

Flood Insurance

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The National Flood Insurance Program (NFIP) was created by Congress in 1968 to provide flood coverage in the absence of a private market. Even with the development of a private flood market in recent years, the NFIP remains the main source of primary flood coverage in the United States, with over 4.7 million total policies as of March 2024. Despite the program's importance to the housing market, Congress has not passed a long-term reauthorization of the program since 2012. For more than a decade, the program has operated under short-term extensions and has lapsed several times.

Congress should pass a longer-term reauthorization of the NFIP and work to enact reforms.

As flooding continues to be the most common and costly natural disaster in the United States, it is imperative that Congress ultimately pass a longer-term reauthorization of the NFIP. During this period of reauthorization, Congress should work to enact reforms to address the program's sustainability, affordability, and availability, including providing lenders and servicers with the tools needed to better serve their customers.

The absence of adequate guidance regarding compliance with the mandatory purchase obligation of the Flood Disaster Protection Act continues to pose significant challenges for banks of all sizes.

Although the prudential regulatory agencies took a positive step in May 2022 by publishing updated Interagency Q&As on Flood Insurance, significant areas of confusion persist. The Agencies must commit to providing the banking industry with clear, comprehensive, and consistent guidance using the notice-and-comment process to ensure they remain current and responsive to industry needs. Prior to the 2022 update, the previous updates occurred in 2011. An 11-year gap between updates is unacceptable, especially when the penalties for non-compliance are strictly enforced.

The lack of guidance is further compounded by inconsistent supervision and enforcement of the FDPA's mandatory purchase requirements, underscoring the critical need for the Agencies to provide clear and uniform guidance. Additionally, supervision and enforcement are not evenly applied across all mortgage lenders and servicers. Non-depository lenders now make the majority of mortgages originated today, yet these lenders are not subject to federal supervision for compliance with the mandatory purchase requirement.

Recommended Action Items

1. **NFIP Reauthorization:** Tell your member of Congress that it is critical that NFIP reauthorization is timely and long-term, and that reforms are needed to address sustainability, affordability, and availability to ensure American homeowners are properly protected from flooding.

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2. Regulatory Oversight: Urge Congress to require the prudential regulators to provide regular updates to flood compliance guidance using a notice-and-comment process.
3. Compliance v. Risk Management: Flood compliance is unduly complicated and burdensome, especially for small banks. Banking regulators should consider adopting a similar approach to flood risk as they do with other types of hazard risk, focusing on practical, risk-based assessments rather procedural compliance.