

Reauthorization of the National Flood Insurance Program: Administration Perspectives
Senate Committee on Banking, Housing, and Urban Affairs
June 23, 2022

Opening Statements

Chairman Brown (D-OH) stated that flooding was one of the most costly and common disasters facing people. He pointed to the historic flooding in Yellowstone as well as flash flooding in West Virginia. Brown said that FEMA personnel are already preparing for the hurricane season. He said that we need to make our communities more resilient to flooding and NFIP is critical to that effort. Brown said that NFIP is not just insurance, but also mitigation and mapping. He noted that the IJA presents opportunities for homeowners to stay out of harm's way, but there is still more to do. Brown noted the hearing last week and how they learned about the importance of better risk mitigation and state and local floodplain management. He pointed to how FEMA had a package of legislative proposals for consideration. Brown noted Risk Rating 2.0 (RR 2.0) and how it is meant to help with floodplain management and mitigation. He thought that they could come together in a bipartisan manner on this.

Ranking Member Toomey (R-PA) stated that the last long-term reauthorization of the flood insurance program was in 2012. Toomey pointed to significant debt from the program and how it is a broken program. He said that the subsidies are badly designed and that it is mostly the fault of Congress, not FEMA. Toomey thought that RR 2.0 produced more equitable rates that better priced risk. He wanted to eliminate barriers to private flood insurance and said that we should move to actuarial sound premiums. Toomey thought that subsidies should be better targeted if they persist. He added that communication should be improved so homeowners and homebuyers know their properties' flood risk. Toomey then discussed the issue of repetitive loss properties and how it is unfair that taxpayers are covering this. He also noted the issue of policyholders being locked into their NFIP policies. Toomey emphasized that this program must be financially stable, and he looked forward to discussing the reauthorization proposals.

Witness Testimony

David Maurstad, *Associate Administrator for Resilience (Acting), Federal Emergency Management Agency*, testified in support of a legislative package of 17 items. He pointed to the increased number of disasters and how the program requires reauthorization. Maurstad said that a 10-year reauthorization with reforms is imperative. He pointed to how NFIP offers subsidies, but they do not take into account policyholders' financial needs. Maurstad emphasized the importance of communicating a property's true flood risk. He said homebuyers and renters may lack awareness of flood risk and there should be minimum flood reporting requirements before these transactions close. Maurstad went on that repetitive loss properties also need to be

addressed when the NFIP is reformed. He then pointed to the need to establish a sound and transparent financial framework for NFIP.

See Testimony Appendix on NFIP Legislative Proposals [here](#).

Member Questions

Chairman Brown (D-OH) said that they heard last week that low-income homeowners face barriers to participating in the flood mitigation program and he asked if they would work with them to address these barriers. Maurstad said that they would. Brown then asked if he would provide additional technical assistance to rural communities so they can take advantage of mitigation programs to improve resilience. Maurstad said yes. Brown asked him to estimate what it would cost to insure repetitive loss properties. Maurstad said it would fluctuate due to inflation, and flood mitigation, but it would take around \$18 billion. Brown turned to the means tested affordability program and asked him to talk about the benefits of this program in helping people to maintain insurance. Maurstad said that, in high-risk areas, many low to moderate income (LMI) policyholders do not have the protections that they need so we need to close this gap and the means tested program targets those who need it the most. Brown then turned to NFIP debt cancellation and asked Maurstad to talk about the effect of the debt and interest payments on the program and why he is proposing to cancel the debt. Maurstad said it is the third largest expense of the program and it is unconscionable that they are using policyholder payments to pay off the debt from other disasters. He said that if nothing is done, there is a less than 5% chance that there will be a positive number in the National Flood Insurance Fund, but there is a 75% chance if they cancel the debt and make reforms. Brown said that we could not do a reasonable 10-year reauthorization without debt cancellation. Maurstad did not think so.

