

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 of 1994 (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.”¹

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.

Failing to Enforce This Provision Has Encouraged Owners to Disobey This Law and Further Weakened NFIP

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.”²

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 **a little over one percent of total flood insurance policies, yet account for 30 percent of total claims on average.**

While more than 50,000 RLPs have flood insurance coverage, more than **61,000** 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?

¹ 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>

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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.”³ 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.

³ http://www.livescience.com/environment/ap_050301_coastal_pop.html (Associated Press- March 1, 2005)