

**THE REAUTHORIZATION OF THE
NATIONAL FLOOD INSURANCE
PROGRAM: FEMA'S PERSPECTIVE**

HEARING
BEFORE THE
SUBCOMMITTEE ON HOUSING
AND INSURANCE
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THE REAUTHORIZATION OF THE NATIONAL FLOOD INSURANCE PROGRAM: FEMA'S PERSPECTIVE

Friday, April 28, 2023

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING
AND INSURANCE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9 a.m., in room 2128, Rayburn House Office Building, Hon. Warren Davidson [chairman of the subcommittee] presiding.

Members present: Representatives Davidson, Posey, Luetkemeyer, Fitzgerald, Garbarino, Lawler, De La Cruz, Houchin; Cleaver, Velazquez, Tlaib, Torres, Garcia, Williams of Georgia, Horsford, and Pettersen.

Ex officio present: Representatives McHenry and Waters.

Chairman DAVIDSON. The Subcommittee on Housing and Insurance will come to order. Without objection, the Chair is authorized to declare a recess of the subcommittee at any time.

Today's hearing is entitled, "The Reauthorization of the National Flood Insurance Program: FEMA's Perspective."

I now recognize myself for 5 minutes for an opening statement.

Mr. Maurstad, thank you for appearing today for the second hearing of the Housing and Insurance Subcommittee in the 118th Congress. The Federal Emergency Management Agency (FEMA) plays a vital role through its disaster recovery efforts, and today, we will explore its management of the National Flood Insurance Program (NFIP), which has existed for over 50 years, and until recently has operated in the same manner and relied on the same outdated tools since its creation. And I just applaud the progress you are making as flooding in the United States is a significant, costly problem for both coastal and inland residents.

Unfortunately, there is only one provider for nearly all residential flood insurance, the government-backed NFIP, which sells 93 to 95 percent of all residential flood insurance in the country. That is not just a bad idea from the perspective of creating a workable insurance model; it has also proven to be costly for taxpayers. To date, the program finds itself \$20.5 billion in debt, even after Congress outright forgave \$16 billion just a few years ago.

It seems clear to me that the program is in desperate need of reform, and I am glad that FEMA is bringing that reform. The process needs to start with this hearing, and with a reauthorization,

and we hope this hearing will help us achieve the consensus to pass legislation.

Lately, the committee has not been too involved in the oversight of ongoing operations and programs. Today is the first time we have heard from FEMA on the NFIP in over 6 years. That is something we need to get more serious about, if we are going to modernize the program that was created before the Moon landing in the 1960s.

This committee has an important role to play in its oversight of the NFIP. And through hearings like this, Congress can identify whether the program is operating in an effective and transparent manner. Congress, however, has been missing in action from that job, as the previous Majority left the program on autopilot for a series of short-term extensions and appropriations bills.

And frankly, the previous Republican Majority didn't finish a major reform. That has not only removed us from the process; it has made the program vulnerable to uncertainty for its 4.7 million policyholders. We can and we must do better.

To ensure stability while Congress does this important work of reforming the program on a longer-term basis, I have introduced H.R. 1392, the National Flood Insurance Program Extension Act of 2023, which would reauthorize the program through at least December of 2024. This bill would not only avoid a lapse in coverage, but it would also give this committee the time and the deadline freedom it needs to do a deeper dive into flood insurance reforms and to conduct additional hearings on NFIP-engaged stakeholders and craft a longer-term reauthorization.

This work is crucial and will ensure that the program is moving in the right direction for both taxpayers and policyholders, particularly given FEMA's recent internal work to incorporate industry best practices and technology into its management of the program. That includes, most notably, the work regarding the adoption of Risk Rating 2.0 methodology, which is a transformative initiative to modernize how accurately it measures flood risk.

Risk Rating 2.0 is a good first step in moving towards long-term financial visibility for the NFIP, and one that certainly deserves our attention to ensure this program can serve communities most at risk of flood events, and remain viable for years to come. I look forward to exploring it and FEMA's other recent modernization acts with you today. And we may have a set of policy recommendations for Congress on reforms that get this program on a sustainable path.

With that, I thank the witness for his testimony today, and I look forward to the conversation.

I yield back. And I now recognize the ranking member of the subcommittee, Mr. Cleaver from Missouri, for 4 minutes for an opening statement.

Mr. CLEAVER. Thank you very much, Mr. Chairman. And let me preface my comments by saying that I look forward to working with you. I think this is a serious and significant issue to which we have to give a great deal of our time and interest and creativity to resolve.

Floods are the most frequent and severe weather threat and the costliest natural disaster facing the United States of America.

Flooding events have occurred in all 50 States and 98 percent of U.S. counties. According to the Department of Homeland Security, 90 percent of natural disasters in the United States involve flooding. Supercharged by climate change, these natural disasters are increasing in both frequency and severity.

Shortly after I was elected, Hurricane Katrina hit. And at that time, our ranking member, Ms. Waters, and Representative Biggert led a delegation down to Mississippi and Louisiana. We saw first-hand what devastation had occurred in that area. And since Katrina, we have had significant events even on the East Coast, even in New Jersey and New York. We need to address this issue.

Hurricane Katrina was destructive and it cost a great deal of money, the costliest flood in U.S. history, which means that the National Flood Insurance Program was hit with major losses and is still struggling. This includes \$16.2 billion for Hurricane Katrina, \$1.3 billion for Hurricane Irene, \$8.8 billion for Hurricane Sandy, \$1.1 billion for Hurricane Irma, and \$1.5 billion for Hurricane Ida and others.

The NFIP is indispensable to the resiliency of American communities and more than 5 million policyholders. Many of these families are low- and moderate-income families or are forced to live in flood-prone areas due to the affordable housing crisis that this committee has not yet held a hearing on this Congress.

However, the growing strength of floods and the storms that cause them are increasingly straining the financial health of the NFIP. The NFIP is now over \$20 billion in debt, and the program pays well over \$1 million a day in U.S. Treasury interest. This is the third-largest NFIP activity by cost. In no uncertain terms, the current program is fiscally unsustainable.

I said all 50 States earlier, but that should also include the U.S. Territories. In many ways, they have been dealt with almost as if they were stepchildren to the United States of America. In no uncertain terms, the current program is fiscally unsustainable. NFIP reauthorization, what should be a long-term reauthorization, is an opportunity to put the program on sound financial footing, increase risk analysis and communication, improve community resilience, and make technical and operational enhancements to the program.

This committee has an opportunity to make our families, businesses, and communities safer and more resilient, and to build and rebuild in a way that meets the challenges of the reality of climate change.

I am interested to see the Republican plan on flood reform, as I just mentioned to the Chair. And I intend to make myself available to work with him.

Thank you very much. I yield back.

Chairman DAVIDSON. The ranking member yields back.

The Chair now recognizes the Chair of the full Financial Services Committee, Chairman McHenry, for 1 minute.

Chairman MCHENRY. I want to thank the chairman and the ranking member. And I want to thank the members of this committee for working in a bipartisan way to reauthorize the National Flood Insurance Program. This is a continuation of the work that then-Chairwoman Waters, and myself as then-Ranking Member,

worked on 4 years ago, to authorize the program in a balanced way.

We reported that bill out of committee without an ascending vote, and dealt with a lot of challenging issues there. So, we want to reauthorize the program in a balanced and bipartisan way.

We thank the Administrator for being here, for his testimony, and for his leadership and his team's leadership to make sure that we take into account the changing climate, and make sure that we take care of those in our society who are challenged to pay these bills.

We want to make sure that we have a program that is current with the risks and balanced for the American people. So, I want to thank this subcommittee for dealing with this in a thoughtful way.

For a point of personal privilege, I want to acknowledge a long-time Financial Services staffer, Ed Skala, who has worked on this committee for longer than I have been a Member of Congress. And for the first time, his mother, Beatrice, is here, and his sister, Bonnie, as well as his niece, Alexa. Thank you for being here. Thank you for keeping tabs on Ed. He has sharpened up today, because you're here, and we are grateful for that. But I am very grateful for his advice and his counsel. He is a long-time key member of the Financial Services Committee staff, and works with both Democrat staff and Republican staff very well. And I count on Ed's counsel every day, so thank you.

With that, I yield back.

Chairman DAVIDSON. The Chair recognizes the ranking member of the Full Committee, Ms. Waters, for 1 minute.

Ms. WATERS. Thank you very much, Mr. Davidson, and I appreciate this hearing today.

Congress designed the NFIP to be self-funded through annual insurance premiums collected from policyholders. Currently, the NFIP is drowning in \$20.5 billion of debt, with \$1 million in interest accruing every single day. And I just wonder what effect it would have if Congress simply enacted a clean reauthorization of the NFIP and maintained the status quo for the program instead?

I am not going to raise that question now, but I am anxious to hear what is going to be said today. I want Mr. Maurstad to explain to us how he is going to carry out the functions of the NFIP. I want him to talk about money. I want him to talk about debt. And I want to get down to some real answers today. With that, I yield back the balance of my time.

Chairman DAVIDSON. The ranking member yields back.

Today, we welcome the testimony of Mr. David Maurstad. Mr. Maurstad is FEMA's Assistant Administrator of the Federal Insurance Directorate and Senior Executive of the National Flood Insurance Program. He has over 25 years of experience in both public service and insurance. Mr. Maurstad received his Masters of Business Administration from the University of Nebraska.

We thank you for taking the time to be here. You will be recognized for 5 minutes to give an oral presentation of your testimony. And without objection, your written statement will be made a part of the record.

Mr. Maurstad, you are now recognized for 5 minutes to give your oral remarks.

STATEMENT OF DAVID MAURSTAD, ASSISTANT ADMINISTRATOR, FEDERAL INSURANCE DIRECTORATE, FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)

Mr. MAURSTAD. Good morning, Subcommittee Chairman Davidson, Subcommittee Ranking Member Cleaver, Full Committee Chairman McHenry, Full Committee Ranking Member Waters, and members of the subcommittee. Thank you for the opportunity to testify today regarding FEMA's perspective for the reauthorization and reform of the National Flood Insurance Program. For more than 50 years, the NFIP has been critical to the nation's resilience policy.

