Budget Point of Order to S. 2284 – The Flood Insurance Reform and Modernization Act of 2007

While the Senate Banking Committee and Congress has addressed a number of very serious concerns with the current National Flood Insurance Program (NFIP) through this legislation, ultimately this bill fails one of our most basic responsibilities by passing on billions in debt to the next generations of Americans.

By canceling nearly $30 billion in debt and interest payments owed to the Treasury as a result of program borrowing, Congress is refusing to sacrifice in the short term, for the long term gain of our children and grandchildren.

To put into context the extraordinary amount of debt owed to the American taxpayer, the more than $17.5 billion in primary debt this bill forgives is more than one third the amount of the total budget for the Department of Homeland Security as requested by the President for FY 2009. If one takes into account CBO's estimate of $9.5 billion in interest payments and the expected $3 billion still owed as a result of Katrina and Rita, the amount forgiven with this bill is more than half of the entire DHS appropriations bill.

$30 billion in debt – divided by our entire population, that's about $100 per person.

Congress owes it to current and future taxpayers to find ways to pay for this gigantic amount owed to the General Treasury.

By simply passing this debt on to future generations of Americans Congress is excusing poor performance by NFIP and wasting an opportunity to demonstrate to taxpayers the ability to prioritize federal spending to ensure that this full amount is offset.

The National Flood Insurance Program is not actuarially sound.

The NFIP does not operate on the traditional insurance definition of fiscal solvency. Under current law, premiums on grandfathered structures must be "reasonable" and are subsidized.

The subsidy is provided by charging premium rates discounted from full actuarial rates. In order to make up the subsidized premium shortfall, NFIP has established a rating methodology consisting of a target level of premium income for the program as a whole that is at least sufficient to cover expenses and losses relative to what FEMA calls the "average historical loss year."

In the event that premium and investment income are inadequate in a given year, the NFIP can exercise its statutory authority to borrow up to $1.5 billion from the U.S. Treasury to cover losses (raised to $20 billion after Katrina).

According to the Senate Banking Committee: “The NFIP has grown significantly over its history from 1 million policyholders and $50 billion of risk exposure to over 5.4 million policyholders with in excess of $1 trillion of risk exposure.” Yet, it only brings in an estimated $2.6 billion in premiums each year.

Despite earlier claims of program soundness, the program has routinely operated in the red. According to CRS, “operating losses occurred annually between 1972 and 1980 and in the years 1983, 1984, 1989, 1990, 1992, 1993, 1995, 1996, 2004, and 2005.[1]

Furthermore, since 1981, the program has been forced to borrow from Treasury (taxpayers) on at least 15 separate occasions.[2] In effect, taxpayers have become the reinsurer for NFIP.

Under the proposed legislation, “actuarially sound” is not defined.

By real world standards, the NFIP is bankrupt.

The program is over $17.5 billion in debt, with further Katrina-Rita related payments expected to push that number to over $20 billion. It will owe the public Treasury an estimated $9.7 billion in related

[1] http://www.congress.gov/erp/rs/pdf/RS22394.pdf
[2] http://www.congress.gov/erp/rs/pdf/RS22394.pdf

interest payments. Again, the program brings in about $2.5 billion in annual premiums.

<u>The National Flood Insurance Program (NFIP) is failing to meet its original mandate.</u>

According to the Congressional Research Service, "Through enactment of the National Flood Insurance Act, Congress established a comprehensive risk management program to: (1) reduce suffering and economic losses due to floods through the purchase of flood insurance; (2) promote state and local land-use controls to guide development away from flood-prone areas; and (3) reduce federal expenditures for disaster assistance and flood control."[3]

Today, more Americans than ever live in flood prone regions – driving up individual risk and stress on the flood insurance program. "Some 153 million people live in coastal counties, an increase of 33 million since 1980. An additional 12 million are expected in the next decade."[4] Risk exposure, just for NFIP properties, now exceeds $1 trillion.

It is estimated that $6.9 trillion of the estimated $19 trillion of insured (general insurance) coastal properties are vulnerable to hurricane risk.

