

TALKING POINTS:
Miller Substitute Amendment (#7) to H.R. 1309

Rep. Candice Miller has offered an amendment (#7) to terminate the National Flood Insurance Program (NFIP) on Jan. 1, 2012 and in the program's place, authorizes yet un-tested state compacts to encourage a private market that has never developed for flood insurance. The amendment is being offered in the nature of a substitute to H.R. 1309, the Flood Insurance Reform Act -- a bill that was developed by regular order and recently passed by the unanimous 54-0 vote of the House Financial Services Committee. The congresswoman has made several assertions in support of her amendment, but many of these do not hold up to a broader view of the data. In fact, the data supports a 5-year NFIP reauthorization, not the reverse. Following is the assertion and data-based response.

ASSERTION #1: Historic claims data proves that some state like Michigan have paid more into NFIP than it claimed and should be able to opt out as they do not receive a proportional program benefit.

RESPONSE: It is true that since 1990, Michigan has been steadily paying into NFIP while the claims paid out have remained relatively low; during these years, the state has experienced an extended period of low flood loss years, i.e., years when claims paid exceeded premiums paid.

However:

- It was not long ago that Michigan experienced several high flood-loss years in a row: in 1980, 1981, 1982, 1985, and again in 1986.
- In each of these years, NFIP's Michigan payouts exceeded the state's premiums; in two of these years – 1985 and 1986, the payouts were more than double the premiums.
- Data from the 1980s indicate that Michigan paid in about as much as it claimed: the payouts totaled \$23.7 million while premiums were slightly lower, at \$22.8 million (nominal dollars).
- If it happened once, it could happen again, by the congresswoman's logic.
- Therefore, any conclusion drawn from an analysis of NFIP's raw loss data depends on the timeframe of the analysis.

HISTORICAL CLAIMS DATA FOR MICHIGAN IN THE 1980s		
YEAR	PREMIUMS (\$mil)	LOSSES + ADMIN COST (\$ mil)
1989	3.5	0.8
1988	3.6	0.5
1987	3.9	0.5
1986	3.2	8.4
1985	2.0	7.7
1984	1.7	0.3
1983	1.6	0.9
1982	1.4	1.7
1981	1.0	1.5
1980	0.9	1.5
TOTAL	22.8	23.7

- Michigan’s recent experience could change at any time, according to the GAO:
“We recognize that flooding is a highly variable event, with losses varying widely from year to year, and that even an analysis of nearly three decades of historical data could lead to unreliable conclusions about the actual flood risk faced by a given state.”
- GAO is saying that in predicting future flooding, one cannot rely on the state’s recent history. Some years see high flood losses; others don’t.
- Just ask Louisiana’s residents, who historically, had paid \$428 million more than they received in claims... until 2005, when Hurricane Katrina struck (GAO).

ASSERTION #2: Michigan pays more than it takes from the NFIP and therefore should be allowed to opt out and develop its own flood insurance program in compact with other states.

RESPONSE: Michigan is one of many states that stand to lose most from eliminating the NFIP.

- Michigan has 181,581 properties in “Special Flood Hazard Areas” (SFHAs); properties in SFHAs have a 26% chance of flooding at least once over the life of a 30-year mortgage.
- This is more SFHA properties than 35 other states have, and 21,873 or 12% of these are located in the Congresswoman’s own district.
- At the same time, Michigan is among the states with the lowest rates of flood insurance (14% which ranks 7th overall). Statewide, the number of policies is 25,850 or 14% of at-risk total properties.

	Homes in SFHAs (#)	NFIP Policies	
		#	% of Homes
Statewide	181,581	25,850	14%
MI-10	21,873		

- Given the private market’s unwillingness to write flood coverage, without NFIP flood insurance, 86% of Michigan property owners would most likely turn to the federal government for financial assistance after the next major flood – at taxpayer expense.
- By ensuring access to affordable flood insurance, therefore, NFIP increases the percentage of property owners who insure themselves against flood losses, and thereby reduces the amount of disaster payments needed to rebuild after a flood.
- Michigan also has a larger concentration of older properties which are more susceptible to flood damage.
 - 60% of Michigan’s NFIP policies are for older properties that pay less than the full actuarial rate, whereas only 24% are located in low-risk areas where flood insurance is not required.
 - Compare this with Gulf States, where only 14% of the NFIP policies are for older properties and nearly half (45%) are in low risk areas.

ASSERTION #3: Many Michigan property owners, who have recently received notice of being mapped into SFHAs, either a) own property that has never been flooded or b) is located on a lake with a declining lake line.

RESPONSE:

- According to actuaries, a property could have double the flood risk of one that is required to participate in the NFIP and still have a 50/50 chance of flooding over the life a 30-year mortgage. Just because this property does not flood for an extended period does not prove that it never will. It is still has double the flood risk.
- Lakes and rivers are not the only source of flooding; floods can be caused by a variety of sources including rain fall, snow melt and man-made structures such as dams or levees.
- Minot, N.D., the location of a recent flood disaster, had not flooded in over two decades. Yet it has experienced the worst flooding in 40 years and it was caused when the Souris River, heavy with record rainfall and snowmelt, overtopped levees.
- It takes more than observation to estimate flood risk. FEMA uses advanced technologies to draw flood insurance rate maps such as satellite imaging and LIDAR. Development of these maps involves the application of sciences, such as engineering and hydrology.