Ranking Member Toomey (R-PA) thought it would be irresponsible to cancel debt without making fundamental reforms to what caused this debt. He turned to the means tested subsidy and said that any kind of means tested subsidy has the unavoidable consequences of creating a high marginal cost for people elevating their skills. Toomey said that this also introduces the moral hazard of someone choosing to live in a flood prone area if they do not have to pay the full price. He understood that this assistance can be provided where the family can earn up to 125% of the median income of the region. Toomey thought that a majority of people would qualify and asked why we designed a subsidy that a majority of people are eligible for. Maurstad said that there are a lot of working-class families in high-risk areas because that is where they can get employment or where they have lived for generations and the premise is to close the insurance gap. He said that they thought it was a good policy to assist LMI policyholders, so they have the protection they need. Toomey thought the policy was counterintuitive and then pointed to how it would permit policyholders to self-certify their eligibility. He said that this creates a risk of significant fraud. Toomey asked what provisions would ensure that these people are in fact eligible. Maurstad said that this is only one of the four ways to show eligibility and the actual design will

come after they get the authority. Toomey asked if they would have a mechanism to ensure eligibility. Maurstad thought this was an important part of any program.

Sen. Reed (D-RI) thought the flood mapping process needed to be fixed and asked how FEMA was doing in this area. Maurstad said that they had met their OMB requirement of having 80% of the NFIP maps at new, validated engineering requirements. He added that they are also developing the future of flood risk data that will allow them to build products with local communities that look at future conditions from climate change so people can build the tools they need at the local level. Maurstad said they are committed to improving flood mapping and they need to do more in the future in the risk mitigation area. Reed pointed to an area in RI that would be underwater if there was a serious hurricane and he asked if these future conditions would be incorporated and also incorporated in the rates they charge. Maurstad said that they use historical data and current conditions. Reed noted the flood mitigation in the IJA and asked if Maurstad could comment on his proposal to spend those funds. Maurstad said that the flood mitigation assistance program is looked at across the country and they have a commitment to ensuring that their mitigation programs are equitable, so not only in high population areas, but also in other vulnerable communities.

Sen. Kennedy (R-LA) thought that FEMA and the Biden Administration had made their decision with respect to flood insurance. He said that the people of Louisiana know that the only place they will find lower gas and grocery prices and better insurance is through the voting booth. Kennedy said that over 500,000 people in his state have flood insurance and these people are not multi-millionaires, they are working people. He agreed that repetitive loss properties need to be addressed, but the issue has been demagogued. Kennedy noted that they accounted for about 2% of the people in his state and asked why FEMA will not share its algorithm with the American people. Maurstad said that they have shared the algorithm and the methodology. Kennedy said that they have not and asked if FEMA put the algorithm together in house. Maurstad said that they did, and they relied heavily on the private sector. Kennedy asked if they relied on middleman. Maurstad said they were one of them and they set rates based on individual properties. Kennedy wanted to hire experts to look at the algorithm to say its watertight or grossly political. Maurstad said that they have this posted on the web. Kennedy said it was not posted and he wanted it so he could hire someone to really look at this. Maurstad said that what they provide is similar to what private insurance companies have to provide to state insurance commissioners when making changes. Kennedy questioned what could go wrong when the government examines its own algorithms.

Sen. Menendez (D-NJ) found it unusual that FEMA shared an unsolicited 17 section NFIP reauthorization bill with Congress and he thought it would do significant harm to the program. He pointed to how many of the points are similar to the proposal from Mick Mulvaney under the Trump Administration. Menendez said that there is already comprehensive bipartisan legislation

on reauthorization. He pointed to a report by Redfin on how many Hispanic communities will face rate increase from RR 2.0. Menendez noted that the CBO found that RR 2.0 will increase premiums and asked if FEMA took into account whether RR 2.0 would have a disproportionate impact on Hispanic communities. Maurstad said no, because insurance rates are based on actuarial science and the manner in which rates are calculated is based on the property characteristics, not the owner of the property. Menendez appreciated that FEMA supposedly supported an affordability program, but he thought that FEMA needed to fully explain RR 2.0. He pointed to how FEMA has only released limited information and asked if he would provide more information to Congress on the full risk rates, they plan to charge their constituents. Maurstad said that they have provided what they know today, and they cannot predict all the rates in the future. Menendez said that if FEMA is not more transparent, it is harder for Congress to address affordability. He said that, according to independent sources, we will see a compounding rating of premiums that will range in the double-digit range annually. Menendez noted the proposal of continuous coverage and asked if any P&C insurer offers continual coverage. Maurstad said no and that this is a continuous government program that will allow more of the private sector development. Menendez had never heard of offering continuous coverage and said that insurance is about pulling risk over the widest group of policyholders, and he was concerned about the rate shock from RR 2.0. He said people would be pushed to private insurance and then those with the most risk stay in the NFIP. Menendez hoped that they did not have to wait for the rate shock.

