

## SENATE BANKING COMMITTEE CONSIDERS NFIP REFORMS

### EXECUTIVE SUMMARY

On January 25, the Senate Banking Committee held a [hearing](#) entitled “Reauthorization of the National Flood Insurance Program: Local Perspectives on Challenges and Solutions.” This discussion was the latest in a series of Banking Committee hearings to develop legislation to reauthorize and reform the National Flood Insurance Program (NFIP), which provides flood insurance coverage for residential and commercial properties and works with communities required to adopt and enforce floodplain management regulations.

The senators and witnesses contemplated the current status of the NFIP — which has experienced 28 short-term reauthorizations since the last comprehensive reauthorization law was enacted in 2017 and owes significant debt to the U.S. Treasury — and proposed changes that could improve the program. Witnesses offered policy solutions such as: (1) establishing a means-tested assistance program to increase NFIP affordability; (2) revising the [Risk Rating 2.0](#) pricing methodology; and (3) lowering the cap on annual premium increases from 18 percent to 9 percent. Other topics discussed during the hearing included state and local governments developing their own risk mitigation plans and incentive programs, as well as federal efforts to aggregate private insurers’ data on climate risk for various insurance markets nationwide.

### OPENING STATEMENTS

**Chair Sherrod Brown (D-OH)** ([statement](#)) emphasized the growing flood risks to residential and commercial properties across the U.S. — both in regions that have historically contained floodplains as well as areas without previous flooding. The Chair expressed support for increased funding for risk mitigation programs through the NFIP and other federal offices that could prevent flooding damage. Chair Brown also discussed [proposals](#) to reform the NFIP that the Federal Emergency Management Agency (FEMA) submitted to Congress in April 2023 — including providing means-tested assistance to low-income families and requesting the Treasury to forgive the program’s \$20 billion debt accrued through paid insurance claims. He welcomed greater engagement with state and local government entities to develop additional legislative reforms.

**Ranking Member Tim Scott (R-SC)** ([statement](#)) stated that proposals for NFIP reforms should emerge from local governments directly facing flood risks rather than from federal agencies. In particular, the Ranking Member acknowledged the need for communities that have been repeatedly damaged by floods to adopt risk mitigating infrastructure. He also discussed his proposed Repeatedly Flooded Communities Preparation Act ([S.1417](#)), which would require communities that participate

in the NFIP and have been repeatedly flooded to: (1) assess the continuing risks to community areas repeatedly damaged by floods; and (2) develop and implement a publicly available, community-specific plan for mitigating continuing flood risks to such areas. Ranking Member Scott reiterated that community-driven planning and better flood mapping data could prevent future financial losses for the NFIP. The Ranking Member concluded by urging Congress to further extend the program's authorization to prevent potential lapses in flood insurance coverage.

**Sen. Bill Cassidy (R-LA)** expressed concerns that Risk Rating 2.0 has contributed to significant increases in NFIP policy premiums.

### **WITNESS TESTIMONY**

**Mr. Michael Hecht** ([testimony](#)), President & CEO of Greater New Orleans, Inc., acknowledged the debt that the program currently faces but also spoke positively regarding the NFIP's flood mapping and flood risk information initiatives, which helps save communities and the program financially through flood losses avoided. Mr. Hecht criticized the "sharp" increases in premium costs associated with Risk Rating 2.0 and warned that businesses and households may drop their flood insurance coverage if premiums remain high. He proposed several potential reforms to incorporate in NFIP reauthorization legislation, including: (1) lowering the cap on annual premium increases from 18 percent to 9 percent; (2) enacting a means-tested assistance program with housing burden as a targeting factor; (3) reviewing the Risk Rating 2.0 methodology; and (4) forgiving the NFIP's debt or temporarily freezing interest payments.

**Dr. Daniel Kaniewski** ([testimony](#)), Managing Director, Public Sector, at Marsh McLennan, articulated the need for collaboration between the federal, state, and local levels of government to promote and implement flood resilience initiatives. At the federal level, he proposed reforming the NFIP and strengthening existing federal hazard mitigation incentive programs such as the Community Rating System ([CRS](#)) as well as expanding the private flood insurance market. Dr. Kaniewski also described state and local policies that could support flood risk mitigation, including statewide risk reduction plans, local building code reforms, and a new community-based catastrophe insurance ([CBCI](#)) model which could allow local government entities to purchase coverage for groups of properties in a region rather than maintaining the current system of various individual policyholders covering their respective properties.

