

Rethinking the NFIP: Straw Man Policy Options

Federal Assistance Policy Options

Description of Policy Theme:

Do you benefit from floodplain use and development?

This straw man policy alternative explores how best to distribute the costs of using the floodplain. The Nation's losses due to flooding have been estimated to average over \$7.7 billion annually (in 2009 dollars). The Federal Government pays a significant portion of these costs through Federal disaster assistance programs, including Individual Assistance (IA), Public Assistance (PA), and claims against flood insurance policies that are sold at subsidized rates. The National Flood Insurance Program (NFIP) was created by Congress in 1968 to help the individual bear more easily the risks of flood damage and to discourage unwise occupancy of flood-prone areas. It has partially accomplished both goals, but not sufficiently. Reform of both the NFIP and the Robert T. Stafford Disaster Relief and Emergency Assistance Act is necessary to reduce the ever increasing costs associated with flooding.

This paper presents four propositions for changes in national flood policy that are intended to reduce the costs to individuals, businesses, and the Federal Government associated with flooding, in exchange for individuals and communities assuming a greater share of the responsibility for their actions.

Straw Man Policy Options:

- **Federal Disaster Assistance and Mitigation Program:** Federally-backed flood insurance would be replaced by expanded eligibility for disaster assistance. Federal tax-payers, rather than the individual at risk, would explicitly assume the costs of flooding. Federal assistance would be made available to individuals, businesses, and public entities for flood damages experienced. To encourage flood risk management, the extent of the available assistance, or the cost-share ratio, would be tied on the level of mitigation measures implemented by the community. The more rigorous the mitigation measures the greater the percentage of damages eligible for compensation through disaster grants and loans. Conversely, where a community would adopt and implement only

minimal flood loss reduction measures, eligibility for Federal disaster assistance would be more limited.

- **Restrict Federal Investment in Floodplains:** It is alleged that the mere availability of flood insurance has prompted development in flood-prone areas. Under this proposition, flood insurance would only be available through the Federal Government for structures built prior to a specific date. For example, any building constructed beginning 10 years after enactment would be ineligible for flood insurance under the NFIP. Further, structures built beginning 10 years after enactment would not be eligible for disaster assistance grants or loans.
- **Individual Accountability Model:** This proposition ties disaster assistance loans and grants directly to structures that are insured under the NFIP, but provides a mechanism to waive the mandatory purchase requirement. The most contentious part of the NFIP is the mandatory-purchase requirement which, in most cases, is made known to home buyers during the closing process. Lenders do not like it, buyers do not like it and, even though it is required by law, often lenders are not making sure the policies are renewed. This proposition would allow FEMA to waive the requirement to purchase flood insurance where an individual agrees, in writing, to also waive their rights to disaster assistance.
- **Universal Coverage:** This proposition would create mechanisms for States to mandate that insurers include flood as a covered peril under standard property insurance policies. Where policies are placed on properties within the Special Flood Hazard Area (SFHA) the Federal Government would underwrite the risk. For policies placed on property outside the SFHA private insurers would underwrite the risk. All communities within those States that fail to mandate coverage for flood would be ineligible to participate in the NFIP. As an added incentive, disaster assistance grants and loans would be denied for flood damages. This proposition would have the added benefit of drastically reducing the number of Letter of Map Amendment (LOMA) and Letter of Map Revision – Based on Fill (LOMR-F) applications.