Homeowners living in high risks areas do not have to purchase flood insurance in order to receive disaster assistance related to flood events.

Furthermore, homeowners can refuse NFIP flood risk mitigation offers, and still qualify for federal assistance later when the home is impacted by flooding events.

Compounding this problem, the program provides generous subsidies to expensive coastal properties. In other words, the program is actually incentivizing bad unsustainable practices, and increasing

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[3] http://www.congress.gov/erp/rl/pdf/RL34367.pdf

[4] http://www.livescience.com/environment/ap_050301_coastal_pop.html (Associated Press- March 1, 2005

economic losses and federal expenditures. Rather than reducing risks, the program has encouraged riskier homeowner behavior and greater exposure for taxpayers.

NFIP Fails to Effectively Administer Insurance Policies Through the Write Your Own (WYO) Policy Program.

Under this initiative, NFIP allows private insurers to offer flood insurance as part of its multi-peril insurance offerings. Over 95 percent of all policies are written by WYO participants.

While the WYO insurers provide a valuable service, current reimbursement structure lacks accountability or cost containment.

According to the committee report: "88 private insurance companies participate in the WYO program, and they are paid an administrative fee of over 30 percent of all premiums collected, as well as 3.3 percent of any claims paid, and additional fees for adjusting claims, and writing additional policies. The formula for devising the fees paid to WYO companies is based on the administrative costs in other insurance lines, not on actual costs of administering this program."

In non-catastrophic years, the WYO participants are capturing an estimated one-third of all premium dollars. In the aftermath of Katrina and Rita, that percentage grew to two-thirds of all premiums.

While WYO participants offer a great service, and are a necessary part of this program, how is the current reimbursement structure a good deal for taxpayers?

While Senators Dodd and Shelby Have incorporated many needed reforms in their bill, Many Problems Remain

The committee bill initiates a process that will eliminate many of the subsidies for properties that existed prior to modern flood mapping.

Additionally, the bill also establishes a reserve fund, and as it becomes fully operational, should help with catastrophic coverage.

The bill, however, fails in three major areas:

- The bill fails to pay for an estimated $30 billion in lost revenue to the federal treasury. While nearly everyone agrees that NFIP is incapable of paying back its debt, the failures of federal flood insurance and Congress should not automatically be borne by taxpayers. Congress should find a way to pay for its failures without socking taxpayer wallets.

- The bill fails to reform the NFIP to allow for outside investment. Rather than giving the program broad authority to cover its losses by borrowing from Treasury, Congress should be exploring other options including the ability of the program to purchase reinsurance from the private capital markets.

- Finally, the bill fails to restore immediate discipline and accountability within the Write Your Own (WYO) program. WYO participants bear none of the risk (that is left to ratepayers and taxpayers), but enjoy extraordinary benefit. WYO insurers provide valuable service, but the current arrangement is not cost competitive. Congress must explore the possibility of competitively bidding WYO contracts.

Conclusion on the Future of NFIP

Hurricanes Katrina and Rita exposed fundamental weaknesses in the federal flood insurance program. For much of its history, the program enjoyed historically low hurricane seasons. That will not always be the case. Congress has a rare opportunity to fix this program for the long term, and to do so without increasing taxpayer liabilities.

At the very least, Congress must find a way to offset the billions in dollars in debt that is being forgiven through this bill.

Changing Wasteful Practices Within DHS Alone Could Offset Billions

In DHS alone, billions have been wasted over the past three years on responding to natural disasters like Hurricane Katrina, awarding Homeland Security grants for trips to Las Vegas, NV, and executive leather chairs, and contracting out billions of dollars without any competition.

Through hearings held by the Homeland Security Subcommittee on Financial Management, we have been able to identify billions of dollars brought about by wasteful DHS practices.