**The Honorable Steve Patterson** ([testimony](#)), Mayor of the City of Athens, Ohio, stated the benefits of the NFIP's various functions, including its reliable payment of insurance claims as well as its flood mapping program, and expressed support for reforms that will maintain the program into the future. He also noted federal hazard mitigation programs such as Building Resilient Infrastructure and Communities ([BRIC](#)) and Flood Mitigation Assistance ([FMA](#)) grants, which incentivize local investments in climate resilient infrastructure, and urged Congress to increase federal funding for these programs. Mayor Patterson also voiced concerns with local governments' difficulties in securing and using recovery funds through the Community Development Block Grant Disaster

Recovery ([CDBG-DR](#)) program and highlighted the Reforming Disaster Recovery Act ([S.1686](#)), proposed legislation which would streamline the application process for the program.

## DISCUSSION AND QUESTIONS

### NFIP Reforms

- **Sen. John Kennedy (R-LA)** discussed his concerns with the Risk Rating 2.0 methodology and proposed reforming the NFIP to make premiums more affordable.
- **Sen. Jon Tester (D-MT)** asked the witnesses for the most important reforms to include in long-term NFIP reauthorization legislation. Mr. Hecht commented that policies to increase the affordability of premiums and additional funding for hazard mitigation grants would benefit the program. Dr. Kaniewski agreed that stronger hazard mitigation incentives would support current and future owners of property in flood-prone areas. Mayor Patterson emphasized that means-tested affordability policies and reforms to disaster recovery funding should be incorporated.
- Sen. Tester questioned how the NFIP could become financially solvent in the future. Mr. Hecht explained that large-scale adoption of flood resilient infrastructure could reduce flood risk and, ultimately, reduce the amount of NFIP funds spent on insurance claims.
- Ranking Member Scott and Dr. Kaniewski discussed the necessity of the NFIP's work in educating property owners on their flood risk, with Ranking Member Scott noting the increasing frequency of damaging flooding in inland areas that have not previously experienced it.
- **Sen. Bob Menendez (D-NJ)** echoed Sen. Kennedy's warnings of increasing premium costs following the introduction of Risk Rating 2.0. Mr. Hecht and Mayor Patterson agreed that higher costs may deter current NFIP policyholders from retaining their coverage.
- Sen. Menendez also discussed his National Flood Insurance Program Reauthorization and Reform Act ([S.2142](#)), a proposed long-term reauthorization bill which would include the lower annual premium increase cap of nine percent as well as a pilot program for means-tested affordability vouchers.
- In response to a question from Chair Brown on the NFIP's debt, Mr. Hecht expressed support for the Treasury to forgive the debt so that planned interest payments could be directed toward increased investments in risk mitigation programs.
- **Sen. Catherine Cortez Masto (D-NV)** questioned whether reauthorization legislation should include a FEMA proposal to differentiate between coastal and inland communities when determining premium rates. Mr. Hecht expressed support for this policy change.
- Sen. Cortez Masto and Dr. Kaniewski agreed on the necessity of the NFIP incorporating wildfire damage to trees in future flood maps due to these affected regions' increased flood risk.

### State and Local Flood Resilience

- **Sen. Katie Britt (R-AL)** inquired about best practices for state and local flood resilience efforts. Mr. Hecht and Dr. Kaniewski expressed support for state governments enacting

statewide flood risk mitigation plans and developing state-specific mitigation incentives. Mayor Patterson added that smaller communities do not typically have the financial capacity to independently fund resilient infrastructure projects without state or federal support

- Chair Brown spoke about his Neighborhood Tree Act ([S.1380](#)), which would direct the Department of Agriculture (USDA) to establish a Neighborhood Tree Fund to provide federal funding to communities to plant and maintain tree canopies. The Chair and Mayor Patterson discussed the benefits of additional trees in smaller communities, both for reducing standing water levels and for broader climate impacts such as decarbonization.

#### Other Issues

- Sen. Britt also expressed concerns that the federal government is attempting to supersede the authority of state insurance regulators and described her proposed Insurance Data Protection Act ([S.3349](#)), which would prohibit the Federal Insurance Office (FIO) of the U.S. Treasury and other financial regulators from collecting data directly from insurance companies.
- **Sen. Elizabeth Warren (D-MA)** raised concerns around the impacts of flood risk — and climate change more broadly — on the cost and availability of insurance as NFIP premiums increase and private insurers withdraw from serving riskier markets. She further discussed the potential benefits to property owners of FIO's [plan](#) to solicit climate risk data from private insurers. Mr. Hecht echoed Sen. Warren's support for the FIO climate risk report.
- Sen. Cortez Masto asked Mayor Patterson how local governments could encourage the development of affordable housing as insurance premiums increase. He responded that local tax credits and federal funding through the Low-Income Housing Tax Credit ([LIHTC](#)) program are beneficial to developers but added that more incentives are still needed.