Sen. Warner (D-VA) agreed with Menendez's concerns around continuous coverage. He pointed to the new system under RR 2.0 and how he has heard that it makes it harder for homeowners to calculate what their risk might be. Warner asked if this provides granularity so individuals can make risk assessments without needing outside expertise. Maurstad said that mitigation continues to be important, and they continue to encourage homeowners, renters and small businesses to work with their insurance agents to understand the impact of mitigation measures. Warner said that this was not his question and repeated that it is tougher for individuals to understand their risk more granularly. Maurstad said that from talking to agents and policyholders, the new system is easier because it helps them to determine what a mitigation action will do to their premium. Warner hoped that was the case because he was hearing that the new system may add more complexity.

Sen. Cortez Masto (D-NV) asked how FEMA is working to serve tribal communities. Maurstad said that they work with their regional offices and tribal liaisons to see what assistance they can provide. Cortez Masto then turned to flooding after fires in Nevada and how if they do not have timely mitigation with replanting, they have massive flooding. She asked what resources FEMA has for replanting and stabilizing burnt areas. Maurstad pointed to the hazard mitigation assistance program and encouraged communities and states to look at their grant programs. Cortez Masto wanted to see these programs and asked if he had specific programs in FEMA that

address vegetation, including on federal lands. Maurstad said no, but he could get back to her on specifics, but they do not provide grants to federal lands. Cortez Masto asked if he thinks more people in Nevada have private insurance instead of NFIP or just do not have insurance. Maurstad said that the insurance gap is real, and they are working to ensure that those who need coverage have coverage.

Sen. Smith (D-MN) was grateful for the thoughtful package of proposals and said that we cannot keep kicking this can down the road. She then asked Maurstad about issues of bias and asked if he could tell them how well the increased cost share for infrastructure funds is working and if the increased federal cost share for disadvantaged communities will be incorporated going forward. Maurstad said yes, the cost share is 90% for socially disadvantaged communities and they have an equity assessment going on across the programs right now. Smith pointed to how aid must be spent equitably and how FEMA aid had mostly benefited wealthy, white communities. She asked him to address this. Maurstad responded that they are doing an equity assessment and two of their grant programs are a part of Justice 40, so those funds will meet the requirements of 40% of the funds going to socially disadvantaged communities. Smith closed by stating it was important to look at policyholders' true risk of flooding for RR 2.0

Chairman Brown (D-OH) asked about Maurstad's proposal to limit borrowing authority and rely upon appropriations for future disastrous events. Maurstad said that the basis for the accountability is that the program be managed for a 20-year loss exceedance level and if an event exceeds that, the proposal indicates that the administrator would need to request supplemental appropriations for the difference. He added that they are also proposing changes to the reserve fund. Maurstad said this would make the program more fiscally sound and allow them to manage for catastrophic events.

Ranking Member Toomey (R-PA) noted the legislative package report and what it stated on repetitive loss properties. He said that they account for almost 50% of the claims FEMA has paid and he did not think that some of them were making up this problem. Maurstad said yes and these properties have been an issue for the program for a number of years. He said that they are proposing to fix this problem with mitigation. Toomey asked if it was true that mitigation can also happen at a community level. Maurstad agreed and said that their community rating system provides discounts around this.

Chairman Brown (D-OH) asked him to address repetitive loss properties in more detail and if he had a way to estimate the mitigation needs of them. Maurstad said that this is prospective, but they are saying that there need to be four losses in excess of \$10,000 before a property becomes an excessive loss property and is uninsurable. Brown asked how the \$10,000 number was decided on. Maurstad said it was a reasonable level of loss considered beyond the normal smaller loss. He clarified, regarding an earlier question from Menendez, that on RR 2.0 and its rates for

Hispanics and black property holders, they are committed to equity and that's why they have proposed the affordability mechanism.

Ranking Member Toomey (R-PA) asked, since the repetitive loss issue is prospective, if they would not consider how certain properties have had dozens of losses in the past and just wait for four more. Maurstad said that was correct. Toomey thought another approach should be considered to take historical losses into account.

Chairman Brown (D-OH) agreed. Maurstad added that the legislative proposals have been developed over 10 years by experts and they want to work with the Committee to have a long-term, meaningfully reformed reauthorization by the end of the year.