Today, as our changing climate poses a serious threat to our nation, and as the number and severity of disasters continues to grow, the NFIP requires meaningful structural change. Since the NFIP's last multi-year reauthorization in 2017, the NFIP has experienced 25 short-term extensions and 3 brief lapses. The short-term extensions are disruptive and cause existing and potential policyholders to lose confidence in the NFIP. We believe that a 10-year reauthorization, with comprehensive program reforms, is vital. We propose 17 recommendations to reform the NFIP that are guided by four key principles.

First, ensuring that more Americans are covered by flood insurance by making insurance more affordable to low- and moderate-income policyholders. Flood insurance is unaffordable for some policyholders. Under current law, FEMA does not have the authority to establish and charge premiums based on a policyholder's ability to pay. Although the NFIP offers mandatory discounts and cost subsidies, these discounts and subsidies do not take into consideration the policyholder's financial need, and in fact can make risk communication difficult because people may equate lower costs with lower risk.

Reforms that address affordability, such as the use of a targeted assistance program, can offer current and prospective low- and moderate-income NFIP policyholders a graduated risk premium discount, while providing them with the knowledge of the full risk to communicate a property's true flood risk.

Second, communicated risk in real-time, providing Americans with the tools to manage flood risk. Reforms that increase the scale and frequency of flood mapping and incorporate emerging priorities and technologies into the flood hazard and flood risk identification process will expand the ways in which the NFIP communicates risk. Raising awareness of true flood risk enables people to make informed decisions about their family and property. Home buyers and renters may lack awareness about flood risk when they complete real estate transactions.

Reforms that would require States to establish minimum flood risk reporting requirements for sellers and lessors before residential transactions close would address this challenge. Additionally, we need to reform how we measure and communicate flood risk. The nation's evolving risks require flood hazard information that is

more robust than Special Flood Hazard Area, and 1 percent annual chance to flood elevation.

Third, reducing risk by addressing extreme repetitive-loss properties. Previous losses are a significant indicator of risk, meaning that if a property has flooded before, there is a high likelihood it will flood again. Since 1978, 350,000 structures have had 2 or more paid losses, and nearly 3,000 have suffered 10 or more losses. The NFIP must have better tools to address insured structures that experience multiple flood claims. Almost 3 percent of insured properties are considered unmitigated repetitive-loss properties.

Reforming the NFIP to institute an objective threshold to deny coverage to the most flood-prone structures would discourage unmitigated rebuilding in areas with a history of flooding, and reduce financial risk to the NFIP, while ensuring coverage is still widely available to individuals, families, and businesses who might not be eligible for private-market coverage.

Fourth, instituting a sound and transparent financial framework that allows the NFIP to balance affordability and fiscal soundness. Without this in place, longevity and sustainability of the program is at risk. The NFIP currently carries \$20.5 billion in debt to the U.S. Treasury and anticipates paying approximately \$619 million in interest in Fiscal Year 2023. As currently structured, the program is burdened with interest expense and is unable to pay this debt back in full.

Canceling the NFIP's debt provides the program with a solid foundation that can support financial reforms around borrowing, future interests, enhanced liquidity, and an upper limit for the size of an NFIP event. These reforms address fundamental structural challenges and are essential to building the viable, sustainable NFIP that the nation needs and deserves.

It is critical that Congress provides urgently-needed multi-year reauthorization and currently reform the NFIP. We look forward to working with Congress to develop a long-term solution that addresses the needs of the NFIP, its policyholders, and the nation.

I am pleased to answer any questions.

[The prepared statement of Assistant Administrator Maurstad can be found on page 32 of the appendix.]

Chairman DAVIDSON. Thank you, Mr. Maurstad. We will now turn to Member questions, and I will recognize myself for 5 minutes.

Thanks for addressing the need for reform. For 15 years now, the Government Accountability Office (GAO) has consistently labeled NFIP as a, "high-risk program," calling it out for several things, including premium rates that do not reflect the full risk loss, transferring some of the financial burden of flood risk from individuals to taxpayers. And a lack of transparency that leads some to, "mistakenly perceive that they are not at risk of flood loss."

Unresolved affordability issues, which are addressed for many policyholders—all of that seems like a pretty grim picture with the job that you have walked into. Can you paint for us a picture of what the program's future looks like if we don't reform NFIP? And how critical is it that we bring this 50-year-old program into the 21st Century with modern tools and techniques?

Mr. MAURSTAD. Yes, sir. Thank you very much.

First of all, it starts with the financial structure of the program. As already been mentioned a number of times, being saddled with interest costs that provide no real benefit to the program is harmful. If we do nothing, there is a 2-percent chance that at the end of 10 years, the National Flood Insurance Fund will have more dollars than when they started. But if we enact all of the proposals that we have put forward, there is an 81-percent chance, not 2 percent, an 81-percent chance that the fund will have more resources at the end of that 10 years.

So structurally, as we look at the NFIP as a multipronged program of floodplain management, of flood risk grants and flood risk identification, the insurance having that sound financial framework is critical for the sustainability of the program.

Chairman DAVIDSON. Thank you for that. I applaud you, frankly, for the progress you have made on IT infrastructure for the program as well. One of the things that comes up often is mapping. So, how can a homeowner appeal or challenge a zoning determination?

I know that under Risk Writing 2.0, flood zones are no longer a rating element for NFIP rates, but they are important for the application of mandatory purchase requirements for properties under the Flood Disaster Protection Act of 1973, as well as to determine eligibility for policyholder discounts like the Newly Mapped status, et cetera.

Can you describe what the NFIP's current mapping appeals process is for homeowners under Risk Writing 2.0? And how that interacts with the appeals process? And I guess maybe how that is distinct from the mandatory purchase requirement?

Mr. MAURSTAD. The investment of probably over \$5 billion in the 22,400 community flood maps across the country is vital as we continue to look at how we can best identify flood risk.

There are two primary purposes, as you indicated. The first outlined the Special Flood Hazard Area, the high-risk area where communities then agree on participating with the program to regulate construction in that area. And the second is the mandatory purchase requirement.

Dealing with the first, it is a local ordinance, so to start with, you can look to the local government to make sure that your property is accurately reflected in the local community's Flood Insurance Rate Map. Beyond that, we have two ways, you can go directly to FEMA for a flood map amendment, and then, there is also a second way. So, we encourage policyholders to work with their agents, and to work with their community leaders and regional staff who are there to be helpful. Also, if there is a question about their flood zoning, to come to FEMA, and we will help address that.

Chairman DAVIDSON. Thank you. When it relates to a mandatory purchase, I think in particular it would be good to have a path where if the lender for a property doesn't necessarily agree that it is in a flood zone, if you can establish with surveys and whatnot that this is clearly not in a flood zone, that we let the underwriter take the risk and then say, okay, those are astute folks you have chosen, and proven that it is not in a flood zone, you can decide.

I think just for the record, and you might not note this off the top of your head, but let's look to repeat losses. What is the record

for the number of times we have repaid or paid for the same property? I have heard reports as high as 30 or 35 times. Do you know the record off the top of your head?

Mr. MAURSTAD. I do not. I know that it is way too high.

Chairman DAVIDSON. Could you get back to us with that, the record holder?

Mr. MAURSTAD. Yes, I will.

Chairman DAVIDSON. Thank you. My time has expired.

I now recognize the ranking member of the subcommittee, Mr. Cleaver from Missouri, for his questions.

Mr. CLEAVER. Thank you very much, Mr. Chairman.

With Hurricane Katrina, some of the things we saw were Senator Trent Lott's house was wiped away, with nothing left. Congressman Gene Taylor's house was wiped away; only the front stoop was still there. Even though we had some initial problems, eventually they were taken care of, but the majority of the victims were poor, in Mississippi, in and around Biloxi, and also in New Orleans. And while renters do qualify to purchase NFIP coverage, and are often affected by flood disasters, they are less likely to have flood insurance. The people in New Orleans—we had public housing decimated in New Orleans. And at the time, we only had one—we still do, one replacement. So, we could only replace the units that were just awful. The poorest people in the country suffer the most when these disasters hit.

Mr. Maurstad, can you discuss what we know about the renters' relationships with private flood insurance and what may be some answers to this issue?

Mr. MAURSTAD. Yes, sir. Thank you for that question. I recall the devastation associated with Katrina very well, as I was leading the National Flood Insurance Program at that time also. And it really exposed a number of the faults associated with the program that we need to continue to work on and address.

And certainly, there is no question that with the discriminatory land practices of the past, many less-fortunate Americans live in the high-risk areas for flood in communities across the country, which is really why the affordability proposal that we have included in our recommendations is important for the committee to consider. Being able to help those individuals get the financial resources they need after a flooding event is critical, because they are the ones who have the most difficulty in recovery. We have seen that time and time again.

Mr. CLEAVER. Thank you very much.

We know that a defining characteristic between the NFIP and the private market is that the Federal Government cannot deny consumers who apply for coverage, including from the NFIP. Yet, the private market often can, unless it is based on some kind of discrimination. In fact, we have heard from homeowners in Houston, Texas, that when the water came out of the bayou after Hurricane Harvey, they were dropped by their private insurers. While some had the means and desire to still purchase new flood coverage after being dropped, many share that they were denied coverage by the private market. Can you expand on the market trends and what role NFIP might play here?

Mr. MAURSTAD. There are a couple of points I would like to make, sir. One is we need more property owners, renters, and small businesses to have flood insurance coverage. There is a huge flood insurance gap that needs to be filled. The NFIP is working to do that, but we also need the private sector to increase their efforts to try to make sure that property owners have the coverage that they need. As you pointed out, especially renters, because we know very few renters recognize the flood risk they have.

So, we are working with our agents to make sure that we also have a focus on not just the dwelling but also those who rent. It is a very serious problem.

One of the provisions in our recommendation is to let a policyholder who leaves the National Flood Insurance Program and tests the private market, and then decides they they want to come back to the NFIP, that we bring them back into the program in the same position that they were in when they left the program. So, if they were on a glide path to their full risk rate, they would enter the program back in the same place on that glide path as when they left.

Mr. CLEAVER. Thank you. My time has run out. I am really interested in the whole issue of reinsurance and how it impacts the industry. You and I have had some conversations about this already. I yield back, Mr. Chairman.

Chairman DAVIDSON. Thank you.

The gentleman from Wisconsin, Mr. Fitzgerald, is now recognized for 5 minutes.

