



The Daily Dish

From Bad to Worse in the NFIP

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Eakinomics: From Bad to Worse in the NFIP

The National Flood Insurance Program (NFIP) has been a [policy](#) and [budgetary](#) nightmare for decades, accumulating \$26 billion in debt to the U.S. Treasury due to a combination of out-of-date flood maps (that identify the risk of damage), low compliance with the requirement to have flood insurance, mispriced premiums that do not reflect the expected losses, and other issues.

The latest [reminder](#) is Hurricane Harvey. With [current estimates at \\$190 billion](#), it could very well be the most costly natural disaster in U.S. history. Congress passed a [\\$14.5 billion relief package](#), but the large majority of that will go to direct aid and not to the NFIP or other insurance programs. Instead, the NFIP likely will take on as much or more debt as it did in 2005 with Katrina and Rita and will continue its downward financial spiral.

A key contributor to the costs will be properties that are regular participants in the NFIP. Based on FEMA data, areas most directly affected by Hurricane Harvey (Harris and Galveston counties) are [home to over 700 Repetitive Loss properties](#); Harris County alone is [home to 370 Severe Repetitive Loss properties](#). A [Repetitive Loss property](#) is any insurable building that has received two or more claims payments, each greater than \$1000, over any ten-year period. A [Severe Repetitive Loss property](#) is one that: 1) has at least four NFIP claim payments over \$5,000 each, with any two claims occurring within a ten-year period, and the cumulative amount of claims payments exceeds \$20,000; or 2) has received two separate claims payments in which the cumulative value of the building portion exceeds the value of the property, and two such claims have occurred within a ten-year period.

You would think that Hurricane Harvey would be an impetus to reform the program. Think again. Instead of dealing with the many flaws that have led to continual red ink, Congress chose instead to [forgive](#) \$16 billion of the \$26 billion of debt that the NFIP had accumulated. (The NFIP was approaching its borrowing limit of \$30 billion.) President Trump is expected to sign this into law shortly. One could make the case that if the NFIP was reformed to assess risk effectively, ensure participation of at-risk properties, and charge actuarially fair premiums, then the existing debt should be forgiven. After all, if the pricing is set to cover all future losses appropriately, one would have to charge premiums that are too high to cover both future losses and make up the past shortfall.

But to simply forgive the debt so that the broken NFIP has more room to continue operating in the red does not fix anything. Worse, it sends the message that real reform is not needed because as the NFIP runs up its tab, it can expect another bailout in the future. The NFIP was in bad shape; this is worse.