Katrina Waste

While thousands of Katrina victims continue to live in trailers more than two and a half years after their homes were destroyed, DHS' Federal Emergency Management Agency has wasted as much as **$1.4 billion** through its Individuals and Households Program (IHP). A GAO report in 2006 found that this waste in improper and potentially fraudulent payments was due to invalid registration data. Wasting these critical funds meant to provide temporary housing units and grant funding for temporary housing and other disaster-related needs to eligible individuals affected by disasters is inexcusable. Duplicate payments were also made and debit cards with a $2,000 spending amount given to disaster victims were used to purchase a $200 bottle of Dom Perignon champagne at a San Antonio Hooters restaurant, divorces, a sex change operation, luxury handbags, a Caribbean vacation, professional football tickets, and adult entertainment.

Additionally, federal tax breaks designed to spur rebuilding flowed hundreds of miles inland to investors who are buying up luxury condos. "About 10 condominium projects are going up in and around Tuscaloosa, and builders are asking up to $1 million for units with granite countertops, king-size bathtubs and 'Bama decor, including crimson couches and Bear Bryant wall art."[5] Tuscaloosa is 200 miles

[5] Jay Reeves, "Katrina aid goes toward football condos," *Associated Press* (August 13, 2007) <http://www.boston.com/news/education/higher/articles/2007/08/13/katrina_aid_goes_toward_football_condos/> (accessed 04 December 2007)

from the coast and only received heavy rain and scattered wind damage from Hurricane Katrina.

A 2006 New York Times article also highlighted other examples of waste and fraud such as:

- A hotel owner in Sugar Land, Tex., submitting $232,000 in bills for phantom victims.
- Roughly 1,100 prison inmates across the Gulf Coast apparently collected more than $10 million in rental and disaster-relief assistance.
- Half a billion dollars worth of mobile homes still empty, costing taxpayers $250,000 a month in storage costs.
- Renovations for a shelter at a former Alabama Army base that cost about $416,000 per evacuee and had to be shut down.
- Two men, one employee of the Army Corps of Engineers took $100 bribes in exchange for approving phantom loads of hurricane debris from the other man.
- A program set up by the American Red Cross and financed by FEMA that provided free hotel rooms to Hurricane Katrina victims also resulted in extraordinary abuse and waste, because the Red Cross did not keep track of the hundreds of thousands of recipients, the G.A.O. found.
- One individual who had received 26 federal disaster relief payments totaling $139,000, using 13 Social Security numbers, all based on claims of damages for bogus addresses.
- Two FEMA officials took $20,000 in bribes in exchange for inflating the count on the number of meals a contractor was serving disaster workers.

As the article went on to say, “Even in Washington, a city accustomed to government bloat, the numbers are generating amazement… The estimate of up to $2 billion in fraud and waste represents nearly 11 percent of the $19 billion spent by FEMA on Hurricanes Katrina and Rita as of mid-June, or about 6 percent of total money that has been obligated.”

"The blatant fraud, the audacity of the schemes, the scale of the waste — it is just breathtaking," said Senator Susan Collins, Republican of Maine, and chairwoman of the Homeland Security and Governmental Affairs Committee.

"There are tools that are available to get money quickly to individuals and to get disaster relief programs running quickly without seeing so much fraud and waste," said Gregory D. Kutz, managing director of the forensic audits unit at the G.A.O. "But it wasn't really something that FEMA put a high priority on. So it was easy to commit fraud without being detected."

$46 million has also gone to help Katrina victims through counseling through Florida's Project H.O.P.E. (Helping Our People in Emergencies) has been spent on puppet show performances, bingo classes, yoga on the beach, and salsa for seniors programs.

<u>Department of Homeland Security Grants</u>.

Overlap and duplication abounds within FEMA's office of Grants and Training and the multiple grant programs it manages that fund counter-terrorism training for State and local first responders. The Demonstration Training Grant Program, has received **<u>$63.6 million</u> from 2004 to 2007, yet of the 29 grants awarded, not one has resulted in any tangible benefit to the American taxpayer.** Even the Administration did not request funding for the Demonstration Training Program in fiscal years 2007 and 2008. Congress chose to continue funding the program, giving it $30 million in 2007 and $28 million in 2008.