Mr. FITZPATRICK. Thank you, Mr. Chairman. In late July 2022, FEMA released a concerning draft proposal called, "Direct to Customer." In its release, FEMA noted that it is imperative that FEMA enable the digital sale and servicing of flood insurance to increase the number of people covered. FEMA noted that this is a long-term project and stressed that they are in early stages of looking at the concept. In this digital age, there is often a rush to cut corners under the erroneous notion that an automated process can replace human interaction and expertise.

Any kind of proposal that undercuts the valuable and trusted role of the independent insurance agents and brokers in their role in how this plays out could have a negative impact on increasing flood insurance participation rates. We talked a little bit that about earlier this morning.

We saw a similar dynamic play out in Economic Injury Disaster Loans (EIDLs) offered directly by the Small Business Administration (SBA) during the pandemic, a perfect example, which had a much higher incidence of fraud than the Paycheck Protection Program (PPP) loans which were issued through financial institutions. We have had a lot of concerns about the Direct to Customer approach to distribute flood insurance, which ultimately would not reach customers that the NFIP or agents are not already reaching.

And the agents, whom we heard from last month, continue to play a role in the servicing plans. It is unlikely a call center would offer the same kind of perspective. To me, it sounds like a mess. So my question to you is, what is your take on the status of FEMA's exploration of offering Direct to Customer flood insurance plans?

Mr. MAURSTAD. Thank you very much for that question. My first response would be that we are being very careful and very deliberate about our exploration of whether it makes sense for the National Flood Insurance Program to entertain the thought of developing a Direct to Customer program. As an agent for 2 decades, I fully understand the value associated with agents. And at this point in time, and as we continue our exploration, there is no intent to not have agents involved in our Direct to Customer program.

We rely on the insurance agents to be able to accurately and helpfully provide the information that their customers need to analyze their flood risk, and then have the insurance coverage that they need so much after a flood event.

Mr. FITZPATRICK. Bear with me, too, on this question, but just kind of following up on a proposed Direct to Customer online sales—I just wanted to prove that point. But the data that is required, simple stuff, the foundation type, the presence and number of flood openings, depending on the foundation type, data on construction, existence and identification of any substantial improvements, construction type, flood-proofing status, eligibility for machinery and equipment elevation discount, square footage, number of floors, and building replacement costs are all of the things that a hands-on agent would take a look at, am I correct? This is not just a simple formula in which you say, plug in this number, plug in this number, and here is how much you are going to get.

Mr. MAURSTAD. Absolutely. You are not going to get any argument from me on the importance of the agent in the process. And again, I would emphasize that we are in the exploration phase of looking at this, but we do feel it is our responsibility today to look at every way in which we can potentially close the insurance gap that the country faces. If we are going to have a modern NFIP that meets the needs of the customers where we are, we at least have to have the answer as to why we do or do not have Direct to Customer.

Mr. FITZPATRICK. Thank you very much.

One of my concerns is that this can definitely be oversimplified, especially in some of the hearings that we have had here in Congress.

I yield back.

Chairman DAVIDSON. The gentleman yields back. The Chair now recognizes the ranking member of the full Financial Services Committee, the gentlewoman from California, Ms. Waters.

Ms. WATERS. Thank you very much.

I am from California and we have been suffering recently with both fires and flood. And for a couple of years, we had a drought. And then, because of climate change, which is denied by some people, it rained for, I think, 3 weeks or more every day, so we have some real problems.

And now, we really have to figure out what to do. Not only are we having these problems in California, but I was recently in Florida and I saw people who had gotten a little bit of money from FEMA that won't even begin to restore their homes, et cetera, et cetera.

Congress has designed the NFIP to be self-funded through annual insurance premiums collected from policyholders. Currently, the NFIP is drowning in \$25.5 billion in debt. To who do you owe the debt?

Mr. MAURSTAD. We owe the debt to the Federal Treasury, ma'am.

Ms. WATERS. To the government.

Mr. MAURSTAD. Yes, to the government.

Ms. WATERS. Are you part of the government?

Mr. MAURSTAD. We are.

Ms. WATERS. So, the government wants you to repay the government this debt. Is that right?

Mr. MAURSTAD. That is our obligation.

Ms. WATERS. Oh, that doesn't make good sense.

The NFIP is drowning in \$20.5 billion in debt with a million dollars in interest accruing every single day. Again, what effect would it have if Congress simply enacts a clean reauthorization of the NFIP and maintains the status quo for the program and its debt?

Mr. MAURSTAD. Thank you. The cancelation of the debt is one of the 17 recommendations that we put forward, and is the basis from which we can start to begin a sound financial framework for the program that is understandable, transparent, and predictable. So, it is vitally important that we have the debt canceled, that we don't have the burden of the interest costs that you mentioned that are only going up in this high-interest environment. It is a key part of the recommendations that we have put forward.

Ms. WATERS. So in addition to your basic responsibilities, you can't even get to mitigation and helping locals with mitigation measures and other kinds of things that would help when these floods come? Have you made it known to everybody on both sides of the aisle that we need debt cancelation?

Mr. MAURSTAD. Yes. We have been very clear on how important that is. And we also do want to thank Congress and the Administration for the unprecedented amount of dollars that have been provided to FEMA for our mitigation programs, whether that be for building infrastructure and community programs, or for our Flood Mitigation Assistance Grant Program.

We do have more mitigation dollars available than we had before. We still are a long ways from meeting the entire need, but it is definitely progress. And we are looking at making sure that all communities, including socially-disadvantaged, vulnerable communities, are also a part of these new grant proposals that are unfolding.

Ms. WATERS. Since I have worked on flood insurance for a long time, would you describe the competition in the United States from various areas putting pressure on you to say, my area is more important than their area, I need more up here than they need? Would you describe the kind of competition that you are confronted with, where people are desperate for help that you cannot provide?

Mr. MAURSTAD. There isn't any question that Members are most concerned about their own constituents, and that is who we hear from a lot. But I would say that all across the country, we work through our regions with the States to identify the risky areas in their communities that would be able to have access to our mitiga-

tion funding. So, we run a national program. We are sensitive to all parts of the country. And I think we are doing a good job of making sure that we don't leave anybody behind.

Ms. WATERS. You are doing the best job that you can possibly do, but today, I want you to let these people know they can leave us fighting with each other about what is needed on the East Coast as opposed to what is needed in the south and on and on and on, or we can cancel this debt and do something about flood insurance. That is all I want you to do.

Mr. MAURSTAD. There is no question that the competition for mitigation funds is steep. We generally are 3 to 4 times over-subscribed when we have our grant process, so there is a great need for mitigation across the country.

Mr. FITZGERALD. [presiding]. The gentlewoman yields back. Next, we have the gentlewoman from Texas, Ms. De La Cruz, for 5 minutes.

Ms. DE LA CRUZ. Thank you, Mr. Chairman, for holding this important hearing today. And thank you, Mr. Maurstad, for taking the time to appear before Congress.

As the chairman mentioned, this is the first time that a FEMA official has appeared before this committee in over 6 years. It is time for Congress to assert its role in reforming the National Flood Insurance Program in order to ensure its long-term solvency after years of short-term funding extensions and minimal oversight from this body.

As the vice chairwoman of this subcommittee, I look forward to working with Chairman Davidson, along with my colleagues here, to ensure that the NFIP is best serving the American taxpayers and is sustainable for the long-term. With that in mind, what steps has FEMA taken to improve the efficiency and effectiveness of the NFIP's administration? And how can the program be reformed to better serve its policyholders and taxpayers?

Mr. MAURSTAD. I would say that the answer to that is in the 17 recommendations that we have provided. There were nearly 100 subject matter experts who worked on the development of the recommendations, and thousands of hours were put into what the program experts believe needs to happen to make sure that we have an NFIP that is sustainable into the future. We are looking at what we need to do from a pricing perspective to make sure that we are fairly and accurately identifying the risk and charging the right premium for it. We are in the process of developing new policy forms, our products, so to speak, so that we can better serve our policyholders and improve our distribution of the program through a simpler method by which agents can do business with the NFIP.

Ms. DE LA CRUZ. And with that being said, I have had insurance experience for over 20 years; I owned my own agency for over 20 years. And the NFIP is something very near and dear to my heart. I have one of the poorest counties in the entire nation in my district, Hidalgo County, that is really dependent on NFIP and the benefits that it provides to the customers. So when we talk about reform to better serve the policyholders, I think about how we can distribute this product to get more consumers involved. As an agent myself, I can tell you it is burdensome.

What is burdensome is that we have to use our agency platform in order to sell homeowners coverage, and then we have to go to a completely different platform in order to actually sell the flood insurance product. And that takes time, and it takes more education in learning a whole new platform. How can we solve the efficiency in the agency program to make it easier for an agent to be able to sell the product?

Mr. MAURSTAD. As I mentioned earlier, I was an agent for a couple of decades also, and I certainly understand the concerns that you raise, which was one of the drivers behind why we developed a new rating engine, and have replaced the old manual, which was twice the size of the binder that I have in front of me, and it took many hours to be able to write a policy.

With our new rating engine, you can answer roughly a dozen questions and get the premium for a particular property. So, we have really streamlined the application process and the ability for agents to more effectively market and sell our product.

Ms. DE LA CRUZ. With that, I yield back.

Mr. FITZGERALD. The gentlewoman yields back.

Next, we will go to the gentlewoman from New York, Ms. Velazquez, for her questions.

Ms. VELAZQUEZ. Administrator Maurstad, I have long called for a 10-year reauthorization of NFIP. And I believe that it is important so that it provides sufficient time for Congress and FEMA to evaluate the programs and consider the types of reforms that are needed to make it more stable.

But wouldn't you also agree that it is hard to consider reforms or have hearings like this when you are working under short-term reauthorization windows? I am constantly worried about the program lapsing.

Mr. MAURSTAD. The short answer is yes, which is why one of our recommendations is in fact to reauthorize the program for 10 years, to provide the stability that the program needs and that the communities and our policyholders deserve.

Ms. VELAZQUEZ. I represent New York, and in New York, multifamily housing is central to the housing stock. To date, FEMA data on Risk Rating 2.0 has focused exclusively on its impact on the single-family residential market. Where multifamily and commercial properties are included, they are combined with single-family and do not shed full light on the risk these buildings my face. Is FEMA planning to separate data on multifamily and commercial properties from data on single-family structures so that the owners of these properties might fully understand their risk?

