

THE SENATE SHOULD SUPPORT THE NFIP BILL (S. 2284) REPORTED BY THE BANKING COMMITTEE

Do Not Expand The NFIP to Include Wind Damage Insurance or Natural Catastrophe Loan, Insurance, or Reinsurance Programs

The National Flood Insurance Program (“NFIP”), which is operated by the Federal Emergency Management Agency (FEMA) and was established in 1968, provides flood insurance where the private market is unable to do so. NFIP currently insures approximately 5 million policyholders in 20,000 communities and has a deficit of \$18 billion. On November 1, 2007 the Banking Committee reported S. 2284, which would reauthorize and reform NFIP.

The House-passed NFIP reauthorization bill, H.R. 3121, however, includes a provision (Sec. 7) supported by Rep. Gene Taylor (D-MS) that would dramatically expand NFIP to provide wind damage insurance. The Senate should not follow in the footsteps of the House because it would:

- **Overwhelm the NFIP.** The program already has an \$18 Billion deficit and is struggling to resolve flood claims, manage fraud arising from Hurricane Katrina payouts, and prevent insolvency. Adding wind insurance will distract from the program’s mission and substantially undermine efforts to stabilize the program.
- **Result in incentives to build in unsafe or environmentally fragile areas.** Supporting wind insurance that encourages unwise construction in high risk areas sends the wrong message to communities regarding the environmental impact and danger of living in hazard-prone coastal areas and floodplains—areas that may be increasingly vulnerable given the potential impacts of climate change.
- **Cost taxpayers billions.** Experience with the NFIP shows and the American Academy of Actuaries confirms that adding federally backed wind insurance will not be actuarially sound—despite language to the contrary. Taxpayers nationwide will be left to pay the cost of wind damage, which would more than triple the government’s exposure under NFIP.
- **Discourage the provision of wind insurance by the private sector.**

Similar problems apply to the creation of new federal natural catastrophe programs that would require the federal government to provide loans intended to bail out state natural disaster catastrophe funds or require the federal government to provide government reinsurance for a state’s property and casualty insurance program. Therefore, if offered as an amendment to the NFIP bill, we urge you to oppose H.R. 3355 or its companion bill (S. 2310).

There are better ways to help people who already live in areas vulnerable to catastrophic storms—tax credits, loans, and grants to low and fixed-income property owners to encourage them to storm-proof and protect their homes and businesses.