According to a May 27, 2007 Homeland Security Inspector General Audit of State Homeland Security Grants awarded to the American Samoa, there were many examples of waste, fraud and abuse as a result of little scrutiny of homeland security grant dollars, including the following:

- An ASG employee took a jaunt to Las Vegas, NV, on taxpayer dollars, while over $23,000 was spent in travel for three visits by state entity staff to Hawaii for training and workshops;

- $250,000 was spent on an ineligible all-hazards early warning broadcast system the state obtained by illegally "gifting" the funds to NOAA's National Weather service and "receiving" the broadcasting system in return;
- Multiple unallowable administrative charges were made to the DHS grants, including $4,950 for the purchase of two air conditioners, $3,187 in travel costs to Florida to procure fire trucks, $847 for expenses relating to the Emergency Operations Center grand opening ceremony, and $804 for a payment of a delinquent phone bill, and $4,000 spent on executive leather chairs;
- DHS grants were charged for 10 operational, fully outfitted incident response vehicles, but the state entity could ultimately produce only one functionally equipped vehicle, and had used others "as general use vehicles and as storage for personal protective equipment."

There are also currently two identical grant programs in the federal government that fund interoperable communications, with one housed at the Federal Emergency Management Agency within DHS, and the other at the Department of Commerce.

The Interoperable Communications Grant Program operated by FEMA was created in 2007 and authorized to spend **$3.3 billion**, while the Public Safety Interoperable Communications Grant Program at Commerce was created in 2005 and authorized to distribute **$1 billion**. Both programs are identical in every possible way except for their authorized funding levels and the Departments in which they are located. To further highlight the duplication, it should be noted that the Department of Commerce contracted with FEMA to administer its program, meaning both identical programs are being administered by the same agency. Various public safety organizations commented that having two identical programs simply created confusion and wasted resources.

An amendment was filed last year to combine both programs by eliminating the Commerce program and adding it's funding to the FEMA program, but the amendment was voted down by the full Senate.

In another example of waste, the Ohio Association of Chiefs of Police unit was told to halt spending Homeland Security grant dollars after it was found that the association had misspent tens of thousands of grant dollars on services such as lawn care, window washing and pest control. A recent Inspector General report found, "A state agency has ordered the Ohio Association of Chiefs of Police to stop spending homeland-security money while a federal auditor reviews allegations of misspending." This association was awarded $7 million a year in 2004, 2005 and 2006, tripling a budget that had been used to train officers and develop crime-fighting programs. The state Emergency Management Agency found incomplete records and irregularities for each of the three years the unit was awarded funds.

No-Bid Contracts

The Department of Homeland Security's contracting practices continue to be a source of concern. According to a Congressional oversight report by Representatives Henry Waxman and Tom Davis, 32 Homeland Security Department contracts worth a total of **$34 billion** have "experienced significant overcharges, wasteful spending, or mismanagement."

The value of contracts awarded without full competition increased **739 percent** from 2003 to 2005, to $5.5 billion, more than half the $10 billion awarded by the department that year.   By comparison, the agency awarded a total of $3.5 billion in contracts in 2003, the year it was created. FEMA has also had longstanding problems with no-bid contracting despite FEMA Administrator David Paulison's expressing his concerns about the use of no-bid contracts and promises that FEMA would employ non-competitive procedures rarely and only when absolutely necessary. Among the problems cited in the report include an audit of a contract to hire airport screeners uncovered at least $297 million of questionable costs, including luxury hotel rooms and two TSA employees using government purchase cards to buy **$136,000** worth of personal items, including leather briefcases.

Conclusion

Whether it is DHS or other federal agencies, taxpayers are tired of the lack of accountability these agencies have when it comes to being good stewards of taxpayer funds.

While there may not be $17.5 billion in identified waste within DHS, Congress owes it to taxpayers to offset the full amount.

Instead of continually asking current and future taxpayer to make the sacrifices necessary to cover these wasteful and ineffective expenditures, Congress needs to institute reforms that minimize the risk for waste and cut funding from other federal programs to offset spending increases. Regular American families can't go to the government when gas prices rise, but have to make adjustments within their own budget to cover the increased cost of gasoline.

Congress, which has proven to be a wasteful steward of taxpayer money with programs such as the National Flood Insurance Program, should not go to the taxpayer for more funds without seeking to offset the money needed to forgive the huge debt compiled – **especially since NFIP is not actuarially sound.**

This amendment would ensure that Congress not violate Pay-As-You-Go rules and commit to finding offsets to fully pay for the billions Congress wants to forgive.