Mr. MAURSTAD. I think you certainly raise an interesting concern, and it's one that I will take back. We of course are looking at ways that we can best understand the impact our program has, whether it is on renters, single-family homeowners, or multifamily dwellings.

We are looking at ways that we can now capture the data with our improved information technology system. And we will definitely take that back and have more conversations with you on—

Ms. VELAZQUEZ. Please, do so. This is an issue that I have been raising every time we have held hearings on flood insurance.

While it seems small compared to single-family homes in the NFIP risk pool, commercial and multipolicies must pay significant amounts into the NFIP overall. Can you give us a sense of how much those properties are receiving on the claims side in an average year? Are they on financial traffic or a benefit on the program?

Mr. MAURSTAD. I don't have that information with me, but we can certainly get that information for you and provide it to you.

Ms. VELAZQUEZ. Thank you.

Mr. MAURSTAD. Yes, ma'am.

Ms. VELAZQUEZ. According to the Puerto Rico Planning Board—and we are talking about a U.S. Territory—200,000 residences on the island are located in flood-prone areas. Yet, according to FEMA's data, as of February 2023, only 4,368 units have active NFIP policies. What actions is FEMA taking to ensure that more homeowners and renters in Puerto Rico are covered by NFIP policies in light of what we witnessed after Hurricane Maria?

Mr. MAURSTAD. Yes. That is very much an issue of concern to the program. I have actually met with the insurance commissioner of Puerto Rico when I was down there working with him on what we can do to increase the number of property owners who have flood insurance protection.

And we will keep working on that, because as I said, seeing homeowners and renters who don't have coverage in neighborhoods that I visited after events is tragic; their lives are completely disrupted and turned over. So, we need to do what we can to make sure they have their coverage. I believe the affordability proposal that we have included in our recommendation would be helpful.

Ms. VELAZQUEZ. You need to be more proactive in that sense; a lack of awareness and information is an issue here. Thank you.

Mr. FITZGERALD. The gentlewoman yields back.

Next, we will turn to the gentleman from Florida, Mr. Posey.

Mr. POSEY. Thank you, Mr. Chairman.

Mr. Maurstad, how much has the flood insurance program spent on maps?

Mr. MAURSTAD. I will get you the exact figure, but it is upwards of a \$5-billion investment.

Mr. POSEY. A \$5-billion investment?

Mr. MAURSTAD. Yes, sir.

Mr. POSEY. Does that include recent years?

Mr. MAURSTAD. I will get you the exact figure and the amount by year, but that is cumulative. In the last few years, roughly speaking, it is been about \$600 million.

Mr. POSEY. What is the most times the flood insurance program has paid for a total loss or maximum policy limits on one single insured property?

Mr. MAURSTAD. The number of times?

Mr. POSEY. Yes.

Mr. MAURSTAD. I don't have the exact number. That question came up earlier. I will certainly get it. I know that as I indicated in my opening remarks, there are hundreds of properties that have more than 10 losses.

Mr. POSEY. We have heard numbers as high as 16 times paid for a single total loss. I even heard one time that they paid 30 times

for a total loss of a property, which is absolute, complete insanity, in my opinion.

Mr. MAURSTAD. Sir, right now we don't have the authority or the ability to not provide coverage to someone who is in a participating community. That is why we put forward in our recommendations a multiloss provision that would address the problem that you—

Mr. POSEY. I would think once you paid for total loss, you say, okay this is off the map, we are not going to insure this property again, much less more than 10 times, thousands of properties, perhaps. Last fall, one news source said that Administrator Criswell called the FEMA flood maps, "useless." Could you briefly explain what she meant by that?

Mr. MAURSTAD. I am not familiar with that remark. I know in my conversations with Administrator Criswell, she is supportive of the mapping program that we have, recognizing as we put forward in our recommendations that we can do more than we are doing now to identify risk outside the high-risk areas through non-regulatory products. And I believe that the Administrator, without doubt, sees the value associated with the Flood Insurance Rate Maps in the 22,400 communities across the country.

Mr. POSEY. When I was first elected 14 years ago, they said that to properly evaluate risk, they needed new maps, which would cost \$500 million, and then, it would take 3 to 5 years to evaluate the maps. I passed amendments here a couple of times saying, why don't you just use DOD, Homeland Security or NOAA maps; they have a current topo in every inch of this country. There is no need to go outside to pay for more maps to be developed.

The Association of State Floodplain Managers estimated that the price to consistently update floodmaps would range from \$107 million to \$480 million annually. Director Criswell has said that the current policy fee for mapping would have to be raised to a level that would threaten affordability and discourage insurance. Would you care to comment on that?

Mr. MAURSTAD. Again, I think that the investment in our flood maps, whether it is from the policyholder fee or whether it is from the appropriation from Congress, is important to make sure that our maps accurately reflect the 1 in 100 percent chance event in the communities across the country.

Mr. POSEY. Why does FEMA continue to resist making all of the data and methods models that they use, the calculations and how they calculate it under Risk Rate 2.0, completely and fully transparent?

Mr. MAURSTAD. Sir, I believe we have provided all the information that we have been requested to provide. We have been very transparent; we provided the entire methodology for the development of the actuarial sound pricing model that we now use. If there is additional information that would be helpful to you, we will certainly do our best to provide it for you.

Mr. POSEY. How can policyholders appeal their premiums under 2.0?

Mr. MAURSTAD. They can work with their agent the same way that they work with premiums on the other insurance that they have with the agent. If they think the information that has gone into developing their premium for their particular property is inac-

curate, then they can work with their insurance agent to correct that and make sure that the premium that they are being charged reflects the risk of their property.

Chairman DAVIDSON. The gentleman's time has expired.

Next, we will go to the gentlewoman from Michigan, Ms. Tlaib.

Ms. TLAIB. Thank you so much, Mr. Chairman.

If I may, I would like to submit a New York Times article, "A Broke, and Broken, Flood Insurance Program," into the record.

Chairman DAVIDSON. Without objection, it is so ordered.

Ms. TLAIB. Thank you so much.

Mr. Maurstad, thank you so much for being here.

As you know, I come from an incredibly strong community, the City of Detroit, where we have birthed movements on a number of things that I think kind of change the trajectory for our whole country, not just in the automotive industry, but in music, and everything.

But even now, I talked to our Chair of our committee about the fact that many of our families farther away from bodies of water are now impacted in a very significant way from flooding. We are seeing that more and more.

In my district, I was shocked that 4 times within one summer, I think between June and July, the City of Dearborn had huge amounts of flooding. In Inkster, I met a senior citizen whose basement didn't get coverage or anything. She is still dealing with mold, and she is in her 70s.

So, I started looking and researching, what is the process of getting flood insurance? Of course, mapping continues to come up. But, say, for instance, Mrs. Smith from Inkster, or from Aviation Sub in Detroit, or from Dearborn, picks up the phone and says, "I want to get flood insurance."

By the way, the average home insurance in Detroit specifically is about \$3,700. And the majority of homes in my communities that I mentioned are valued at less than \$100,000. These are working-class families.

But she picks up the phone, and she wants insurance. You go to the list or whatever, and it comes back incredibly unaffordable, right? We talked about this. What is she supposed to do at that point? Because whether she went to the FEMA site, they said, sorry. First, they don't clean out basements—I don't understand that—unless there is, like, a room or somebody sleeps down there. It is this whole process they go through.

And then, even though she brought her pictures, she showed me her receipts of all of the things, there was no sense of how she could even get covered. I don't know what we are supposed to do when the national program, to me, doesn't include all of the Americans who are impacted by flooding right now.

And even when I talk to Full Committee Chair McHenry—we talked about this. I don't know. You tell me, Administrator. Out of the close to 5 million who can afford this, what is their income? What is the value of their homes? Is it the million-dollar homes that get access to the flood insurance? I want to know, because the families in my community are not able to access this in an equitable way. And I don't know how we change this, because I know we are just going to renew this and not make any changes. That

is exactly what is going to happen. I have seen it happen over and over again.

Mr. MAURSTAD. The affordability problem is one that has been around for a while. And, in fact, Congress recognized in the 2012 reauthorization that, as discounts and subsidies were going to move away, that affordability was going to be more of an issue.

So, you charged FEMA with developing an affordability framework, which we provided to Congress in 2018, which is the basis for the proposal that we have put forward to develop a means-tested, premium-assistance affordability program. But the report tells us that about 25 percent of the individual policyholders in the high-risk area are low-income. It also tells us that 50 percent of the property owners in the high-risk area are low-income.

So, it is abundantly clear—and I understand how difficult it is to have those kind of conversations with people who need the coverage so badly and have had losses. But it has the information that we need to provide assistance through our affordability proposal.

And I appreciate the committee's attention to that recommendation.

Ms. TLAIB. I will end with this. One of the things—and I agree with Congresswoman Velazquez about the lack of access of information in regards to accessing the flood insurance. What I do notice is, even when my folks do have some sort of insurance, I have to call. And I personally call, and I would recommend my colleagues to pick up the phone and use the power of your office to call these insurance companies that deny the claims.

It infuriates me when I have to pick up the phone or use my letterhead to say, hey, here is all of the things that my resident submitted. Is there is nothing you can do in regards to some of what is happening there? My residents are paying into a system and they are not getting—

Mr. MAURSTAD. There absolutely is something that we can do. And, in fact, Congress also took steps to do something when we created the Office of the Flood Insurance Advocate for those who are having a difficult time working their way through the program, so they have that means.

So, in addition to your having to do what you indicated you do with your letterhead, you can also send them to the Office of the Flood Insurance Advocate at FEMA to help them.

But back to some of the earlier conversations—

Chairman DAVIDSON. The gentlewoman's time has expired. Maybe you could get that in writing.

I will now turn to the gentleman from New York, Mr. Garbarino.

Mr. GARBARINO. Thank you, Mr. Chairman.

Superstorm Sandy was one of the biggest natural disasters in U.S. history. While it was technically no longer a hurricane by the time it reached the shores of Long Island, Sandy caused massive coastal flooding that reached the heights of 5 and 6 feet in places across my district.

