CFA

Consumer Federation of America

1620 I Street, N.W., Suite 200 * Washington, DC 20006

July 14, 2010

<u>Re: Oppose the Flood Insurance Reform Priorities Act of 2010 (H.R. 5114), on the House Floor This Week</u>

Dear Representative:

The Consumer Federation of America (CFA) urges your opposition to H.R. 5114, which would modify the National Flood Insurance Program (NFIP) and extend it through the 2015 fiscal year. While this legislation would require some necessary revisions to the National Flood Insurance Program, it does not propose the sweeping overhaul needed to fix long-term, structural flaws in the program that are harming consumers and taxpayers.

The problems in the NFIP are so deep-seated that CFA has proposed extending it for no more than two years while Congress studies how to terminate the insurance aspects of the program or how to dramatically revamp it so that private insurers assume a significant amount of flood risk. (Please see the attached letter). The insurance component of the NFIP has proven to be unworkable because political pressure has kept flood insurance rates in many areas below the real cost of providing the coverage. This has led to chronic taxpayer subsidies of risky coastal development, often by affluent builders and homeowners. The Federal Emergency Management Agency (FEMA) has also completely mismanaged the process of updating flood insurance maps, which has misled many people into concluding that it was safe to buy homes or start businesses in dangerous flood plains. FEMA has also failed to fix the costly "Write Your Own" (WYO) program, which allows private insurers who assume no flood risk to reap excessive fees for servicing flood policies, especially at times of severe flooding.

Several aspects of H.R. 5114 would improve the program. Allowing low-income policyholders to make monthly insurance payments is a worthy idea. Increasing the size of rate increases that are allowed from 10 to 20 percent and setting minimum deductibles that must be required would help move the program toward actuarial soundness and solvency. The bill also requires that important studies be conducted, including how to provide insurance to low and moderate income Americans, adding new building codes to prevent loss, and how to repay the NFIP debt. (Even if the insurance part of NFIP is terminated after a long transition period, as we recommend that Congress consider, many of these studies would be helpful in determining future alternatives to the NFIP.)

However, a number of other provisions in the bill would likely have the effect of aggravating the NFIP's persistent insolvency. Increasing allowable coverage limits and adding new (optional) coverage for additional living expenses and, particularly, business interruption costs, is unwise given the severe rate inadequacies in the program now and FEMA's inability to keep flood maps up-to-date. We are also very concerned about the requirement that the NFIP assume that proposed flood works like dams and levees are complete when it determines whether potential policyholders qualify for coverage and sets rates. FEMA's own studies (and the nation's recent experience) make it clear that dams and levees do fail. To be sound, insurance rates must reflect that probability.

Another concern we have with the bill is that the proposed Flood Insurance Advocate is tasked with helping communities appeal and fight map determinations. FEMA's own studies show that it has been too slow in updating maps to reflect greater flood risk and the need for higher rates, and too timid in taking action against recalcitrant communities that are not upgrading their building codes as required. The advocate should be tasked with protecting individual consumers in disputes with insurers, including WYO insurers, not helping communities that want to thwart needed building improvements.

CFA respectfully opposes H.R. 5114 and urges serious consideration of a one to two-year extension of the NFIP, while Congress orders a study of how to end the insurance part the program or spur significant private participation in it.

Sincerely,

J. Robert Hunter

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Director of Insurance
Consumer Federation of America