Amendment #4716 - To require persons located in flood prone areas to hold flood insurance prior to receiving disaster assistance.

This amendment requires FEMA and the Small Business Administration to withhold any federal flood disaster assistance to persons who have not purchased flood insurance that reside in a in a 100-year flood plain zone (meaning that a catastrophic flooding is expected to occur once every hundred years) known as “Special Flood Hazard Areas.”

Owners of properties in these flood prone areas are **already required by law to purchase flood insurance** if they carry a federally-backed mortgage.

This amendment would simply ensure that this law is being enforced and that current and prospective owners of buildings in flood prone areas more fully appreciate the costs of living in these more hazardous areas of our country.

Although Required By Law To Purchase Coverage, Many Do Not

While flood insurance has been mandatory for certain property owners since 1973, this requirement has not been enforced effectively. Numerous studies have found that individuals continue to avoid purchasing flood insurance.

According to CRS,

> “Between 1973 and 1994, many policyholders continued to find it easy to drop policies, even if required by lenders. Federal agency lenders and regulators did not appear to strongly enforce the mandatory flood insurance purchase requirements. The Midwest Flood of 1993 highlighted this problem and reinforced the idea that reforms were needed in order to compel lender compliance with the flood insurance purchase and retention requirements of the 1973 Act. In response, Congress passed the National Flood Insurance Reform Act of1994 (NFIRA) to make adjustments to the mandatory purchase requirements. Under the 1994 law, if the owner failed to get the coverage, lenders were required to purchase flood insurance

> on behalf of the property owners, and then bill the property owner. Lenders became subject to civil monetary penalties for not enforcing the mandatory purchase requirement."[6]

Yet even the 1994 law has not had its intended effect. An August 2000 GAO study of the rate of compliance with NFIP's mandatory purchase requirement and a subsequent FEMA Inspector General report on compliance with the purchase requirement both concluded that lenders were not meeting their obligation under the 1994 act to purchase flood insurance coverage.

<u>Failing to Enforce This Provision Has Encouraged Owners to Disobey This Law and Further Weakened NFIP</u>

Congress created the National Flood Insurance Program to: "(1) reduce suffering and economic losses due to floods through the purchase of flood insurance; (2) promote state and local land-use controls to guide development away from flood-prone areas; and (3) reduce federal expenditures for disaster assistance and flood control."[7]

By continuing to award disaster assistance to those who, though they are mandated by law to purchase flood insurance, do not, Congress is failing to ensure that the third purpose of the 1968 law is fulfilled.

Repetitive loss properties (RLPs) are insurable buildings for which two or more claims of more than $1,000 were paid by NFIP within any rolling ten-year period, since 1978. These RLPs represent **<u>a little over one percent of total flood insurance policies, yet account for 30 percent of total claims on average</u>**.

While more than 50,000 RLPs have flood insurance coverage, more than **<u>61,000</u>** RLPs do **not** have flood insurance coverage. If these properties, which have been identified as the most flood-damaged properties have coverage less than half of the time, what percentage of homes in flood-prone areas not identified as RLPs have coverage?

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[6] Rawle O. King, "Federal Flood Insurance: The Repetitive Loss Problem," Congressional Research Service, June 30, 2005, http://www.congress.gov/erp/rl/pdf/RL32972.pdf

[7] Rawle O. King, "Federal Flood Insurance: The Repetitive Loss Problem," Congressional Research Service, June 30, 2005, http://www.congress.gov/erp/rl/pdf/RL32972.pdf

Congress Will Strengthen NFIP With This Amendment

More Americans than ever live in flood prone regions, driving up risks and stress on the flood insurance program. “Some 153 million people live in coastal counties, an increase of 33 million since 1980. An additional 12 million are expected in the next decade.”[8] Risk exposure, just for NFIP properties, now exceeds $1 trillion.

It is estimated that $6.9 trillion of the estimated $19 trillion of insured (general insurance) coastal properties are vulnerable to hurricane risk.