Given the risk of flooding along the South Shore of Long Island, my constituents are keenly aware of the need for affordable flood insurance. However, since Risk Rating 2.0's implementation, just under 4 million Americans have seen their premiums increase. In

many instances, individual household rates have more than doubled since the launch of the new Risk Rating 2.0.

Mr. Maurstad, you have gone on the record as saying it is both equitable and adaptable. You have also gone on to say that it corrects pricing inequities for close to a million policyholders living in low- and moderate-income communities. However, these comments seem to be in direct contrast with recent comments made by Secretary Mayorkas during his most recent appearance before the House Homeland Security Committee.

To quote Secretary Mayorkas, "DHS is reviewing and needs to continue to review the Risk Rating 2.0, given the concerns that have been expressed."

To me, it sounds as if the methodology for setting flood insurance premiums needs more tweaking than initially expected. From the outside, looking in, there seems to be a clear disconnect between you and the Secretary on the effectiveness of Risk Rating 2.0. Is FEMA and/or DHS currently reviewing the methodology behind Risk Rating 2.0's determination of risk? And, if so, can you provide an explanation of what is exactly is being reevaluated?

Mr. MAURSTAD. Yes, sir. Thank you.

I actually have been in conversation with the Secretary's office, and they continue to be as supportive of Risk Rating 2.0 as when he issued a statement on April 1, 2022, in support of the changes.

The only report that I am aware of is that the GAO is currently reviewing the Risk Rating 2.0, and we are cooperating fully with them. And I think that report will be coming out in the next couple of months.

Mr. GARBARINO. Okay. I think you should check with the Secretary, because last week in front of the committee, he said that DHS is reviewing and needs to continue to review Risk Rating 2.0.

With what I have seen happen with a lot of constituents and their policies under Risk Rating 2.0, I think it needs to be reviewed and possibly changed. So, I think I understand what he said last year in support of it, but what he said last week is different.

One comment I will make before I move on to my next question is that this is a topic I have been following closely since arriving to Congress, and I have been working closely with Leader Scalise on it. I appreciate his leadership on the issue, and I hope that we all can work together that ensure that the U.S. flood insurance market is stable and affordable for all Americans, particularly those on a fixed income.

And I want to ask this as a follow-up to my colleague, Mr. Posey's, question. He asked about—and I think in your answer you talked about how, if something is wrong with the premiums or if a homeowner thinks their premiums are too high, they can go to their agent and possibly get it fixed. I believe 93 percent of insurance policies, flood insurance policies, are written under NFIP and set.

And I also heard from my constituents. One thing I keep hearing from them is that on Long Island, they have taken steps to mitigate flooding, whether it is by raising their house or by other structural changes. But those changes are not reflected in their monthly premium. I asked one of the witnesses at our last hearing about whether there are clear financial benefits for policyholders who

have implemented these mitigation features, and the answer that I received really just created more uncertainty.

We were told that the challenges that agents have under Risk Rating 2.0 is that the black box rating engine is making it nearly impossible for agents and floodplain officials to provide specific guidance to consumers who want to both implement mitigation and know what their return on investment or monthly premium is going to be.

So, Mr. Maurstad, I will pose the same question to you that I did at the last hearing. Under Risk Rating 2.0, are there clear financial benefits for policyholders who have implemented these mitigation features, as it uniquely pertains to the person's monthly premiums? If so, what do those benefits look like?

Mr. MAURSTAD. Yes, certainly, there is no question that if policyholders take measures to mitigate their risk, either by elevation of their structure or by moving air conditioning equipment up off the floor, there is a credit for that. And it is very clear, and we can provide you some examples of that.

Back to the rating engine that I mentioned before, there have been over 100 million quotes provided through that rating engine. So, people are clearly looking at what the options are within Risk Rating 2.0.

Mr. GARBARINO. I am out of time.

Chairman DAVIDSON. The gentleman's time has expired.

The Chair now recognizes the gentlewoman from Colorado, Ms. Pettersen.

Ms. PETTERSEN. Thank you, Mr. Chairman.

I am grateful that this committee is focused on a pathway forward to reauthorize the National Flood Insurance Program because this is absolutely critical in Colorado. My communities throughout my district experience heavy snow melts or serious storms which can potentially lead to damaging and dangerous floods.

In recent years, the ongoing risk of catastrophic wildfires has only compounded the challenges that Coloradans are facing. We now see communities narrowly avoid immediate danger of a wildfire, only to find their homes susceptible to flood damage.

As Coloradans recover from fires, we also are seeing communities where the ability to purchase wildfire insurance is not even an option. Similar to flood insurance, though, many homeowners don't even realize that their typical insurance policy does not cover these catastrophic events until disaster strikes.

Improved transparency and clear disclosures of flood and fire danger are necessary to better educate people about their potential risks when they are purchasing homes, and I do hope this committee also works on providing tangible support for homeowners who live in communities like mine, which are susceptible to wildfires.

Post-fire flooding can damage and harm communities for months and even years following a wildfire. How does FEMA's Flood After Fire Campaign seek to work to educate homeowners about the potential threat of flooding in the aftermath of a wildfire? And are additional resources necessary to ensure that more people actually follow through and purchase flood insurance after a wildfire?

Mr. MAURSTAD. There are many sources of flooding, and you have articulated a couple that a lot of folks don't think about. Certainly, flood after fire is a huge issue. The circumstances can actually—it sometimes takes more than 6 years for the ground to be able to be like it was before. So, that flood risk is not only just for that next season, but for about 5 or 6 seasons afterwards.

And yes, we did a Flood After Fire Campaign in Colorado to try to help people understand what their flood risk is, and we are doing similar things in other parts of the country. And we are going to continue, because it is vital, as one of the themes, of course, is we need to close the flood insurance gap. Only 4 percent of property owners in the country have flood insurance and we need to do better than that.

So, any help that we can provide you in that regard, we certainly want to provide.

Ms. PETERSEN. Great. And do you actually target it specifically to communities for your awareness campaign around potential flooding and the options for flood insurance to those communities that have been affected specifically? And do you do it after every wildfire? Or how does that work?

Mr. MAURSTAD. Yes. We don't do it after every wildfire. But we do work with State insurance commissioners and different State insurance organizations in situations where we have flood after fire. We do some targeted outreach, as we did in Colorado. We don't do it after every wildfire.

Ms. PETERSEN. It seems like our offices could help support our constituents with information like that when, unfortunately, things like this are inevitable in communities like Colorado.

Another question that I have is, currently, the flood-related disclosure requirements are set at the State level, and neither renters nor homeowners may be aware of the flood risks of a particular property. What are the requirements to obtain and maintain flood insurance following a disaster assistance for previous floods? Do you think federally-required flood disclosures would be a helpful tool for consumers, especially for renters, to understand their risks and the availability of fair and affordable flood insurance cover through NFIP?

Mr. MAURSTAD. I absolutely do. And one of our 17 recommendations, in fact, would create such a uniform standard throughout the States and Territories.

Ms. PETERSEN. Great. Thank you so much.

I yield back.

Chairman DAVIDSON. The gentlewoman yields back.

We are jumping around here. We have Members who are voting, but Mr. Horsford from Nevada will be next.

Mr. HORSFORD. Thank you, Mr. Chairman.

While I appreciate that we are continuing the important discussion around the National Flood Insurance Program and the importance of its reauthorization with a long-term reauthorization, I do have to say that I wish we were better using the time of this subcommittee to really focus on the pressing issues that our constituents really need us to address, including the housing affordability crisis that is crippling our country. At a time when sales volumes remain depressed, pending listings are down 23 percent from last

year, and the average household spends 31 percent of their income on mortgage or rent, Congress needs to act.

My constituents are struggling to find a way to put and maintain a roof over their heads, and that should be the first concern for this subcommittee. I know under the leadership of the Democratic Majority, that was the priority, so I want to know, where is the housing on our agenda? When are we going have a hearing on housing affordability?

We entered this Congress 4 months ago in the midst of a housing shortage, and it has only deepened since then. While I understand that we have to cover a whole host of issues and topics, today's housing crisis is just simply too consequential for me to remain silent. We are nearly 14 million homes short of the aggregate demand, and this lack of supply is driving housing costs through the roof.

I am told stories, painful stories, by constituents in my district who are struggling to be able to afford rent or to buy a home. However, from what I have seen, there is only one approach coming from the other side and that is to slash the Federal housing budget, putting millions more of our people, our constituents at risk of losing their homes, and doing nothing to incentivize new constructions.

This is a nationwide crisis and, again, I ask the Majority on the other side of the aisle: Where is the plan on housing? When will we have a hearing? This is the Subcommittee on Housing. So, I would ask the Majority: When will we have a hearing?

I also want to ask the Majority whether you will work with me on the bill that I have introduced, H.R. 702, the Housing Oversight and Mitigating Exploitation Act (HOME Act), to protect the limited supply of housing that we have and to protect everyday Nevadans from being exploited by out-of-State corporate speculators who are driving up the cost of housing.

These massive corporations and investors have been outbidding my constituents everywhere we look, and far too often the homes these non-occupant investors purchase will never resurface on the housing market. That is unconscionable. These homes should be going to the individuals who live in our communities, and, instead, they are taken off the market to pad the pockets of wealthy Wall Street hedge funds.

While reports continue to come in that these corporate speculators predominantly target neighborhoods of color and single moms, my bill, the HOME Act, will give HUD the tools necessary to investigate these allegations. Not only will HUD be able to collect the necessary data on who these speculators are targeting, but it also gives HUD the tools necessary to ensure that we have a level playing field in the housing market.

So, I would encourage my colleagues on this committee to look at this bill, H.R. 702, so that we can advance serious policy on a serious issue.

I would also encourage everyone to come to my district and to hear from my constituents about the pain associated with the lack of affordable housing options. Actually, this issue is so pressing in my district, I am bringing together the Tri-Caucus, the Black, His-

panic, and Asian Pacific American Caucuses for a housing summit in my district on May 8th.

We are working hard every day to address the issues that matter most to our communities. And if anyone wants to deliver real results for our communities, then I welcome you to join us in this work.

This is the priority that this Subcommittee and the Full Committee should be focused on. I would ask the Majority to please make housing affordability the priority that it deserves to be. That is what this subcommittee should be charged with while we reauthorize flood insurance for the next 10 years.

With that, I yield back.

Chairman DAVIDSON. The gentleman's time has expired.

