

January 25, 2024

NFIP Reauthorization: The Community Bank Perspective

The Independent Community Bankers of America, representing community banks across the nation with nearly 50,000 locations, appreciates the opportunity to provide this statement for the record for today's hearing: "Reauthorization of the National Flood Insurance Program: Local Perspectives on Challenges."

Congress created the National Flood Insurance Program (NFIP) in 1968 to help property owners protect themselves financially from the risk of flooding at a time when flood insurance was not readily available in the private market. The NFIP sells flood insurance to homeowners, renters, and business owners at subsidized rates in participating communities that agree to adopt and enforce ordinances that meet or exceed Federal Emergency Management Agency (FEMA) requirements to reduce the risk of flooding. Homes and businesses located in Special Flood Hazard Areas and secured by federally backed loans are required to maintain flood insurance on the property. This mandate is enforced by the lenders and their federal regulators.

Long-Term Reauthorization Needed

The NFIP has been funded through a series of continuing resolutions since 2017. The current CR is set to expire on March 8, 2024. The last long-term reauthorization of the NFIP in 2012 extended the NFIP for five years. While we always expect Congress will reauthorize the NFIP, it is unclear for how long and what, if any, reforms Congress will seek. This uncertainty creates uneasiness in the market, especially as expirations loom and lapses in the program become a possibility. A long-term reauthorization is needed to bring stability and confidence to the market.

ICBA will advocate for community bank priorities in NFIP reform, and above all, ensure that we avoid a lapse in the program that would disrupt the market and delay loan closures.

Fiscal and Actuarially Sound Program Management is Imperative

Congress also needs to strike a delicate balance between setting the program on sound financial footing and making sure that rates are affordable for the homeowners and businesses who depend on flood insurance coverage. Congress should review the NFIP operations and organization and make those changes necessary to improve service to policy holders while reducing overhead in a prudent manner and reducing taxpayer risk.

Many Members of Congress would like to shrink the program and have more properties insured in the private market. ICBA is supportive of increased private market participation as long as community banks are not responsible for certifying that private policies satisfy mandatory purchase requirements and consumers are allowed to return to the NFIP without losing their grandfathered status. Consumers will only leave the NFIP to obtain private policies that are cheaper and better.

Preserve Mandatory Purchase Requirement for Commercial Properties

ICBA opposes efforts to remove the mandatory purchase requirement for commercial properties, believing this will put community banks at a disadvantage relative to regional and national banks when competing for loans in flood zones. Larger banks will be more willing and able to tolerate the collateral risk and allow borrowers to forgo flood insurance, while a small community bank is less able to tolerate that risk on their books. Given the choice, a borrower may choose to go with the lender who does not require the flood insurance. Small businesses, those operating on the thinnest margins, will be most likely to opt out of purchasing flood insurance in the absence of a mandate. They are also the least likely to be able to recover after a flood without insurance.

The effort to remove the mandatory purchase requirement is driven by the biggest megabanks who can afford to spread flood risk over a diverse national (or regional) portfolio.

Maintain Community Bank Escrow Exemption

The expense of creating and maintaining escrow accounts for flood insurance premiums would be prohibitive for many community banks. While larger lenders have the scale necessary to absorb such costs, many community banks would be driven from the market, thereby reducing competition. Community bank lenders have every incentive to ensure that insurance policies are maintained to protect their collateral. An escrow requirement would be unnecessary and costly.

Closing

Thank you for convening today's hearing to examine the key policy questions associated with NFIP reauthorization. ICBA and community banks, representing a significant portion of the residential and commercial mortgage markets, look forward to the opportunity offer our input as reauthorization legislation is developed.