



September 7, 2011

The Honorable Tim Johnson
Chairman
Senate Banking, Housing and Urban Affairs Committee
136 Hart Senate Office Building
Washington, DC 20510

The Honorable Richard Shelby
Ranking Member
Senate Banking, Housing and Urban Affairs Committee
304 Russell Senate Office Building
Washington, DC 20510

Dear Chairman Johnson and Ranking Member Shelby:

The American Consumer Institute Center for Citizen Research, a nonprofit educational and research institute, is looking at ways to strengthen and reform the National Flood Insurance Program (NFIP). In light of the recent floods and damage caused by Hurricane Irene, reforms to the NFIP program are needed now more than ever.

NFIP is a federal government program that provides insurance coverage to millions of Americans. Though the program has played a critical role in helping families rebuild after flooding, NFIP has not worked as intended. The program is currently almost \$18 billion in debt to US taxpayers, and throughout its history has actually encouraged building in harm's way.

NFIP provides deep subsidies to policyholders, putting the program and taxpayers at risk. These subsidies are not targeted based on need or income and have provided a perverse incentive to build in environmentally sensitive areas that are at risk of flooding. It is unfortunate that, at this time of deepening deficits, the federal government continues to provide subsidies that put people at risk. The NFIP should be reformed to charge risk-based rates to protect lives, property and taxpayers. Without significant reforms that move properties to risk-based rates, taxpayers will be called upon to bailout the program time and time again, and the program's sustainability will continually be at risk.

Instead of providing subsidies on insurance rates, the flood program should require the mitigation of risks. Mitigation can help protect communities and individual properties—areas in floodplains can be made into parks or open spaces, homes or utilities can be elevated, or minor landscaping changes can be made to a property to lessen the chance of flood damage. Mitigation is a cost-effective investment for the government—for every \$1 spent on mitigation, \$4 is saved in cleanup and rebuilding costs. This would be a more cost-effective and responsible investment for taxpayers.

There have also been significant discussions about privatizing the flood program. A move toward risk-based rates will result in more private competition. Until the program charges risk-based rates, the private sector cannot compete with a federally-subsidized program.

Finally, we believe that the House of Representatives has taken an important step in authorizing FEMA to purchase reinsurance. Reinsurance is used by private sector insurance companies as a way to manage risk and access capital. If NFIP purchased reinsurance, federal taxpayers would be protected from future bailouts.

In summary, mitigation, risk-based pricing and reinsurance are keys to fully funding the flood insurance program in a way that will protect consumers without incurring taxpaying debt. Meaningful reforms to NFIP are critical.

Sincerely,



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