We are going to make a change in the Chair, and then we are going to go vote.

We are going to have the committee recess, and then we will reconvene immediately once we have Members in place.

[Brief recess.]

Mrs. HOUCHIN. [presiding]. The committee will come to order.

I would now like to recognize myself for 5 minutes. Thank you.

Thank you, Mr. Maurstad, for being here today.

Flood insurance is an issue that has an important impact on my district in Indiana. While we are firmly in America's heartland and have no risk of flooding from hurricanes, much of Indiana's Ninth District sits along the Ohio River, running from Aurora in Dearborn County, to New Albany in Floyd County, and along the river in Harrison County.

Indiana's Ninth District is also home to many creeks, ponds, and lakes, each of which can have a flooding impact on properties, businesses, and homes during times of heavy rainfall, causing property damage and sometimes death.

Just last September, I was on the ground with the Indiana Department of Homeland Security for flooding that occurred in Switzerland, Jefferson, and Ohio counties in my district. Several years ago, I worked for U.S. Senator Dan Coats and we worked with stakeholders during the last map update.

I want to say, first, I really appreciate the work of FEMA. Also, when I was working for Senator Coats, I was on the ground for the tornado that hit Henryville, Indiana, and I worked with FEMA for about 6 months and they provided excellent service during that time. So, thank you.

Many Hoosiers face the threat of flooding. The vast majority of properties in Indiana lack flood insurance coverage. Approximately 2.5 million properties currently don't have NFIP coverage. The number of homes and businesses covered has also dropped in recent years. In March 2021, there were 20,100 NFIP policies in place in Indiana. As of last October, there were less than 17,400 policies, a drop of more than 13 percent, or over 2,700 policies, from just a year-and-a-half prior.

One reason why Indiana has been dropping NFIP policies is due to cost. Between 1978 and 2017, Hoosiers paid over \$440 million in NFIP premiums, while they received less than \$290 million back. So they paid \$150 million more than they received. With inflation forcing Americans to tighten their belts, many can't afford

to pay these high premiums, which in Indiana, as of 2018, averaged \$993.

It is not an unique issue to Indiana, and I have recently said that I appreciate that we are looking at a modernization of the flood insurance program because, if it is not working in Louisiana, and it is not working in Indiana, we probably need to find a way to fix some of the issues.

My question is: While the implementation of Risk Rating 2.0 reflects an attempt to more-accurately measure risk within the NFIP, Congress will still need to work further on NFIP reforms to maximize the efficiency and the potential of the program. It is likely that NFIP will never be able to provide protection against all floods and flood risks nationwide by itself.

Do you support efforts to encourage more private insurers to enter the flood market to help lighten the flood risk for NFIP?

Mr. MAURSTAD. First of all, the area in Indiana you describe sounds a lot like my home in southeast Nebraska. So, I certainly understand what you are talking about.

When the National Flood Insurance Program began, the first government reinsurance program, part of the thinking there was that it would allow the private insurance industry to better understand flood risks so that more companies on the private side would come in and help us close the flood insurance gap.

And one of the provisions, as I mentioned earlier, of our recommendations is to let concurrent coverage come back, so that somebody who leaves can come back. We think that will certainly be helpful. I think the other reforms that we are making also are beneficial for the private sector, which many times mirrors how the NFIP handles flood.

Mrs. HOUCHIN. I know Indiana isn't unique to this issue. Americans across the country face a risk of flooding. I look forward to working on meaningful solutions to address this. Thank you.

I yield back.

The gentlewoman from Georgia, Ms. Williams, is now recognized for 5 minutes.

Ms. WILLIAMS OF GEORGIA. Thank you.

We are in the middle of a housing crisis, and I have constituents who can't afford their mortgage or rent payments. But today, we are going to have another hearing on flood insurance, for the second time in 2 months, instead of discussing how we can lower housing costs in our districts and across the country.

In the fourth quarter of 2022, rent in the Atlanta metro area increased by 6.4 percent, compared to the fourth quarter of 2021. Since we have yet to focus any of our time in the subcommittee on housing, community development, and insurance, figuring out how to increase the supply of affordable housing, or drive down home prices for our constituents, I am happy to have this conversation again today about the needed reforms to the National Flood Insurance Program that would help those who manage to buy a house or rent an apartment keep their home, should it flood.

Atlanta is a city with the largest racial wealth gap in the country. And as I mentioned, Atlantans face skyrocketing housing costs. In Georgia's Fifth Congressional District, people who need flood insurance might not be able to afford it. But if their home floods, like

so many did in the catastrophic flooding in 2009, which caused \$500 million worth of damage, they simply can't afford to not have it.

Mr. MAURSTAD, I am very supportive of the Administration's recommendation to create a means-tested assistance program that will help low- and moderate-income families afford flood insurance by offering them a graduated discount benefit.

Has FEMA fleshed out what the particulars of this program could be, for example, what the discount percentages or the amounts would look like and how much money people could save?

Mr. MAURSTAD. Thank you for your support and for the question.

To date, we have not actually developed the program. What we have outlined is a framework for the direction that we believe the program should be instructed to go by Congress in developing this affordability framework. So the details, we have not—

Ms. WILLIAMS OF GEORGIA. Still working on it.

Mr. MAURSTAD. Still working on it.

Ms. WILLIAMS OF GEORGIA. In our March 10th hearing, I asked once of our witnesses about legislative solutions for addressing racial disparities that people of color face. Communities of color are more likely to be susceptible to flooding but are not designated as Special Flood Hazard Areas. Additionally, the Urban Institute found that people of color are less likely to have flood insurance, and if they do have insurance, they experience a higher rate of unpaid claims.

Is the NFIP aware of and proactively collecting data on these disparities?

Mr. MAURSTAD. There is no question that what you describe should not occur. We are working on making sure that all of our programs are based in equity. It is a priority of the Administration.

As I had mentioned, answering an earlier question, as we look at how we can provide the data that is necessary for you to make policy decisions, if you have any suggestions for us, we will take those. And we will try to do a better job of providing the data that would be helpful.

So, I would like to get back to you and work on exactly what information that you are looking for to see if we can deliver that.

Ms. WILLIAMS OF GEORGIA. I would love to hear more on the data collection.

Also, are there any additional steps that NFIP can take to reduce these disparities? And do you have any thoughts on what they are?

Mr. MAURSTAD. We are working with our adjustors to make sure that they understand unconscious bias and that they make sure they treat every policyholder fairly. That is critical. When I talk with adjustors, I suggest to them that they should handle that claim as though it was my mother's claim, because if it is not handled well and comes onto my desk, we are going to have a discussion about it. And that also goes for making sure we treat everyone fairly.

So if there are circumstances where that is not happening, I want to know about it, because we will correct it.

Ms. WILLIAMS OF GEORGIA. Thank you.

Last Congress, we took steps to improve stormwater infrastructure, a vital step in protecting our most-marginalized communities,

and addressing the threat posed by more-frequent extreme weather events caused by climate change. While much more needs to be done, this is an important step in the mitigation.

Since mitigation efforts are included in risk assessment, have these efforts affected rates?

Mr. MAURSTAD. They are affected in a couple of different ways. One, as they are reflected in the communities' Flood Insurance Rate Maps, they are reflected there. As they are picked up in the CAT Modeling, in the experience of the catastrophe modelers, when mitigation activity occurs, those benefits are a part of the catastrophe models.

So, we are looking at making sure that mitigation efforts are and continue to be recognized in the program, because when we talk about what property owners need, we talk about the need for insurance and we talk about the need for mitigation. It is a two-pronged approach that we need to take.

Ms. WILLIAMS OF GEORGIA. Thank you.

My time has expired, and I yield back.

Mrs. HOUCHIN. Thank you, Ms. Williams.

The gentleman from New York, Mr. Lawler, is now recognized for 5 minutes.

Mr. LAWLER. Thank you, Madam Chairwoman.

And thank you, Mr. Maurstad, for being here today and addressing our questions and concerns.

As you mentioned in your opening statement, my district, like many across the nation, has seen more frequent and intense flood events occurring in recent years. And this is likely to continue. These are threats that will cost American homeowners, renters, and businesses billions of dollars in the near future.

And it is an important topic. Despite that fact, this hearing will mark the first appearance by FEMA before this committee in over 6 years, going back to March of 2017. So, I want to commend Chairman Davidson for having this hearing and making an effort to restore the committee's oversight of the NFIP program and see that these important issues are being examined.

Mr. Maurstad, the Government Accountability Office has observed that the NFIP has two competing goals: keeping flood insurance affordable; and keeping the program fiscally solvent. The balance between these two goals would appear to be especially difficult at the moment. While inflation is at a 41-year high and Americans are dealing with an affordability crisis, the implementation of Risk Rating 2.0 has led to increases in premiums for millions of Americans. We have heard reports of premiums in New York nearly doubling, increasing from \$1,184 to \$2,197, on average.

When contemplating those two objectives, how does FEMA attempt to strike a balance between them?

Mr. MAURSTAD. First of all, thank you for the question.

And certainly, there are competing interests within the program that we are working hard to make sure we balance. Making premiums reasonable and making premiums be risk-based and actuarially sound can happen. And that is what our program has done.

There is some misconception out there that the new pricing methodology increased the amount of premium dollars the program needs, and that is not the case. First, we would have needed to col-

lect the same amount from all of our policyholders in the old legacy system that we now collect under the new rating methodology. Now, we base that premium on actual risk characteristics of the property instead of the zone in which that property happens to be located.

Second, another piece of the new methodology that is not well-recognized is that new policyholders come into the program at full risk rates. They no longer come into the program with a discount or a subsidy. So, the doubling of the insurance costs that you mentioned is not for a current policyholder. A current policyholder's premium can only go up the statutorily-required 18 percent. But new property owners have to pay the full risk rate.

The third point that I would make is that for the first time, the program is actually able to tell policyholders and property owners what their full risk is; we couldn't do that before. So now, folks understand that at some point, their rates are going to go from \$1,500 to \$3,000, but they are going to go there on an 18-percent glide path. But that number of knowing what it is has people concerned, rightfully, because now they know what their full risk is and they can take steps to mitigate.

Mr. LAWLER. Can you speak to what reforms would help grow awareness of the need for flood insurance and would encourage more Americans to be covered either through the NFIP or through the private market? We have seen over in Europe, certain programs and advertisements to try and encourage that. But what are we doing here in the United States to encourage people?

