

## Congress Extends National Flood Insurance Program

With the [National Flood Insurance Program \(NFIP\)](#) hours away from its termination deadline, House and Senate lawmakers have approved a bipartisan measure—[H.R. 5860, the Continuing Appropriations Act, 2024 and Other Extensions Act](#)—to continue to fund the NFIP for an additional 45 days through mid-November.

The NFIP's last multi-year reauthorization expired on September 30, 2017, and since then, the NFIP has been extended 22 times (23 times as of today) and was allowed to briefly lapse on three occasions. Managed by FEMA, the NFIP is delivered to the public by a network of more than 50 insurance companies and the NFIP Direct.

Floods can happen anywhere, and studies have shown that just one inch of floodwater can cause up to \$25,000 in damage. Most homeowners' insurance policies do not cover flood damage, and flood insurance is a separate policy that can cover buildings, the contents of a building, or both.

The NFIP provides flood insurance to property owners, renters, and businesses, and having this coverage helps them recover faster when floodwaters recede. The NFIP works with communities required to adopt and enforce floodplain management regulations that help mitigate flooding effects. Flood insurance is currently available to anyone living in one of the almost 23,000 participating NFIP communities. Homes and businesses in high-risk flood areas with mortgages from government-backed lenders are required to have flood insurance.

"The National Association of Home Builders (NAHB) commends the House for acting in a bipartisan manner to pass H.R. 5860, legislation that will fund the federal government and the National Flood Insurance Program (NFIP) for an additional 45 days," said [Alicia Huey, Chairman of the NAHB](#), and a custom home builder and developer from Birmingham, Alabama. "NAHB has worked tirelessly with lawmakers to make them aware that even a short-term disruption to the flood insurance program would force delays—and in some cases, cancellations—to home sales and multifamily transactions that require federal flood insurance under the NFIP."

[According to NBC News](#), if lawmakers did not reauthorize the NFIP, an estimated 1,300 property closings each day could have been delayed.

"Closings are going to stop" in flood-prone areas, said [James W. Tobin III, NAHB CEO](#). "It's going to have some lasting effects, really putting a lot of real estate transactions on hold for a time."

The U.S. Government Accountability Office (GAO) recently [issued a report on the NFIP](#), examining several objectives, including the actuarial soundness of Risk Rating 2.0; how premiums are changing; efforts to address affordability for policyholders; options for addressing the debt; and implications for the private market.

In analyzing the data, GAO reviewed FEMA documentation and analyzed NFIP, Census Bureau, and private flood insurance information. GAO also interviewed FEMA officials, actuarial organizations, private flood insurers, and insurance agent associations in its research.

As of April 1, 2023, FEMA fully implemented NFIP's pricing methodology called Risk Rating 2.0. The methodology leverages industry best practices and technology to enable FEMA to deliver rates that are actuarially sound, equitable, easier to understand and better reflect a property's flood risk.

The launch of Risk Rating 2.0 has aligned premiums with risk, but affordability concerns accompany the premium increases. FEMA had been increasing premiums for a number of years prior to implementing Risk Rating 2.0. By December 2022, the median annual premium was \$689, but this will need to increase to \$1,288 in order to reach full risk. Under Risk Rating 2.0, approximately one-third of policyholders are already paying full-risk premiums. Many of these policyholders had their premiums reduced upon implementation of Risk Rating 2.0. All others will require higher premiums, including 9% who will eventually require increases of more than 300%. Gulf Coast states are reporting the largest premium increases, as policies in these states have been among the most underpriced, despite having some of the highest flood risks.

"We recommended that Congress consider creating a means-based assistance program that's reflected in the federal budget," said the GAO in its findings. "Risk Rating 2.0 does not yet appear to have significantly changed conditions in the private flood insurance market because NFIP premiums generally remain lower than what a private insurer would need to charge to be profitable. Further, certain program rules continue to impede private-market growth. Specifically, NFIP policyholders are discouraged from seeking private coverage because statute requires them to maintain continuous coverage with NFIP to have access to discounted premiums, and they do not receive refunds for early cancellations if they switch to a private policy. By authorizing FEMA to allow private coverage to satisfy NFIP's continuous coverage requirements and to offer risk-based partial refunds for midterm cancellations replaced by private policies, Congress could promote private-market growth and help to expand consumer options." NAHB had been working at the forefront with lawmakers to find a solution that would not let the NFIP lapse. The extension of the NFIP is an important victory for NAHB and members of the residential construction industry who rely on this program to provide certainty and predictability for the flood protection and mitigation strategies for which it was designed.

Prior to its extension, NAHB sent a letter to Congress to continue this program vital to America's homebuyers.

"What the housing market needs now is stability and certainty. Uncertainty over whether the NFIP will lapse, coupled with the growing possibility of a government shutdown, may have a significant negative economic effect on home builders, home buyers, multifamily developers and renters," the NAHB letter stated. "To this end, we urge Congress to consider the effects of a government shutdown on federal programs that directly support the construction of new housing, help buyers or renters access housing, or provide federal permits that may be required for construction."