

# Flood Insurance

## The National Flood Insurance Program should receive a long-term reauthorization and be reformed to better address commercial and multifamily lending.

Floods are the number one disaster in the United States in terms of lives lost and property damaged. The National Flood Insurance Program (NFIP) provides over 5 million property owners with insurance to protect their homes and businesses from losses due to flooding and serves as an integral component of recovery for communities across the country after major flooding events.

Nationwide availability of affordable flood insurance is an important part of sustainable homeownership and building communities. During any gap in authorization, the NFIP cannot issue new policies or renew existing ones. The National Association of Realtors estimated in 2017 that a lapse in authorization could jeopardize an estimated 1,300 sales each day or about 40,000 mortgage closing transactions per month.

### BACKGROUND

The NFIP was established in 1968 and plays a key role in our nation's efforts to prevent and recover from flood disasters.

Flood insurance is mandatory for any property located in a high-risk area with a mortgage from a federally backed or federally regulated lender. For the past 40 years, the NFIP has served as the primary provider of flood insurance for homeowners. While the private flood insurance market has played a strong role in the large commercial and multifamily sectors, it is just beginning to grow in the single-family sector. The opportunity for growth of the private flood insurance market for single-family homes has been enhanced by the banking agencies' issuance of final private flood insurance acceptance regulations in 2019.

Until 2005, the program was largely self-sustaining. The NFIP covered claims with insurance premiums collected by the program or by occasionally borrowing and repaying funds from the Treasury Department. However, Hurricanes Katrina, Rita, and Wilma in 2005, Superstorm Sandy in 2012, and Hurricane Matthew and the severe flooding in Louisiana in 2016 presented losses of such magnitude that the program is nearly \$25 billion in debt.

The program, as currently structured, has considerable shortcomings. Any reform effort must maintain a balance between reducing taxpayer exposure, improving the financial solvency of the NFIP, and addressing affordability concerns.

Among those shortcomings is the lack of a long-term reauthorization. Since the end of FY2017, Congress has enacted 16 short-term NFIP reauthorizations, with a lapse between January 20-22, 2018, and an eight-hour lapse during a brief government shutdown in the early morning of February 9, 2018.

MBA advocated to prevent additional lapses, including joining an industry coalition letter in early May 2019 urging lawmakers to authorize a long-term extension of the program on the brink of a May 21, 2019 deadline for reauthorization. The NFIP was subsequently reauthorized until June

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14, September 30, November 21, December 20, 2019, and September 30, 2020. The latest reauthorization extended the NFIP program through FY21 (September 30, 2021) and was passed as part of a continuing resolution that averted a government shutdown and a lapse in NFIP funding.

## RECOMMENDATIONS

**Long-term reauthorization.** A long-term extension of 7-10 years would provide needed certainty to homeowners and small businesses that depend on the program for flood damage protection, to protect our residential and commercial real estate markets and to provide stability for the companies and agents that sell and administer the NFIP policies to millions of consumers across the country.

**No gaps in the NFIP authorization.** At a minimum, there should be no gaps in authorization. Congress has repeatedly reauthorized the NFIP only on a short-term basis, sometimes linked to Continuing Resolutions and sometimes not, and the availability of new NFIP policies was briefly interrupted in January 2019 by a partial government shutdown. MBA actively engages to help ensure that there is no interruption in NFIP coverage and will take such other steps as are necessary to help ensure that NFIP insurance is available.

**Clear, comprehensive, operational, and updated guidance to industry.** The agencies have historically provided guidance in the form of Q&As that are developed through a notice-and-comment process. In 2020, the agencies proposed updates to their 2011 Interagency Flood Questions and Answers, and in 2021 the agencies proposed new Interagency Questions and Answers in the final private flood insurance acceptance regulations. MBA and our coalition partners have provided feedback on both proposals, to better enable lenders, servicers, and service providers to comply with the mandatory flood insurance purchase requirements. We recommend that the agencies consider and address industry feedback on their proposals.

**Exemption for commercial transactions.** Commercial transactions involving business-to-business loans on commercial real estate (i.e., apartment buildings, office buildings, hotels, retail malls and strip centers, warehouses, industrial buildings, etc.) *should be exempted* from the mandatory purchase requirements of the NFIP. The current limit of \$500,000 for commercial properties is insufficient based on the value of the properties in question. Additionally, characteristics that are customary in the insurance markets (i.e., replacement cost coverage, use of blanket policies contents, immediate coverage -- no 30-day waiting period, higher storm surge limits, loss of rents, etc.) are not provided for under the NFIP program.

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