Mr. MAURSTAD. Yes, there's no question that flood risk is under-appreciated across the country. We can all do a better job of making sure people understand the peril associated with floods and the reason why that financial security of a flood insurance policy is so important.

But we don't work on this alone. It is not just FEMA. We work with the 48 write-your-own insurance companies that administer the program on behalf of us. We rely on them to do their part to make sure people understand flood risks. We work with community members, the 22,400 communities that participate in the program. We try to provide them the information, and many of them do their own campaigns. Many State insurance commissioners do their own campaigns, trying to raise flood awareness.

So, there is no question that we need to do a better job of making sure people appreciate the true flood risk the nation faces.

Mrs. HOUCHIN. The gentleman's time has expired.

Thank you, Mr. Lawler.

The gentlewoman from Texas, Ms. Garcia, is now recognized for 5 minutes.

Ms. GARCIA. Thank you, Madam Chairwoman.

And thank you to Mr. Maurstad for being here with us today to bring us an update on the flood insurance program.

I represent the Houston area. And as our ranking member has mentioned, we have a lot of flood-prone areas and have had numerous 500-year events, both flooding and just rainy events. And the biggest priority for me is, of course, accessibility and affordability.

The area itself was hit by Hurricane Harvey in 2017, which caused about \$125 billion in damages and over 100 deaths. That

is, what, about 4 times your authorization of \$30 billion. In the greater Houston area alone, there are over 332,000 residential properties in FEMA-designated floodplains, and one out of seven projects has sustained substantial risk of flooding, or will by 2050.

Research also shows that low-income and non-White communities are more at risk for flooding in the Houston area as a result of longstanding discriminatory housing policies.

For many people in my district, they really cannot afford the insurance. That is really the biggest, biggest barrier. And that is also true for most minority communities. In fact, some of the distribution of our dollars has been challenged as unfair and with a disparate impact on our minorities.

Because my district is 77-percent Latino and largely working-class, we have found that the biggest challenge we have is lots of rentals, and a lot of older populations who own their homes and can't afford the insurance.

I heard you respond to my colleague, Ms. Williams, that you are still working on it. And I just want to implore; I heard the same answer last time. It has been over a year at least since I have been here to ask some of these questions.

What is it that is keeping you going from using this new modeling to make it more affordable and accessible? I just don't understand why we keep getting the same answers.

Mr. MAURSTAD. We do not have the statutory authority to develop a program that bases the premium on one's income, which is why it is one of our 17 recommendations and is so important with not only making sure people who need the coverage in the areas that you describe but that we can develop a program that works for all Americans.

So, it is simply that we don't have the authority right now to develop that program.

Ms. GARCIA. But if you could, what would it look like? I think that was—

Mr. MAURSTAD. If we could—

Ms. GARCIA. —the question, and your answer was, "We are still looking at it."

Mr. MAURSTAD. If I said we are still looking at it, then I misspoke.

What we don't have is the details. We haven't written the regulation. We don't have all of the I's dotted and the T's crossed. So, what we have said is we are proposing to develop an affordability program that, if you are at 120 percent of the average mean income in your area, you would start to receive premium assistance, not your whole premium paid but premium assistance. And then, as your income goes down to 60 percent of the average mean income in your area, you would receive more of a discount than the moderate-income individual at the beginning of our program.

Ms. GARCIA. It would be—you are looking at a means-based, but will it be based on household? For example, we are flood-prone, but Montana may not be. So, will you look at regional considerations and considerations for—as the ranking member mentioned, California gets hit by fires and floods. For us, it is mostly floods and rain.

Mr. MAURSTAD. Sure.

Ms. GARCIA. And hurricanes.

Mr. MAURSTAD. The flood risk in every State is certainly different, and we recognize that now. But 98 percent of counties across the country have had a flood event. So, flooding can happen anywhere that it can rain.

And so, we want to work with you to make sure that we have the awareness needed to make sure that renters, and low-income people, understand they need the protection, but then also work with you to get our proposal in place so that we can design the program that is going to do so much good.

Ms. GARCIA. I would hope, sir, with all due respect, that the next time we have you here, we don't hear again that you're looking at—

Chairman DAVIDSON. The gentlewoman's time has expired.

Ms. GARCIA. Thank you.

And I yield back.

Chairman DAVIDSON. The gentleman from New York, Mr. Torres, is now recognized for 5 minutes.

Mr. TORRES. Thank you, Mr. Chairman.

I represent the lowest-income congressional district in America. The lowest-income Americans are hit the hardest by the crippling costs of the National Flood Insurance Program. Under Rating 2.0, FEMA is intent on raising premiums by as much as 18 percent a year for as long as 10 years. And FEMA would be raising premiums even higher than 18 percent, were it not for the statutory cap that Congress put in place several years ago. And an even stronger cap is needed to protect the lowest-income families from rapidly-rising flood insurance payments.

You brought up earlier the notion of calculating premiums in light of income. And when it comes to housing, the threshold for affordability is 30 percent, right? No one should pay more than 30 percent of their income toward their rent. What would be the threshold when it comes to a flood insurance policy?

Mr. MAURSTAD. The program that we designed, and the Administration supports, that we recommended, looks at it from the average mean income of the property owner.

The affordability framework that we developed actually outlined a number of ways that you could develop an affordability program. So, we are certainly willing to look and have a conversation with you if there is a different manner in which we could provide this much-needed—

Mr. TORRES. Is that something you would study, what would constitute an affordable percentage of one's income with respect to flood insurance?

Mr. MAURSTAD. My sense would be—I am not an expert in that—

Mr. TORRES. Because that is the approach we take with student debt, and with affordable housing. So, why approach it differently with respect to flood insurance?

Mr. MAURSTAD. We looked at the most-effective way, in our opinion, and that is what we have proposed. We certainly will look at different ideas if you have them.

Mr. TORRES. I want to move on. If you live in a Special Flood Hazard Area and have a federally-backed mortgage, you are required to have flood insurance. But not every person who lives in

a Special Flood Hazard Area with a federally-backed mortgage has flood insurance. Do you track noncompliance? And if so, what is the number of people who fall into that category?

Mr. MAURSTAD. We do not. That is actually a lender requirement, not an NFIP requirement, so we don't track those numbers. I think there has been some study done on it. We could provide you the information that we have, but the lenders would have that information.

Mr. TORRES. I am assuming the more participants in the program, the more financially-sustainable the program?

Mr. MAURSTAD. Actually, from an insurance perspective, it depends where those policyholders are. So, it is not as simple—

Mr. TORRES. Do you have a sense of where the enforcement is breaking down as far as the—

Mr. MAURSTAD. I don't know that the enhancement has broken down. So, I can't comment on that.

Mr. TORRES. Just judging by the noncompliance, that would seem to suggest that there is a breakdown in enhancement.

FEMA has a new methodology, Rating 2.0. I have heard complaints that the new methodology for calculating premiums is largely known only to insiders, and it is opaque to the rest of us, particularly State and local governments.

Does FEMA have any plans to make its methodology for calculating premiums more accessible and available to the public and pertinent stakeholders?

Mr. MAURSTAD. The rating methodology that we developed, that for the first time reduced a million policyholders' premiums an average \$60 a month—we have provided that methodology publicly already. We have also provided premium calculation worksheets and a number of other tools on our website that agents and companies have.

Mr. TORRES. Do you feel like there is sufficient transparency?

Mr. MAURSTAD. I believe we have been very, very transparent.

Mr. TORRES. We have heard otherwise from New York State. Do you know why people are under the impression that your method is insufficiently transparent?

Mr. MAURSTAD. Sir, I think that we have done a good job of providing all of the information someone needs—

Mr. TORRES. So, where is the misunderstanding?

Mr. MAURSTAD. —to assess the program, and GAO will be issuing their—

Mr. TORRES. Do you have a sense of where the misunderstanding is?

Mr. MAURSTAD. —report. Excuse me?

Mr. TORRES. Where is the misunderstanding? Because there seems to be—there is a common complaint I have heard that there is a lack of transparency around your methodology. You seem to be claiming otherwise. So, I want to understand, where is the breakdown in communication? Where is the misunderstanding?

Mr. MAURSTAD. I don't know the answer to that.

Mr. TORRES. It is something I would want to explore.

Would the program be solvent if the Federal Government paid the debt associated with FEMA—with Katrina?

Mr. MAURSTAD. The program is backed by the full faith of the U.S. Treasury, so, solvency—

Mr. TORRES. But apart from the full faith, the program historically has been self-sustaining, and self-financing. Would you be—

Mr. MAURSTAD. Actually, it has not been self-sustaining. And the very nature of a catastrophic insurance program indicates that it would be very challenging, if not impossible, for it to ever be self-sufficient.

Mrs. HOUCHIN. The gentleman's time has expired.

I would like to thank the witness for his testimony today.

The Chair notes that some Members may have additional questions for this witness, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to this witness and to place his responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing is adjourned.

[Whereupon, at 10:49 a.m., the hearing was adjourned.]

A P P E N D I X

April 28, 2023



STATEMENT
OF
DAVID MAURSTAD

ASSISTANT ADMINISTRATOR, FEDERAL INSURANCE DIRECTORATE
FEDERAL EMERGENCY MANAGEMENT AGENCY
U.S. DEPARTMENT OF HOMELAND SECURITY

BEFORE
THE

COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND INSURANCE
UNITED STATES HOUSE OF REPRESENTATIVES

"The Reauthorization of the National Flood Insurance Program: FEMA's Perspective"

Washington, D.C.
April 28, 2023

Good morning, Chairman Davidson, Ranking Member Cleaver, and other members of the Subcommittee. My name is David Maurstad, and I am the Assistant Administrator for the Federal Insurance Directorate and Senior Executive of the National Flood Insurance Program (NFIP) at the Federal Emergency Management Agency (FEMA). I thank you for the opportunity to testify today in support of reauthorization and reform of FEMA's NFIP.

Flooding is the most common and costly natural hazard in the United States, and has occurred in more than 98% of counties and territories in the country over time. Although just one inch of flood water can cause up to \$25,000 of damage in a home, flooding is not covered under most homeowners' standard insurance policies. With more frequent and intense flood events occurring, flood risk is becoming more severe across the nation. In Calendar Year 2022, the NFIP paid over \$3.8 billion to policyholders for flood damage. Flooding also results from many disasters, and we continue to see not just riverine and coastal flooding, but flooding in burn areas that have recently experienced wildland fires and from torrential rainfall as well.

