

McMinn County Libertarian Party
Position Paper
National Flood Insurance Program

Summary: The McMinn County Libertarian Party is opposed to the implementation of County participation in the Federal Flood Insurance Program.

The Disadvantages of Forced Flood Insurance

We should recognize the Federal Flood Insurance Program will not be a voluntary program for the vast majority of residents of McMinn County whose property has been designated as being in a flood plain. They will be forced by the holders of their mortgages to carry such insurance the federal government not only allows this but demands it.

Lenders are required to notify borrowers if their building or mobile home is in a Special Flood Hazard Area and requires flood insurance. If the borrower has not purchased flood insurance after 45 days of the notification, the lenders have the statutory authority to purchase flood insurance on behalf of the borrower. FEMA recommends that the lenders use the Mortgage Portfolio Protection Program (MPPP) when force placing.¹

Those who believe they will be safe from being forced to purchase flood protection need be aware that in the future this will probably change. FEMA has already suggested that those not living in flood prone areas may want to participate.

While the mandatory purchase requirement applies only to buildings located in SFHAs of participating communities, NFIP flood insurance is available in all areas of participating communities. This is especially significant because, historically, about 25 percent of the NFIP claims paid have actually been outside of SFHAs. Lenders and property owners may wish to exercise additional caution in areas subject to flooding due to storm water, in areas where the NFIP has used approximate methods to map SFHAs, or in remote locations where no SFHAs have been designated by FEMA.²

The National Flood Insurance Program incurred operating losses in five of the six years from

1993 through 1998.³ Thus devastating losses to the few who were subject to flooding has required the forced enrollment of millions of property owners who are very unlikely to ever submit a claim.

It has been reported in the local press that without the federal flood control program owners of flood prone property cannot buy flood insurance. This in and of itself speaks volumes concerning flood insurance. For an insurance company to be profitable there must be a large number of those insured which will never make a large claim to counter the few who will make large claims. Most prudent persons recognize if they do not need it, and therefore there is very little demand for it from the private sector. Of those few that do need it, it is so obvious that insurance carriers recognize those individuals are high risk and would be the only ones applying for coverage. If it were fire insurance and there were such a thing as a fire proof house and 99% of the people lived in fire proof houses, insurance carriers would not be willing to write reasonably priced policies for the 1% of people who did not live in fire proof houses, especially if those houses were so constructed as to be prone to fires.

Very little has been said during the debate on this program concerning the cost to McMinn County. When insurance premiums are made in our area and payments are made to pay claims in perpetually flooded coastal regions and riverbed areas, that money is essentially lost from McMinn County.

The following estimates are based upon an average of 3.5 persons per household and a population of 45,000. That would result in 12,857 households in McMinn County, we will assume for purposes of this discussion a 5% rate of enrollment in the program resulting in 643 different property owners. We will not include businesses in this report. NFIP states \$353 is the average annual cost of coverage.⁴ An annual cost of \$353 for flood insurance for those homes results in approximately \$226,979 per year being sent out of McMinn County, less the amount retained by various insurance agencies for services.

A more significant figure is arrived upon by estimating the cost to the individual property owner. If the \$353 annual expense were invested at a moderate rate of 4% return over the life of a 30 year mortgage, the property owner is deprived of 20,432 dollars. Our assumption of 643 enrollees results in an \$13,137,776 total loss of income for McMinn County. If enrollment is greater than 5% then the estimates must be adjusted accordingly, if there are less than 643 property owners enrolled, one can only come to the conclusion that with such a small number involved why should the entire county be put through this process. One will undoubtedly subtract any payments of claims from the program from these calculations, but these will be minimal as indicated by the fact the residents of the City of Athens, which is part of the National Flood Control Program, have received only \$64,026 over all the years it has been enrolled in the system.⁵

Rather than discourage the development of flood prone areas, the flood insurance program actually encourages development by insuring against floods. The restriction of common sense not to build in a flood plain is replaced by insurance against financial loss as long as the

community has a permit program which requires the lowest floor of a residential building be elevated or watertight.

*The community flood plain management ordinances must require building permits for all development within the SFHA. New and substantially improved residential buildings must be constructed with the lowest floor at or above the base flood elevation (BFE), as shown on the FIRM. Nonresidential buildings can be either elevated or flood-proofed (made watertight) to that elevation and enforce measures exceeding current program criteria to reduce the risk of flood damage.*⁶

The development of areas previously considered too risky for development has drawn criticism from environmental groups. In fact, FEMA has been sued by Forest Guardians of Santa Fe, the Sierra Club and the Southwest Environmental Center of Las Cruces in federal court. The suit alleges that by offering insurance for homes and commercial buildings in flood plains of the Rio Grande and San Juan River, FEMA makes development there more likely to occur, according to the suit.⁷

McMinn County residents who are forced to purchase flood insurance by lenders may find that they are not covered in the event of a flood if their property is the only property flooded and they have less than two acres of land.

Flood, as used in this flood insurance policy, means:

*1. A general and temporary condition of partial or complete inundation of two or more acres of normally dry land area or two or more properties (at least one of which is your property)*⁸

The method by which property is evaluated as being in a flood plain is less than accurate. If a property has been flooded in the last 100 years then it is considered to be in a flood plain and the owner will be forced by its lender to acquire flood insurance. This totally ignores such water control projects as TVA, the diversion of streams, and the placing of fill which has taken place during the last 100 years. Many people will be totally surprised to learn they are in a flood plain. But the purpose of FEMA is to force as many people not at risk into the program in order to balance the few who are at risk.⁹

The manner in which the NFIP conducts itself in regards to those that have been forced to accept policies is unfair by any reputable insurance plan standards. Once a property owner has taken out a policy, if he has paid off most of his mortgage he is not permitted to lower the amount of coverage. He is forced to carry more insurance than the amount of lien on his property. There again, the purpose is to force those not at risk to pay for those at risk.

For those who do feel they want coverage under the NFIP, they may find coverage inadequate.

Persons who have a finished basement will find the insurance is of little value.

*While flood insurance does not cover basement improvements, such as finished walls, floors or ceilings, or personal belongings that may be kept in a basement, such as furniture and other contents, it does cover structural elements, essential equipment and other basic items normally located in a basement.*¹⁰

In conclusion we believe that County participation in the National Flood Insurance program will do more harm than good to the vast majority of residents of McMinn County. While the intent to provide protection for the few who have purchased high risk property is noble, it would be punitive to force the entire county into this program.

End Notes

1. <http://www.fema.gov/nfip/97bulet.pdf> p4
2. <http://www.fema.gov/nfip/mandpurl.pdf> p5
3. Government Accounting Office GAOTRCED-00-23, Oct 27, 1999 p5
4. <http://www.fema.gov/nfip/cost.htm>
5. <http://www.fema.gov/nfip/10400212.shtm#47>
6. <http://www.fema.gov/nfip/mandpurl.pdf> p6
7. Albuquerque Journal, FEMA Sued Over Flood Insurance Tuesday, January 23, 2001
8. General Property Form Standard Flood Insurance Policy (FEMA) Dec. 31,2000 p1
9. The Insurance Agency, Athens TN
10. http://www.fema.gov/nfip/c_cov.htm