# CONGRESSIONAL BUDGET OFFICE
# COST ESTIMATE

July 19, 2010

## H.R. 1264
## Multiple Peril Insurance Act of 2009

*As ordered reported by the House Committee on Financial Services on April 27, 2010*

H.R. 1264 would expand the National Flood Insurance Program (NFIP) to offer coverage for wind damage to property owners located in certain communities. Coverage would be offered at a premium sufficient to cover the future expected cost of that coverage. Enacting H.R. 1264 would affect direct spending; therefore, pay-as-you-go procedures would apply to the legislation. However, CBO estimates that enacting H.R. 1264 would have no significant impact on the federal budget for each year and no net effect over the next 10 years.

H.R. 1264 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would not affect the budgets of state, local, or tribal governments.

The legislation would authorize the NFIP to sell two new types of insurance policies to residential and nonresidential properties owners—multiperil and windstorm. Multiperil policies would cover property damage resulting from flood or wind. Windstorm policies would cover property damage resulting from wind only. Both lines of coverage would be available for properties located in communities that have adopted wind mitigation measures consistent with international building codes. Windstorm coverage would only be available for properties also insured by a separate NFIP flood policy. (While properties covered by separate flood and windstorm policies would be insured by the program for the same events as those covered by a multiperil policy, the aggregate premium offered to the property owner could differ due to existing subsidies for some flood insurance policies.)

H.R. 1264 would direct the NFIP to charge actuarial (that is, unsubsidized) premiums for new multiperil and windstorm policies. The timing and magnitude of future claims payments cannot be forecast with certainty because of the nature of actuarial pricing and the uncertainty about when damages might occur that would result in claims. The NFIP might collect aggregate premiums that are above or below amounts necessary to pay expenses in a given year (particularly if a major event were to occur soon after enactment of the legislation) and over time.[1] In years that the program collects more premiums than

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1. See Congressional Budget Office, *The National Flood Insurance Program: Factors Affecting Actuarial Soundness* (November 2009).

necessary to meet ongoing costs, the NFIP would record a surplus (recorded in the budget as a net reduction in direct spending). In years of insufficient premium collection, the program would draw upon its reserves or available borrowing authority from the Treasury (recorded in the budget as an increase in direct spending).[2]

For this estimate, CBO assumes that actuarially based premiums calculated by the NFIP would generate a sufficient amount to cover future costs. As such, increased claims payments made by the program would be roughly offset by additional premiums, resulting in no net change to direct spending.

The CBO staff contact for this estimate is Daniel Hoople. The estimate was approved by Theresa Gullo, Deputy Assistant Director for Budget Analysis.

2. As of July 2010, the NFIP had $18.8 billion in outstanding debt to the Treasury. Under current law, the program may borrow up to $20.7 billion. CBO estimates that remaining borrowing authority (about $2 billion) will be exhausted by the end of fiscal year 2013.