIL 21, 2010

Not since 2004, has Congress reformed and passed a long-term reauthorization of the National Flood Insurance Program (NFIP). In fact, since 2008, the NFIP has been temporarily extended five times.

Over the past several years, the NFIP has continually been placed on the Government Accountability Office (GAO) "high-risk" list of government programs, due to its vulnerabilities to fraud, waste, abuse, and mismanagement. Specifically, NFIP's existing debt of more than \$18 billion from Hurricanes Katrina, Rita, and Wilma in 2005, continue to raise great concern. Due to lack of reform and financial stability, this is a debt that the NFIP is in no position to repay.

Florida is the seventh largest state in terms of flood insurance claims and according to the National Weather Service, more than one-third of the country is in danger of flooding this time of year. Given that the NFIP is already the largest single-line property insurer in the nation, providing coverage for more than five million properties, it is my hope that Congress acts to modernize and reform this Program, not grossly expand it, further exposing taxpayers to greater risk and placing the Program in greater peril.

As we continue to review proposals to reform the NFIP, it is important to note that both the non-partisan GAO and the non-partisan Congressional Research Service (CRS) have put forth policy opportunities to address the current financial and management challenges of the NFIP that are important to consider as Congress aims to reform the Program.

In a report (GAO-08-504) that analyzed the effects of combining federal flood insurance with a wind insurance program, the GAO found, among other concerns, that combining flood insurance with wind insurance would create immense challenges for the Federal Emergency Management Agency (FEMA). The report also stated that FEMA would need to overcome its solvency issues, management and oversight challenges, and ensure appropriate staff and procedures are in place prior to governing any expansion of the NFIP.

Further, CRS has suggested reforms that include a gradual phase in of actuarial rates, issuing long-term flood insurance contracts (LTFI) coupled with mitigation loans to encourage investment in risk-reduction measures, and shifting flood insurance back into the private sector.

NFIP faces a series of financial and management challenges. The future success of the NFIP will hinder on reform that includes comprehensive policies that help stabilize the long-term finances of this program, not reform that includes multiple peril insurance, further exposing a troubled Program to greater debt and risk.

I would also like to submit two letters for the record sent to Chairman Frank during the 110th Congress, highlighting concerns that Congressman Brown-Waite, Congressman Feeney and I shared regarding the inclusion of multiple peril insurance and the need to reform the NFIP, not expand it.

Congress of the United States
Washington, DC 20515

July 18, 2007

The Honorable Barney Frank
Chairman, Committee on Financial Services
US House of Representatives
2129 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Frank:

We appreciate Congressman Gene Taylor's attempt to help all of those affected by nature's wrath. No one in this House wants to be as unprepared as we were for Hurricane Katrina, and as Members of the Florida delegation we recognize changes must be made in how business and homeowners are insured.

However, we have grave concerns over the haste in which the Majority is moving H.R. 920, the Multiple Peril Insurance Act. This committee has been attempting to reform the National Flood Insurance Program for several years and we still cannot agree on what measures to take. Yet H.R. 920 only received two hearings and is now being incorporated into the flood reauthorization legislation you are drafting, with Committee Members expected to vote on it before August recess. There are too many questions surrounding this measure to move this bill that quickly.

Florida's insurance problems are different from those of Mississippi and other Gulf Coast states. Our constituents have an availability and affordability problem, and our state leaders are having a hard enough problem creating an attractive market for insurers. We remain concerned over how the federal government providing wind coverage would help in those endeavors.

Our biggest concern is that Florida will be further ostracized from the national insurance market under this bill. The supporting documents provided to the committee claim that only coastal communities would have an incentive to purchase the wind and flood policy provided under H.R. 920. Drafting legislation to benefit only coastal communities does not reduce costs to policyholders. Considering the State of Florida as a whole could be considered a coastal community, this type of policy would further remove our constituents from the national insurance pool.

Moreover, we have serious concerns that H.R. 920 unfairly and inadvertently penalizes those who do not purchase a wind and flood policy from the federal government. H.R. 920 allows home and business owners to purchase wind policies only if they purchase a flood policy. Those who do not need a flood policy will either be left to the private market, and thus a smaller insurance pool with higher rates, or will be forced to purchase coverage from the federal government they do not need.

Additionally, while we appreciate that H.R. 920 requires rates to be risk-based, this causes unique problems for our constituents. Florida's sound, actuarial rates are exorbitant and have been since 2004. For this reason, the insurer of last resort, Citizen's Insurance, has absorbed the majority of Floridians, and has become one of the largest insurers in the nation. Citizen's Insurance, holding the majority of the state's risk, has had to

subsidize rates by purchasing more reinsurance and borrowing up to \$10 billion because Floridians cannot afford the actual cost of property and casualty insurance. Therefore, we have no reason to believe that Floridians would be able to afford a policy under H.R. 920.

