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Shelby Calls for Program Revision to Reduce Flood Costs

WASHINGTON, DC, Thursday, June 9, 2011 – U.S. Senator Richard Shelby, ranking Republican on the Senate Committee on Banking, Housing and Urban Affairs, today made the following statement at a Committee hearing on the reauthorization of the National Flood Insurance Program.

Excerpts of Shelby’s statement are immediately below in bold, followed by the full text of his prepared remarks:

“The National Flood Insurance Program was established in 1968 and was designed to reduce the burden on taxpayers stemming from Federal disaster relief for floods.

“Today, the program is nearly \$18 billion in debt and has problems even servicing that debt.

“Every aspect of the Program must undergo significant revision for it to survive and continue on a sustainable path.

“First, we should examine the relationship between the Program and the Write Your Own insurance companies...The GAO recommended that the Write Your Own program have more transparency and accountability. This is something we should pursue.

“The Committee also should examine the types of properties the flood insurance program is covering to ensure that its resources are spent effectively.

“The Committee should also examine the Program’s map modernization effort. The map modernization process has been ongoing for several years and is crucial for the long-term success of the program.

“I believe this Committee should consider ways to privatize portions of this program. We should transfer risk from the Program to the private sector to the maximum extent possible.

“If we are able to accomplish these objectives, we may finally achieve the original purpose of the flood insurance program; to reduce the escalating cost of flooding to taxpayers.”

STATEMENT OF SENATOR RICHARD C. SHELBY
Committee on Banking, Housing and Urban Affairs
June 9, 2011

“Thank you, Mr. Chairman.

“The National Flood Insurance Program was established in 1968 and was designed to reduce the burden on taxpayers stemming from Federal disaster relief for floods. By providing flood insurance for properties in high risks areas, it was hoped that insurance premiums could be used to cover the costs of flood damage.

“Since Hurricane Katrina, however, the Program has struggled to remain financially viable. In fact, since early 2006, the GAO has targeted the Flood Insurance Program as ‘high risk’ because of its mounting debt and the structural flaws. Today, the program is nearly \$18 billion in debt and has problems even servicing that debt.

“Unfortunately, as the GAO has shown, the program’s debt is only one of many difficulties facing the flood insurance program. Every aspect of the Program must undergo significant revision for it to survive and continue on a sustainable path.

“During the 109th Congress, this Committee approved unanimously, and the Senate overwhelmingly passed, legislation that, while not perfect, addressed many of the core deficiencies of the program. That legislation would be a good starting point for this Committee as we move toward re-authorizing the National Flood Insurance Program.

“As we begin this process, I believe several issues deserve a close examination by the Committee. First, we should examine the relationship between the Program and the Write Your Own insurance companies. According to the GAO, Write Your Own companies may be receiving excessively high reimbursements and bonuses from the Program. The GAO recommended that the Write Your Own program have more transparency and accountability. This is something we should pursue.

“The Committee also should examine the types of properties the flood insurance program is covering to ensure that its resources are spent effectively. For example, the Congressional Budget Office has determined that 12 percent of the homes covered under the program are worth more than \$1 million. We must ensure that the Program requires wealthy participants to pay the full costs of their insurance.

“The Committee should also examine the Program’s map modernization effort. The map modernization process has been ongoing for several years and is crucial for the long-term success of the program. Updated maps are important for two reasons. First, they warn developers and homeowners about the risk of developing or living in a flood plain. Second, they ensure that participants are paying fair prices for flood coverage.

“Some communities have called into question the validity of the maps and others have argued that they have been excluded from the mapping process. Community participation is crucial, but this process needs to take place rapidly to ensure that the risk is accurately reflected and homeowners and communities are fully informed. Many of the existing maps are several decades old and do not accurately reflect the costs and risks of living within a flood plain.

“I also would like to see a simple definition of the phrase ‘actuarially sound’ in any bill to reform the Program. This simple act will clearly state our intent to make this program self-sustaining.

“Finally, I believe this Committee should consider ways to privatize portions of this program. We should transfer risk from the Program to the private sector to the maximum extent possible.

“If we are able to accomplish these objectives, we may finally achieve the original purpose of the flood insurance program; to reduce the escalating cost of flooding to taxpayers.

“Thank you, Mr. Chairman.”