Ensuring that federal disaster assistance for flooding is tied to flood insurance coverage will reduce federal expenditures for disaster assistance and flood control by requiring homeowners to take more fully into account the costs of living in flood-prone areas.

This amendment would accomplish this goal.

[8] http://www.livescience.com/environment/ap_050301_coastal_pop.html (Associated Press- March 1, 2005

Amendment #4724 - To study alternative approaches to ensure the future of the National Flood Insurance Program by requiring greater efficiency and financial accountability.

This amendment would authorize a two-part study to be completed by GAO within one year that would examine the feasibility of purchasing private reinsurance (means by which an insurance company can protect itself against the risk of losses with other insurance companies).

The first part would examine the feasibility of purchasing private reinsurance in addition to current law regarding reinsurance for the National Flood Insurance Program (42 U.S.C. 4055).

The other study would examine the feasibility of replacing the current federal flood insurance reinsurance system that often results in large borrowing from the Treasury with the ability to purchase private reinsurance.

This study will also estimate the benefit to the taxpayer of either of these approaches to acquiring reinsurance.

<u>By allowing the program to borrow from the Treasury whenever necessary, Under the current system, the Federal Taxpayer is the Ultimate Reinsurer</u>

The current system allows NFIP to use the **<u>taxpayer as the ultimate reinsurer</u>** when claims exceed premiums. NFIP does not have to purchase private reinsurance to insure catastrophic losses will not result in program collapse/default – unlike other private insurance companies.

This does not encourage NFIP to cut costs, properly calculate risks and premium rates, or engage in proper long term planning. In fact, since 1981, NFIP has borrowed from taxpayers on at least 15 separate occasions and will likely continue to do so without significant reform. [9]

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[9] http://www.congress.gov/erp/rs/pdf/RS22394.pdf

<u>The National Flood Insurance Program is not actuarially sound.</u>

This bill would forgive more than $17.5 billion in debt NFIP has amassed – completely at the taxpayers' expense. The actual amount forgiven may actually be close to $30 billion if one takes into account future claims and interest from the amount owed to the general treasury.

Congress is in this situation because we have continued to allow NFIP not to be actuarially sound.

We have continued to subsidize premiums for properties for almost 40 years at an average of 30 percent of the total premium, even though Congress intended these subsidies to be phased out. Many of these properties make up the majority of the 50,000+ repetitive loss properties (RLPs) with flood insurance.

RLPs are insurable buildings for which two or more claims of more than $1,000 were paid by NFIP within any rolling ten-year period, since 1978. These RLPs represent **<u>a little over one percent of total flood insurance policies, yet account for 30 percent of total claims on average</u>**.

The premium structure we currently have does not consider catastrophic years in determining the "average historical loss year" and thus is only actuarially-sound during these average years.

<u>The National Flood Insurance Program (NFIP) is failing to meet its original mandate.</u>

According to the Congressional Research Service, "Through enactment of the National Flood Insurance Act, Congress established a comprehensive risk management program to: (1) reduce suffering and economic losses due to floods through the purchase of flood insurance; (2) promote state and local land-use controls to guide development away from flood-prone areas; and (3) reduce federal expenditures for disaster assistance and flood control."[10]

The general consensus is that the program has failed on all counts to accomplish its goals.

More Americans than ever live in flood prone regions, driving up risks and stress on the flood insurance program. "Some 153 million people live in coastal counties, an increase of 33 million since 1980. An additional 12 million are expected in the next decade."[11] Risk exposure, just for NFIP properties, now exceeds $1 trillion.

It is estimated that $6.9 trillion of the estimated $19 trillion of insured (general insurance) coastal properties are vulnerable to hurricane risk.

Homeowners living in high risks areas do not have to purchase flood insurance in order to receive disaster assistance related to flood events.

Furthermore, homeowners can refuse NFIP flood risk mitigation offers, and still qualify for federal assistance later when the home is impacted by flooding events.

Compounding this problem, the program provides generous subsidies to expensive coastal properties. In other words, the program is actually incentivizing bad unsustainable practices, and increasing economic losses and federal expenditures. Rather than reducing risks, the program actively encourages greater risks and greater exposure for taxpayers.