Every year, thousands of families across the country are affected by these incidents. Families that live at the margins struggle with recovery the most and are usually the last to recover if ever. Flood insurance is an essential part of that recovery. I respectfully request that Congress expeditiously reauthorize and reform the NFIP to ensure the long-term viability of this essential program, along the lines that I will describe.

Congress established the NFIP in 1968 to encourage communities to make wise land-use decisions, and, in return for the community enacting floodplain management ordinances consistent with federal standards, the NFIP makes available flood insurance that allows people to protect homes in flood-prone areas.

For more than 50 years, the NFIP has been critical to the nation's resilience, however, much of the NFIP continues to operate on a construct developed over 50 years ago. Today, as our changing climate poses a serious threat to our nation and as the number and severity of disasters continue to grow, the NFIP requires structural changes.

On September 30, 2023, the NFIP's statutory authority to sell and renew flood insurance policies will expire. Since the NFIP's last multi-year reauthorization expired on September 30, 2017, the NFIP has experienced 25 short-term extensions and 3 brief lapses. The short-term extensions are disruptive and cause existing and potential policyholders to lose confidence in the NFIP.

To maintain this vital program and to rebuild and retain the trust of millions of Americans who rely on the NFIP, a multi-year reauthorization with comprehensive program reforms is imperative.

Last year, the Administration submitted 17 reform proposals embodying certain foundational principles that we believe should drive NFIP reform. And we will be submitting the proposals again this Congress. Today, I will speak to four of these key principles: ensure more Americans are covered by flood insurance, build the nation's climate resilience, reduce disaster suffering, and establish a sound and transparent financial framework for the NFIP.

First, ensure that more Americans are covered by flood insurance by making insurance more affordable to low-and moderate-income policyholders. Flood insurance is unaffordable for some low- and moderate-income policyholders. Under the current law, FEMA does not have the authority to establish and charge premiums based on a policyholder's ability to pay. Although the NFIP currently offers mandatory discounts and cross-subsidies based on factors unrelated to risk, those discounts and subsidies do not take into consideration the policyholder's financial need and, in fact, can make risk communication difficult; people may equate lower cost with lower risk. Reforms that address affordability, such as the use of a targeted assistance program, can offer low- and moderate-income, current and prospective NFIP policyholders a graduated risk premium discount while providing them with knowledge of the full-risk price to communicate a property's true flood risk.

Second, build the nation's climate resilience by communicating risk in real time and providing Americans with tools to manage flood risk. NFIP can expand the ways it communicates risk to current and prospective policyholders through reforms that increase the scale and frequency of flood mapping and incorporate emerging priorities and technologies into the flood hazard and flood risk identification. Anywhere it rains, it can flood, and raising awareness of true flood risk enables people to make informed decisions about their family and property. Home buyers and renters may lack awareness about flood risk when they complete real estate transactions. Reforms that would require states to establish minimum flood-risk reporting obligations for sellers and lessors before residential transactions close would address this challenge. As climate change continues to make disasters more frequent and intense, it is vital that we provide people with the tools they need to protect themselves financially as well as physically.

Additionally, we need to reform how we measure and communicate flood risk. The nation's evolving risks require flood hazard information that is more robust than the special flood hazard area (SFHA) and 1-percent annual chance flood elevation.

Third, reduce disaster suffering and mitigate risk by addressing extreme repetitive loss properties. Previous losses are a significant indicator of risk, meaning that if a property flooded before, there is a high likelihood that it will flood again. Since 1978, over 350,000 structures have had two or more paid losses and more than 3,000 structures have suffered 10 or more losses. The NFIP must have better tools to address insured structures that have experienced multiple flood claims. These repetitive loss and severe repetitive loss properties are responsible for a disproportionate share of overall losses and have a high risk of future flooding. About 2.6% of insured properties are considered unmitigated repetitive loss properties. Continuing to cover these types of structures without question contributes to the NFIP's financial challenges and can increase the risk that families living in those structures will face threats to their lives, health, and safety. Reforming the NFIP to institute an objective threshold to deny coverage to the most egregiously flood-prone structures would discourage unmitigated rebuilding in areas with a history of flooding and reduce financial risk to the NFIP, while ensuring that coverage is still widely available to individuals, families, and businesses who might not be eligible for private market coverage.

Fourth, institute a sound financial framework that allows the NFIP to balance affordability and fiscal soundness. Without this in place, the longevity and sustainability of the program is at risk. Congress authorized FEMA to borrow from the U.S. Treasury up to \$30 billion to pay claims. The NFIP currently carries \$20.5 billion in debt to the U.S. Treasury and anticipates paying \$619 million in interest expenses in Fiscal Year 2023 – this means we are using current premiums to pay for past claims. As currently structured, the program is unable to pay this debt back in full. Canceling the NFIP’s debt provides the program with a solid foundation that can support financial reforms around borrowing authorities, future interest, enhanced liquidity, and an “upper limit” for the size of an NFIP event. These types of reforms address fundamental structural challenges and are essential to building a viable NFIP.

It is critical that Congress provide urgently needed multi-year reauthorization and concurrently reform the NFIP. Comprehensive and transformative reform is necessary to transition the NFIP to a sustainable program that balances affordability and fiscal soundness, builds climate resilience, and reduces risk, loss, and disaster suffering.

On behalf of the Administration, FEMA looks forward to working with Congress to develop a long-term solution that addresses the needs of the NFIP, its policyholders, and the nation.

Thank you again for the opportunity to discuss this important issue, and I would be pleased to answer any questions that you may have.



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April 25, 2023

The Honorable Warren Davidson
Chairman
Subcommittee on Housing and Insurance
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Emanuel Cleaver
Ranking Member
Subcommittee on Housing and Insurance
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Davidson, Ranking Member Cleaver and members of the subcommittee:

Thank you for your decision to hold a hearing on April 28, 2023, titled “The Reauthorization of the National Flood Insurance Program: FEMA’s Perspective.” My name is Jerry Theodorou. I am the director of the R Street Institute’s (R Street) Finance, Insurance and Trade Program. R Street is a nonprofit, nonpartisan, public policy research organization based in Washington, D.C. Our mission is to engage in policy research and outreach to promote free markets and limited, effective government in many areas, including insurance. My expertise and background is in property and casualty insurance, with over 30 years employment as an insurance analyst and manager in the insurance industry. Flood insurance is an issue I follow closely. I have testified to U.S. Senate committees three times on insurance issues, including to the Banking, Housing and Urban Affairs committee hearing focused on reauthorization of the National Flood Insurance Program (NFIP), Part II, on June 16, 2022.¹

Flooding is the most common natural disaster in the United States, and is responsible for more economic loss than any other catastrophe, according to the National Oceanic and Atmospheric Administration (NOAA).² The NOAA estimates that 44 percent of the country is at risk of flooding this spring.³ The NFIP is the primary source of flood insurance, responsible for over 90 percent of the flood insurance market.⁴ It is therefore important for the health of the economy and the well-being of Americans that the NFIP be structured and managed prudently. We support long-term reauthorization of the NFIP. We also strongly support the six reforms and action items described below for the program to perform its role more effectively to develop a flood insurance market that provides protection from flood losses for more Americans.

Risk-Based Rating. The introduction and implementation of Risk Rating 2.0 in 2022/23 was a step in the right direction to bring fairness to the flood insurance marketplace. The rating methodology prior to Risk Rating 2.0 was binary—if a home was in a floodplain the premium would be much higher than if the home was not in a floodplain.⁵ This approach did not recognize the reality of the degree of flood exposure ranging widely along a scale. Risk Rating 2.0 takes into account numerous factors contributing to a home's exposure to flood.

Private Market for Flood Insurance. The private market for flood insurance is small, estimated at approximately \$300 million in premium/year, compared to the NFIP's \$3.5 billion.⁶ This is largely because the NFIP has been underpricing or providing premium subsidies to many homes, a practice which has led to the NFIP being \$20.5 billion in debt, not counting the \$16 billion of debt forgiveness in 2017.⁷ As risk-adjusted rates earn into the portfolio, private insurers will be more willing to allocate capital to flood insurance.

Public/Private Partnerships and Risk Sharing. The NFIP already avails itself of private market reinsurance. An example of how private market reinsurance has helped to reduce the burden on the NFIP's balance sheet was the \$1 billion reinsurance recovery following Hurricane Harvey in 2017.⁸ The cost of the reinsurance was \$150 million. We believe the NFIP should continue to structure its reinsurance tower with private market reinsurance, as well as insurance-linked securities (catastrophe bonds).

Promote Mitigation Measures. Mitigation is significantly preferable to *ad hoc* post-disaster government aid. What is more, mitigation sends appropriate price signals. Loss mitigation measures contribute to lower repair costs, which lead to lower insurance premiums. Many insurers give premium credits to homeowners who take measures to mitigate loss potential from flooding.

Repeatedly Flooded Properties. A disproportionately large percentage of flood losses are to homes that have been repeatedly flooded.⁹ We support measures to limit loss payouts to homeowners whose properties have been repeatedly flooded and rebuilt without adopting protective measures to reduce loss potential from future flooding events. We support sanctions on homeowners and communities that fail to comply with recommended flood-mitigation measures.

Expand the Risk Pool. There are only approximately 5 million homes with flood insurance coverage out of the nation's 70 million homes.¹⁰ Ownership/buyership of flood insurance needs to be increased to help create a healthy risk pool that does not suffer from adverse selection. Adverse selection occurs when only those who pose more risk buy insurance.

Thank you again for holding this important hearing and for your consideration of my views. Should you have any questions or wish to have further discussion, please do not hesitate to contact me.

Sincerely,

Jerry Theodorou
/s/
Director, Finance, Insurance & Trade Program
R Street Institute
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¹ “Reauthorization of the National Flood Insurance Program: Protecting Communities from Flood Risk,” U.S. Senate Committee on Banking, Housing, and Urban Affairs, June 16, 2022. <https://www.banking.senate.gov/hearings/reauthorization-of-the-national-flood-insurance-program-protecting-communities-from-flood-risk>.

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