Finally, we are concerned over the ramifications of this bill for all Americans. The Federal Emergency Management Administration and the NFIP are wrought with inefficiencies and controversy. The NFIP is almost \$20 billion in debt, and pays \$900 million per year in interest on that debt. In 2004, FEMA took up to six months to pay a claim; then in 2005, they over compensated and paid over \$1 billion in wasteful, fraudulent claims. The flood maps for the NFIP are so outdated, millions of homeowners should probably be purchasing flood insurance, but they are ill advised. This was one of the biggest lessons learned in the wake of Hurricane Katrina. Members have no assurances that the same antiquated system will not prevail for wind policies under this bill. Therefore, while we appreciate that the some of the "wind vs. flood argument" may be quelled under H.R. 920, we are not confident policyholders will be better served.

Neither GAO nor CRS have provided the committee any studies on this issue; nor does industry evidence or even anecdotal evidence exist to suggest that the program under H.R. 920 would provide a better solution to Americans. Only hypothesis and suppositions are provided in the supporting documents to the committee on H.R. 920. Members have had less than six months to vet this bill with the industry, with our state regulators, and most importantly, with our constituents. We simply need more time before we are expected to make a decision on this bill.

H.R. 920 raises more concerns as opposed to offering a viable solution. Before we move any further, we urge you to allow Members, the experts, and constituents to study this issue further.

Sincerely,


Ginny Brown-Waite
Member of Congress


Tom Feeney
Member of Congress


Adam Putnam
Member of Congress

GBW:aw

CC: The Honorable Maxine Waters
The Honorable Spencer Bachus
The Honorable Judy Biggert
The Honorable Gene Taylor

Congress of the United States
Washington, DC 20515

June 9, 2008

The Honorable Barney Frank
Chairman, Committee on Financial Services
United States House of Representatives
2129 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Frank:

It is our understanding that you will soon request that Speaker Pelosi appoint conferees to work out the differences between the House and Senate passed versions of H.R. 3121, the Flood Insurance Reform and Modernization Act.

As we have previously shared, we have serious concerns regarding the inclusion of multiple peril insurance in the House passed version of H.R. 3121. The implications that multiple peril insurance would have on the State of Florida are critical and we request your careful consideration that it not be included in the Conference Report for H.R. 3121.

As you know, the nonpartisan Government Accountability Office (GAO) recently published a report (GAO-08-504) analyzing the effects of combining federal flood insurance with a wind insurance program. The report found, among other concerns, that combining flood insurance and wind insurance would create vast challenges for the Federal Emergency Management Agency (FEMA).

Specifically, the report cited "FEMA would need to determine wind hazard prevention standards that communities would have to adopt in order to receive coverage," as well as "adapt existing programs to accommodate wind coverage." In addition, because the process for setting flood insurance rates is different for setting wind coverage, "FEMA would need to create a new rate-setting process." FEMA would also need to overcome its solvency issues, management and oversight challenges, and ensure the appropriate staff and procedures are in place prior to governing any expansion of the National Flood Insurance Program (NFIP).

Further, the GAO maintains the NFIP's presence on its list of 2008 government programs and operations at "high risk." The program also remains in debt to the Treasury having borrowed over \$17 billion to pay for events of 2005. Congress owes a duty to our constituencies to not expand this program, but to initiate the reforms that are necessary to ensure its stability and ability to effectively provide flood insurance to those that need it most.

The private market already offers wind insurance and some states even have wind pools. Adding wind coverage could make the NFIP one of the world's largest underwriters and, as a high risk program, would most likely need reinsurance. We believe this is too much uncertainty to be asking policy holders and taxpayers to subsidize.

Chairman Barney Frank
June 9, 2008
Page 2

Moreover, as we described in a letter sent to you last July, multiple peril insurance would unfairly penalize Floridian's that select to not purchase both a flood and wind policy from a federal government program. The letter stated that, "Those who do not need a flood policy will either be left to the private market, and thus a smaller insurance pool with higher rates, or will be forced to purchase coverage from the federal government they do not need."

During the 109th Congress the House overwhelmingly supported H.R. 4973, legislation that would reform the NFIP and that passed by a bipartisan vote of 416-4. While we support the reform of our nation's flood insurance program, we caution the serious threat posed to taxpayers through expanding the NFIP to include a wind insurance program that would dually compromise the existing program and increase its risk.

If Congress truly wants to help consumers and guarantee they receive the coverage they deserve, then we should pass legislation that would provide them with the catastrophic backstop they need without reducing consumers' insurance options and exposing the taxpayers to greater financial risk.

Sincerely,


Ginny Brown-Waite
Member of Congress


Tom Feeney
Member of Congress


Adam H. Putnam
Member of Congress

AHP:brm

Enclosure

cc: The Honorable Spencer Bachus