



Homeland
Security

May 11, 2022

The Honorable Kamala D. Harris
President of the Senate
Washington, DC 20510

Dear Madam President:

Enclosed are 17 legislative proposals that would reform the Federal Emergency Management Agency's (FEMA) National Flood Insurance Program (NFIP). I respectfully request that Congress expeditiously take up and enact these proposals.

Congress established the NFIP to enable United States residents to buy insurance to protect their homes in flood-prone areas. For more than 50 years, the NFIP has been essential to the nation's resiliency policy. Today, the NFIP requires structural change to ensure that individuals and communities have a sustainable program to provide the assistance they need when they need it for decades to come.

On September 30, 2022, the NFIP's statutory authority, including the 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 21 short-term extensions, including three brief lapses. The frequent short-term extensions are disruptive and cause existing and potential policyholders to lose confidence in the NFIP as a reliable insurance program available to protect their homes and contents from the risk of flooding. As such, the Administration believes that passing a 10-year reauthorization with comprehensive program reform as soon as possible is an imperative.

As Congress considers NFIP reauthorization, the Administration urges Congress to consider several reform principles to 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. The principles outlined below reflect the Administration's priorities for multi-year NFIP reauthorization:

- **Ensuring more Americans are covered by flood insurance by making insurance more affordable to low-and-moderate income policyholders.** Under its current authorities, the NFIP can only make rates "reasonable" by offering discounts and cross-subsidies, primarily based on a building's age, flood risk map changes at a building's location, or by considering mitigation activities undertaken by the property owner or community. Such discounts and cross-subsidies make risk communication through the price of flood insurance difficult, contributing to policyholder misunderstanding of flood risk. A targeted assistance program would 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 in order to communicate the property's true flood risk. The price of a flood insurance policy is an important signal of flood risk. Property owners, families, and communities who do not recognize their true flood risk due to discounted insurance rates may not take necessary mitigation actions to prepare for and protect

themselves against flood events. Risk-based flood insurance premiums are appropriately higher priced in areas that have the highest flood risk.

- **Building climate resilience by transforming the communication of risk and providing Americans with tools to manage their flood risk.** The nation's evolving needs require flood hazard information more robust than the special flood hazard area (SFHA) and 1-percent annual chance flood elevation. Expanding the ways in which the NFIP communicates risk will provide the nation with a more comprehensive understanding of flood risk. Furthermore, a significant barrier to addressing the nation's flood risk is home buyers' and renters' lack of awareness about flood risk when they complete real estate transactions. Requiring states to establish certain minimum flood-risk reporting requirements for sellers and lessors before residential transactions close as a condition for participation in the NFIP would address this barrier.
- **Reducing risk, losses, and disaster suffering by strengthening local floodplain management minimum standards and addressing extreme repetitive loss properties.** The NFIP must have better tools to address insured structures that have experienced multiple flood claims. Known as repetitive loss (RL) and severe repetitive loss (SRL) properties, these structures are responsible for a disproportionate share of losses and have a high risk of future flooding. About 2.5% of insured properties are considered unmitigated repetitive loss properties of any category, indicating a high risk for future flooding. Multiple loss properties contribute to the NFIP's financial challenges and explain some of the public's negative perceptions of the program.
- **Instituting a sound and transparent financial framework that allows the NFIP to balance affordability and fiscal soundness.** 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 pays approximately \$300 million in interest expenses annually – using the current premiums to pay for past claims. As currently structured, the program is unable to pay this debt back in full. A sound financial framework, essential for establishing a sustainable NFIP, fundamentally challenges the original construct and assumptions that underly the program's existing financial framework.

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. It is critical that Congress provide urgently needed multi-year reauthorization and concurrently reform the NFIP.

The Department of Homeland Security and the Administration look forward to working with Congress to develop a long-term solution that addresses the needs of the NFIP, its policyholders, and the nation. We stand ready to work with you to achieve the objectives described in this letter.

Identical letters will be transmitted to the Majority Leader and the Minority Leader of the Senate, as well as to the Speaker, the Majority Leader, and the Minority Leader of the House of Representatives.

The Office of Management and Budget advises that, from the viewpoint of the Administration's program, there is no objection to the presentation of this legislative proposal to Congress.

If I may be of further assistance, please contact me at (202) 447-5890.

Respectfully,

A handwritten signature in black ink that reads "Alice Lugo". The signature is written in a cursive style with a large, prominent initial "A".

Alice Lugo
Assistant Secretary for Legislative Affairs

Enclosure