



Highlights of [GAO-06-174T](#), a testimony before the Chairman, Banking, Housing, and Urban Affairs Committee, U.S. Senate

Why GAO Did This Study

The disastrous hurricanes that have struck the Gulf Coast and Eastern seaboard in recent years—including Katrina, Rita, Ivan, and Isabel—have focused attention on federal flood management efforts. The National Flood Insurance Program (NFIP), established in 1968, provides property owners with some insurance coverage for flood damage. The Federal Emergency Management Agency (FEMA) within the Department of Homeland Security is responsible for managing the NFIP.

This testimony offers information from past GAO work on (1) the financial structure of the NFIP; (2) why the NFIP insures properties for repetitive flood losses and the impact on NFIP resources; and (3) compliance with requirements for mandatory purchase of NFIP policies. The testimony also discusses recommendations from a report GAO is issuing today on FEMA's oversight and management of the NFIP.

What GAO Recommends

In the report released today, GAO is recommending, among other things, that FEMA and its partners use a statistically valid approach to sample NFIP insurance claim files for quality assurance purposes, and that DHS and FEMA develop and document plans for implementing requirements of the Flood Insurance Reform Act of 2004, which reauthorized the NFIP. FEMA disagreed with those recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-06-174T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William O. Jenkins, Jr., at (202) 512-8777 or jenkinswo@gao.gov.

FEDERAL EMERGENCY MANAGEMENT AGENCY

Challenges Facing the National Flood Insurance Program

What GAO Found

As GAO has reported, the NFIP, by design, is not actuarially sound. The program does not collect sufficient premium income to build reserves to meet long-term future expected flood losses, in part because Congress authorized subsidized insurance rates to be made available for some properties. FEMA has generally been successful in keeping the NFIP on a sound financial footing, but the catastrophic flooding events of 2004 (involving four separate hurricanes) required FEMA, as of August 2005, to borrow \$300 million from the U.S. Treasury to help pay an estimated \$1.8 billion on flood insurance claims. Following Hurricane Katrina in August 2005, legislation was enacted to increase FEMA's borrowing authority from \$1.5 billion to \$3.5 billion through fiscal year 2008.

Properties that suffer repeated flooding but generally pay subsidized flood insurance rates—so-called repetitive-loss properties—constitute a significant drain on NFIP resources. These properties account for roughly 1 percent of properties insured under the NFIP, but account for 25 percent to 30 percent of all claim losses. The Flood Insurance Reform Act of 2004 established a pilot program requiring owners of repetitive-loss properties to elevate, relocate, or demolish houses, with NFIP bearing some of those costs. Future studies of the NFIP should analyze the progress made to reduce the inventory of subsidized repetitive-loss properties, and determine whether additional regulatory or congressional action is needed.

In 1973 and again in 1994, legislation was enacted requiring the mandatory purchase of NFIP policies by some property owners in high-risk areas. In June 2002, GAO reported that the extent to which lenders were required to enforce mandatory purchase requirements was unknown. While FEMA officials believed that many lenders often were noncompliant, neither side could substantiate its claims regarding compliance.

FEMA did not use a statistically valid method for sampling files to be reviewed in its monitoring and oversight activities. As a result, FEMA cannot project the results of these reviews to determine the overall accuracy of claims settled for specific flood events or assess the overall performance of insurance companies and their adjusters in fulfilling responsibilities for the NFIP—actions necessary for FEMA to have reasonable assurance that program objectives are being achieved.

FEMA has not yet fully implemented provisions of the Flood Insurance Reform Act of 2004 requiring the agency to develop new materials to explain coverage and the claims process to policyholders when they purchase and renew policies, establish an appeals process for claimants, and provide insurance agent education and training requirements. The statutory deadline for implementing these changes was December 30, 2004, and as of September 2005 FEMA had not developed documented plans with milestones for meeting the provisions of the act.