

## NATIONAL FLOOD INSURANCE PROGRAM

Floods are dangerous and destructive forces that can damage apartment buildings and disrupt the lives of their residents. Existing law requires apartment properties with federally regulated and insured mortgages in high-risk flood areas to purchase flood insurance. The National Flood Insurance Program (NFIP) is the only coverage option available to the vast majority of apartment firms across the country. The private insurance market has been hesitant to widely expand coverage beyond high-value and less-risky multifamily properties, which makes the NFIP a critical risk management tool for the industry. The NFIP was created in 1968 to ensure flood coverage was available and lessen fiscal pressure on taxpayers from having to cover 100% of disaster relief for flooded areas and shift some of the burden to property owners.

### ***NMHC/NAA Viewpoint***

***Given federal requirements to purchase flood insurance for apartment owners with federally backed mortgages, Congress should support measures that ensure affordable flood insurance is available at all times, in all market conditions for every at-risk rental property.***

The NFIP was last reauthorized by Congress in 2012 and is set to expire in 2017. The multifamily industry benefited greatly in 2012 when higher NFIP coverage limits were made available to multifamily properties. The maximum NFIP policy coverage limit available for multifamily properties increased from \$250,000 to \$500,000 per building. This increase has been very positive for multifamily borrowers because it makes complying with lender flood insurance requirements easier when securing project financing.

While the program is critical to multifamily operations, it is not without its challenges. The program was financially self-supporting, with insurance premiums covering operating expenses and insurance claims, until 2004. A number of major disasters and hurricanes since then, including Hurricane Katrina and Superstorm Sandy, have caused the NFIP to assume more than \$24 billion in debt. Substantial positive reforms have been made to the program to shore up its finances, but its bleak fiscal outlook remains problematic and opens it up to criticism and potential negative modifications that could be harmful to its future.

***FEMA reports that more than 20 percent of flood insurance claims come from properties outside of mapped high-risk flood areas.***

NMHC/NAA urge Congress to quickly reauthorize the NFIP and reform it in such a way that it ensures flood coverage continues to be available at all times, in all market conditions for every at-risk rental property. NMHC/NAA believe that reauthorization efforts should include sensible changes that improve the accuracy of the flood maps; increase apartment communities' access to current flood mitigation funding and programs; expand NFIP to include Business Interruption coverage for rental properties; and provide Replacement Cost Value (RCV) instead of Actual Cost Value (ACV) to damaged apartment properties.



## **ON POINT:**

# **NATIONAL FLOOD INSURANCE PROGRAM REAUTHORIZATION & REFORM**

## **BACKGROUND**

*The National Flood Insurance Program (NFIP) is set to expire in September 2017. Federal laws require apartment properties with federally regulated and insured mortgages in high-risk flood areas to purchase flood insurance. However, the private insurance market offers few policy options, and those that do are, in most cases, cost prohibitive.*

*For the vast majority of apartment communities, the NFIP is the only available option for coverage. These include more than just high rise multifamily properties in urban centers and extend across every state to include rental homes of all sizes and types. Ensuring that all rental properties continue to have access to affordable, quality flood insurance through the NFIP is a top priority for our membership to not only protect their property investment but to help manage the increasing costs of providing housing that is affordable.*

## **KEY TALKING POINTS**

- **Flooding continues to be the most common natural disaster in the United States.** Flooding events happen in every state and territory. No one is truly free of risk.
- **The NFIP is a critical risk management tool for apartment companies** to not only protect their property investment, but to help manage the increasing costs of providing housing that is affordable.
  - NFIP is especially critical for smaller or regional apartment firms who do not have the leverage to negotiate with a private insurance carrier for an umbrella liability policy to cover flood risk at an affordable rate.
- **Reforms are needed to ensure the long-term fiscal viability of the NFIP** so that the program can **continue to reduce taxpayer funded disaster assistance** for flooding events. These reforms include:
  - Improve the accuracy of the flood maps used to determine risk in the NFIP;
  - Increase apartment communities' access to current flood mitigation funding and programs;
  - Expand NFIP coverage to include Business Interruption for businesses so they can more quickly recover from a major flooding event.
  - Align NFIP multifamily & single family claim reimbursement handling to provide Replacement Cost Value (RCV) instead of Actual Cost Value (ACV) to damaged apartment properties.

## **SPECIFIC REQUEST**

Support timely passage of a long-term NFIP reauthorization bill. Reauthorization efforts should include sensible reforms that improve the accuracy of the flood maps; increase apartment communities' access to current flood mitigation funding and programs; expand NFIP to include Business Interruption coverage for rental properties; and provide Replacement Cost Value (RCV) instead of Actual Cost Value (ACV) to damaged apartment properties.

