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Congress' inaction puts flood coverage in limbo

By David L. Anderson and Charles Chamness

A news release from the Federal Emergency Management Agency recently reminded South Dakota citizens that flooding is always a potential threat. FEMA noted how, since 1978, the state's residents collected more than \$33 million in flood insurance reimbursements.

But as bad as flooding can be in South Dakota, those along the Atlantic seaboard will confront the start of the 2012 Atlantic Hurricane season on June 1. Worse yet, the National Flood Insurance Program is set to expire the day before.

Unfortunately, we've been down this road before. The National Flood Insurance Program, or NFIP, has been something of an orphan since 2005, forced to tread water, so to speak, with a series of short-term reauthorizations (some for a few months, others for as little as a few weeks). This haphazard course of action resulted in seven years of unnecessary uncertainty for homebuyers and homeowners, as well as for the private insurance market.

The NFIP is a partnership in which private insurance companies administer policies underwritten by the federal government. The program ensures that flood insurance will be available to anyone who needs it, while reducing the need for taxpayer-funded disaster aid.

However, the program, like many created in Washington, is also in disarray. Premiums are heavily subsidized, floodplain maps need to be updated, take-up rates are nowhere near where they should be, and 1 percent of the policies account for 25-30 percent of the claims.

The flaws in the program were laid bare by a series of major hurricanes in 2005, leaving it nearly \$18 billion in debt to the taxpayers, and more could be added from a bad year of flooding in 2011. Even before those hurricanes, the National Association of Mutual Insurance Companies and other industry groups had been pushing for NFIP reform: updating flood maps, moving toward actuarially-based rates, and the phasing out of subsidies.

Recently, however, things began to look like they might be different. Last July, the House passed its version of NFIP reform and reauthorization by a vote of 406-22. The bill, HR 1309, extends the program for five years to provide certainty for insurers, and enacts commonsense reforms designed to strengthen NFIP's financial standing.

Similar legislation was passed by the Senate Banking Committee last year. At the time, South Dakota's Senator Tim Johnson, who chairs the committee, praised the bipartisanship that helped win the committee's approval, saying the bill was "a good example of the way the legislative process is intended to work."

Johnson promised to "work with leadership to help make sure this bill moves quickly" adding that he hoped it receives the same bipartisan cooperation on the Senate floor. If voted on, the bill will almost certainly pass. It has broad support from both sides of the aisle, and yet it remains in limbo. Overcoming

the gridlock in the U.S. Senate is undoubtedly challenging, but with the NFIP set to expire in just a few short weeks, now is the time for Sen. Johnson to call on his party's leadership to allow a vote on this vital legislation.

If nothing happens, the program will lapse just as the Atlantic storm season begins. Lapses create a significant level of uncertainty for everyone. Private insurers that administer the program on the government's behalf have no choice but to cover claims that were underwritten with nothing more than the promise of reimbursement whenever the program is reauthorized.

Lapses also wreak havoc on the already fragile housing market. Although existing policies are honored during a lapse, no new coverage can be written. Because most lenders, including all federally backed lenders, require coverage for homes facing a flood risk, allowing the NFIP to lapse can prevent all home sales from going to closing for the duration of the lapse.

The overwhelming support for the bill is a testament to how clearly lawmakers in both parties understand the need for an effective flood insurance program. With natural disasters in the news and clear bipartisan support for reforming and extending the NFIP, now is the time for the Senate to vote to give the program the reforms it so desperately needs – before it gets any further underwater.

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