



Consumer Federation of America

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FOR IMMEDIATE RELEASE:
Thursday, July 15, 2010

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CFA Calls on Representatives to Reject Flood Insurance Bill on House Floor; Urges Congress to Study Ending or Overhauling Federal Flood Program

The Consumer Federation of America (CFA) today called on members of the House of Representatives to reject legislation that would modify the National Flood Insurance Program (NFIP) and extend it for five years (H.R. 5114). CFA called on Congress to instead extend the program for a shorter period and to evaluate far-reaching changes to the troubled program, such as ending it or spurring private insurers to underwrite flood risk.

“While this legislation includes necessary revisions to the NFIP, it does not propose the sweeping overhaul needed to fix long-term, structural flaws that are harming consumers and taxpayers,” said J. Robert Hunter, CFA’s Director of Insurance and former Federal Insurance Administrator and Texas Insurance Commissioner. Hunter ran the NFIP in the 1970s.

The NFIP was intended to end unwise construction in high-risk flood plains throughout the country, while providing affordable coverage for people who really needed it. In return for taxpayer funding for the development of flood risk maps and the provision of subsidized insurance for older buildings, new construction was to be done wisely, and full “actuarial” rates were to be paid for flood coverage.

“The NFIP was brilliantly designed, but it has failed to live up to its promise” said Hunter. “Politics and inept administration have made it a sort of Frankenstein monster, encouraging and even subsidizing unwise construction. Millions of consumers have also been misled into thinking their homes or businesses were not in harm’s way because FEMA has completely mismanaged the process of updating flood insurance maps,” he said.

The NFIP has a chronic budget deficit that now totals \$19 billion because flood insurance rates in many areas have been kept below the real cost of providing the coverage. This has led to growing taxpayer subsidies of risky coastal development, often benefiting affluent builders and homeowners. Additionally, considerable evidence has demonstrated that FEMA has failed to fix the costly “Write Your Own” program, which allows insurers that assume no flood risk to charge high fees for servicing flood policies, especially at times of severe flooding. This program also creates an incentive for insurers to try and pass off wind damage claims that they should pay to the federal government by contending that these damages were really caused by flooding.

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As a result of these serious, systemic problems with the NFIP, CFA has called on Congress to either end the insurance aspects of the program or to significantly involve the private sector insurance market in offering flood coverage.

“If the private sector has some ‘skin in the game’, insurers would have a financial incentive to make sure FEMA and communities in flood plains are updating and enforcing flood maps,” said Hunter. “Insurers would also resist pressure from politicians to lower rates below cost. Politicians would resist pressure from insurers to have rates that were excessive. These checks and balances would help keep flood insurance prices reasonable,” he said.

If insurers show no interest in underwriting flood risk as part of the NFIP, which is a strong possibility, CFA has recommended that Congress extend the NFIP for no more than two years and conduct a study about how to phase it out over a long period of time, such as thirty years. Such a long transition period will help protect low- and moderate-income consumers who need flood coverage. The study should examine a number of key questions:

- How should Congress responsibly phase-out the insurance part of the program?
- What is the proper transition period to allow all parties time to adjust to the lack of a federal insurance program?
- How can low- and moderate-income homeowners and renters be protected during and after the transition?
- What requirements should be placed on communities in flood plains and on FEMA regarding flood maps? (Keeping the mapping and community participation requirements in current law would provide private insurers with sufficient information to begin to take risk.)
- How can private insurers be encouraged to take some, and ultimately all, of the existing flood risk?
- If flood insurance is widely available in flood plains, should its purchase be required?

The Consumer Federation of America is a non-profit association of more than 280 groups that, since 1968, has sought to advance the consumer interest through advocacy and education.

CFA’s letter to the House of Representatives in opposition to H.R. 5114 can be found at: http://www.consumerfed.org/elements/www.consumerfed.org/File/Flood_Insurance_House_Bill_letter.pdf.

CFA’s letter to Congressional leaders detailing serious problems with the NFIP and explaining why termination of federal flood insurance should be considered is at:

http://www.consumerfed.org/elements/www.consumerfed.org/File/Flood_Insurance_NFIP_future_Hill_letter.pdf