The Long-Term Viability of NFIP Depends on Its Ability to Be Self-Sustainable

According to the Senate Banking Committee: "The NFIP has grown significantly over its history from 1 million policyholders and $50 billion of risk exposure to over 5.4 million policyholders with in excess

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[10] http://www.congress.gov/erp/rl/pdf/RL34367.pdf
[11] http://www.livescience.com/environment/ap_050301_coastal_pop.html (Associated Press- March 1, 2005

of $1 trillion of risk exposure." Yet, it only brings in an estimated $2.6 billion in premiums each year.

$1 trillion in risk exposure to the American taxpayer with only $2.6 billion in collected premiums each year.

If one subtracts one third of the collected amount for the administrative costs paid to private insurance companies administering flood insurance policies, the taxpayer finds himself covering $577 dollars of risk with every one dollar collected in claims after administration costs.

While this legislation does include a number of provisions that will improve NFIP, it does not require NFIP to be "actuarially sound" and does not attempt to define the term. Forcing NFIP to be accountable to private reinsurers in some capacity may help taxpayers avoid at least some of the incredible exposure they currently have and encourage NFIP to adopt sustainable business practices.

Such practices are critically necessary if Congress wants to avoid this same scenario when the next natural disaster strikes and causes extensive flood damage in the next several years.

Amendment #4725 – To deny premium subsidies to homeowners who refuse to accept an offer of Federal assistance to alter or relocate their property in an effort to minimize future flood damages and costs.

The 50,000+ repetitive loss properties (RLPs) with flood insurance signify **a little over one percent of total flood insurance policies, yet account for 30 percent of total claims on average**. RLPs are insurable buildings for which two or more claims of more than $1,000 were paid by NFIP within any rolling ten-year period, since 1978. Most of these RLPs are older, generally less-safe properties that were "grandfathered" into the National Flood Insurance Program (NFIP) when the program was created and have been repaired multiple times with subsidized flood insurance claim payments. Of these RLPs, 11,706 are severe RLPs – SRLPs – and have had four or more losses or two or three losses that cumulatively exceeded the value of the building.

Most of RLPs continue to be subsidized with premiums that are on average only 30% of normal premiums. When NFIP was created, policymakers did not want to unfairly penalize homeowners who had unknowingly built or bought their home in a flood prone area and thus required that these owners would not have to pay the full premium rate. However, the idea was that over time these subsidies would be phased out and that these properties would decrease in number – neither has happened.

Current law requires that these properties only have to comply with current construction and building code standards if “substantial” (50% or more of the total home value) damages or improvements occur to the house. These properties have been repaired numerous times and continue drain taxpayer funds - many have been repaired at original elevations and continue to be classified as properties eligible for subsidized insurance. According to FEMA, a disproportionate share of NFIP claims are for RLPs that suffer less the 50% damages and, therefore, are not required to be rebuilt to appropriate floodplain management standards designed to reduce future losses.

A September 1999 FEMA Inspector General audit also noted that many communities participating in the NFIP did not enforce substantial damage rules, with the result that subsidized rates were being inappropriately provided to structures that should have no longer qualified for these subsidies.

NFIP can also offer to mitigate or relocate properties such as these, but homeowners can continue to choose to decline these offers and purchase subsidized insurance rates.

While this bill makes a number of good improvements to address this issue of RLPs, this amendment would further ensure that taxpayers do not continue to subsidize rates for properties that have received generous federal offers of mitigation or relocation. Should property owners decline these offers, they will no longer receive subsidized rates for their flood insurance coverage.

Amendment #4726 - To ensure that all premium subsidies for nonresidential properties are phased out.

This amendment simply seeks to ensure that what the underlying bill attempts to do in Section 6 actually occurs – that properties that are not primary residences cease to be eligible for subsidize premiums. While the bill is clear on what properties will no longer be eligible for subsidized premiums, it is not clear on what properties will continue to qualify for these subsidies.

The amendment allows for an annual phase out of these subsidies of 25 percent.