

Is it in or out? Rethinking the Mandatory Purchase Requirement

Michael Buckley, PE

Gib Jones, PE, CFM

History of the Problem

- Myth of being “in/out of the floodplain”
- Unintended consequence of mandatory purchase requirement
 - Reinforces this myth
 - Source of much conflict and controversy
 - Considerable resources devoted to LOMCs, Congressionals, appeals

Is it time to consider getting rid of Mandatory Purchase?

- What if there were no mandatory purchase requirement?
 - 1.6M out of 5.6M policies are currently voluntary (Zone X)
 - Some non-federally regulated lenders already require insurance as a matter of practice
 - Recent disasters (e.g., Katrina, Sandy) have increased sensitivity to flooding risk?

Is it time to consider getting rid of Mandatory Purchase?

- Instead, federally related secondary markets (e.g., FreddieMac, FannieMae) cannot purchase a mortgage unless it has flood insurance
 - Apply to all mortgages regardless of location
 - Phase in over time
 - GOAL: Lenders ultimately adopt as routine practice – like fire insurance

Life without Mandatory Purchase

- Insurance rating would be graduated
 - Account for full range of risks
 - No more: Mandatory purchase/high rates on one side of line vs. no purchase reqmt/low rates on the other
 - No more discussion of “100-year flood”
 - Phase out Administrative Grandfathering
- Eliminate or increase limits on coverage
- May need to expand coverage to certain losses not currently covered

Life without Mandatory Purchase

- Long-term objectives:
 - Expanding to much larger pool of insured
 - Writing flood policies routine, not occasional like today
 - System for accurate rating in place
 - Simplified rules
 - Once system has matured, migrate to private?
 - Ability to add flood rider to existing homeowners policies

Flood Zone Determination Industry

- Shifts focus from in/out calls to identifying level of risk
 - Well positioned to use remote sensing technology and rapidly growing property data to make informed assessments of property
 - Focus on providing risk data required for rating (e.g., Risk Scoring?)
 - Possible to move away from requiring survey quality first-floor elevations?

Floodplain Management and Disaster Assistance

- Maintain requirement of communities to regulate new development
 - Increase (require?) participation in CRS?
 - CRS level dictated by elevation regulated to?
- Participation a condition of receiving Federal disaster assistance
- Still need data showing where high risk areas are.
 - Could graduated risk information be used?

Hazard and Risk Identification

- FEMA continues to provide hazard data for use by lenders/FZD and local floodplain managers
 - No mandatory purchase and in/out line = less political pressure/controversy
- Reallocate resources typically spent on LOMCs, appeals, Congressionals, etc. to better risk identification and communication
 - The real focus of Risk MAP!

Closing Remarks

- Have to have complete package for it to work – can't just eliminate the Mandatory Purchase without making other changes
- Timing is right to investigate – could link to Risk Rating 2.0 effort