January 30, 2014

S. 1926, Homeowner Flood Insurance Affordability Act – OPPOSE

Dear Senator:

The Consumer Federation of America (CFA) strongly opposes passage of S. 1926, the Homeowner Flood Insurance Affordability Act.

Most people would assume that a consumer group such as CFA would seek lower insurance rates for consumers. And, indeed, we do try to achieve that, consistent with reasonable profits for insurers. In fact, for years we have pushed tor federal actions to lower flood insurance rates such as through reducing the excessive costs of the Write Your Own Program and passing on the savings to policyholders.

But we do not support lowering rates for an <u>insurance</u> program below sound prices, unless that is done by a separate program of subsidies, clearly identified and funded by taxpayers.

CFA has often been asked how a consumer group could have favored Biggert-Waters-2012 since it brought the NFIP into actuarial soundness, which we knew would raise rates for some consumers, sometimes by significant amounts over several years. CFA strongly believed that the program should set fair, actuarially sound rates that accurately reflect the potential loss risk because consumers must know the true risk of properties they live in or are considering purchasing. Consumers are not well served when the government runs an "insurance" program that is not true insurance, but rather, as the NFIP had become, an unwise and untargeted subsidy program that mislead consumers into putting their homes, businesses and lives at risk in areas that are dangerously flood-prone and that often unfairly subsidized affluent individuals and contractors who do this building.

Homeowners who buy new homes in areas that they think are safe from floods are harmed when old maps underestimate risk. Some are misled into believing their homes are safe from floods when they build or buy new homes built to an old map's 100-year flood estimates that are, in fact, far below the real 100-year elevation. These people and their families are at risk of being killed or injured if a storm hits, or of having their homes or treasured possessions destroyed. Paying a little more and being truly aware of the risk is a blessing, not a curse, for consumers.

Other homeowners will look at these inaccurate flood maps and think, "I don't need insurance, I am way outside the risk area." But they are really well inside the area of high risk when the maps are old and development, erosion, climate change and other impacts have caused the 100-year flood to rise significantly, as those living on the Gulf found out the hard way during Hurricane Katrina. CFA's study of Hancock County Mississippi flood maps after Hurricane Katrina hit found that the average map (of 76 in the county) was 20 years old and 10 feet too low in measuring the 100-year flood elevation.[1] Many home and business owners were misled into building unwisely, or not buying needed insurance, in the county where Hurricane Katrina hit, exposing the deeply flawed program's weaknesses in a most tragic way.

It is much worse for consumers to be misled by inadequate rates from their own government that to have high rates that signal the real risk and informs the consumer to be careful.

The patchwork of general subsidies[2] that drain the program of resources should be phased out as BW-12 does. S. 1926 should not be passed.

What Congress should do to help with the increases in premiums is what we suggested be done when we supported the Act. Targeted subsidies should be used to help low- and moderate-income people in flood-prone areas who cannot afford flood insurance. It is improper for the government to require the purchase of insurance, as the NFIP does, and not help those who cannot afford it. It is also improper to give broad, hidden subsidies to consumers and call it "insurance." Targeted subsidies for those who are most in need would cost far less than the current mix of general subsidies which S. 1926 improperly would continue.

Sincerely,

J. Robert Hunter
Director of Insurance

Administrator of the National Flood Insurance Program 1974-1979
Former Texas Insurance Commissioner

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[1] "An Examination of the National Flood Insurance Program," testimony of J. Robert Hunter, Director of Insurance, CFA before the Committee on Banking, Housing and Urban Affairs of the U. S. Senate, October 2, 2007.
http://www.consumerfed.org/elements/www.consumerfed.org/file/finance/Hunter%27s_Senate_Testimony_Flood_I nsurance_10-2-07.pdf

[2] It is important to note that most policyholders receive few if any subsidies under the current program. Some consumers receive intended subsidies, such as those who own structures built before the flood maps began being issued in 1974. However, many others benefit from unintended taxpayer subsidies that support unwise construction in the nation's flood plains, which is exactly the opposite of the original intent of the NFIP. The policyholders who benefit from these unintended and expensive subsidies include: the owners of structures in areas with flood maps that have not been updated; builders selling homes that appear to be safe from flood under outdated flood maps, but are not; and, those who own "grandfathered" buildings in higher risk areas who FEMA still allows to pay older, lower rates, contradicting the program's intent.