CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 13, 2011

Flood Insurance Reform and Modernization Act of 2011

As ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on September 8, 2011

SUMMARY

The legislation would authorize the National Flood Insurance Program (NFIP) of the Federal Emergency Management Agency (FEMA) to enter into and renew flood insurance policies through fiscal year 2016. Under current law, that authority will expire on November 18, 2011.

The legislation would make a number of changes to the NFIP aimed at improving the financial status of the program. Under both current law and this legislation, the NFIP may borrow an additional $3 billion from the Treasury (the program's current debt stands at $17.8 billion). Assuming some probability of a rare catastrophic event in the future, CBO expects that this borrowing authority will be exhausted in 2014. The changes made by the bill would improve the financial condition of the program and reduce its need to borrow from the Treasury—a source of direct spending—by a total of $380 million between 2012 and 2014, CBO estimates. However, because the program would continue to operate with insurance premiums that are not sufficient to cover all expected costs, CBO estimates that the NFIP would still need to borrow up to the statutory limit by 2015 and that reduced borrowing from 2012 to 2014 would be offset by increased borrowing in 2015, resulting in no net effect on direct spending over the next 10 years.

Over the 2012-2021 period, CBO estimates that the changes made by this legislation would increase net income to the NFIP by about $4.7 billion, improving the financial status of the program by that amount. However, under current law, the program will not have enough resources to pay all of the claims that will be due over that period. Therefore, we expect that additional income earned by the program would be used to fulfill obligations to flood insurance policyholders that would otherwise be delayed, resulting in no net effect on direct spending over the next 10 years.

The bill also would increase civil penalties on mortgage lenders and government-sponsored enterprises that act in violation of current law. Additional amounts collected under the bill would be recorded as revenues and would total about $1 million per year,

CBO estimates, reducing budget deficits by $10 million over the 2012-2021 period. Because enacting the legislation would affect direct spending and revenues, pay-as-you-go procedures apply.

CBO estimates that implementing the legislation would have a discretionary cost of almost $1.6 billion over the 2012-2016 period, subject to appropriation of the necessary and specified amounts. Most of that spending would be for FEMA's flood mapping program. The bill also would authorize appropriations for: mitigation grants, establishment of a Commission on Natural Catastrophe Risk Management and Insurance, and numerous studies and assessments undertaken by FEMA and the Government Accountability Office (GAO).

The bill would impose intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) by directing state regulatory agencies to require, and state lenders to provide, information on flood risk and insurance to more mortgage borrowers. CBO estimates that the cost of those intergovernmental mandates to state governments would be small and well below the annual threshold established in UMRA ($71 million in 2011, adjusted annually for inflation).

The legislation also would impose private-sector mandates, as defined in UMRA, on certain mortgage lenders. Based on information from industry sources and FEMA, CBO expects the direct costs to comply with those mandates would fall below the annual threshold for private-sector mandates established in UMRA ($142 million in 2011, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of this legislation is shown in the following table. The costs of this legislation fall within budget function 450 (community and regional development).

BASIS OF ESTIMATE

For this estimate, CBO assumes that the legislation will be enacted near the beginning of fiscal year 2012, that increases in insurance premiums for certain properties will be implemented by the spring of 2012, and that amounts specified and estimated to be necessary will be appropriated for each year.

Background

Authority to Underwrite Coverage. The NFIP was established to encourage the purchase of flood insurance by property owners located in communities that adopt minimum guidelines for floodplain management and enforce building codes designed to mitigate flood damages. Flood insurance coverage is mandatory for properties located within an area designated as having at least a 1 percent chance of being flooded in any year (such an area is known as a Special Flood Hazard Area, or SFHA) and financed by a federally

TABLE 1. ESTIMATED BUDGETARY IMPACT OF THE FLOOD INSURANCE REFORM AND MODERNIZATION ACT AS ORDERED REPORTED BY THE SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFIARS ON SEPTEMBER 8, 2011

	By Fiscal Year, in Millions of Dollars											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
CHANGES IN DIRECT SPENDING												
Estimated Budget Authority	-25	-125	-230	380	0	0	0	0	0	0	0	0
Estimated Outlays	-25	-125	-230	380	0	0	0	0	0	0	0	0
CHANGES IN REVENUES												
Increased Civil Penalties	1	1	1	1	1	1	1	1	1	1	5	10
NET INCREASE OR DECREASE (-) IN THE DEFICITS FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Impact on Deficit	-26	-126	-231	379	-1	-1	-1	-1	-1	-1	-5	-10
CHANGES IN SPENDING SUBJECT TO APPROPRIATION												
Flood Mapping Program												
Authorization Level	400	400	400	400	400	0	0	0	0	0	2,000	2,000
Estimated Outlays	80	240	320	400	400	320	160	80	0	0	1,440	2,000
Mitigation Assistance Grants												
Authorization Level	40	40	40	40	40	40	40	40	40	40	200	400
Estimated Outlays	2	8	20	34	38	40	40	40	40	40	102	302
Commission on Natural Catastrophe Risk Management and Insurance												
Estimated Authorization Level	2	0	0	0	0	0	0	0	0	0	2	2
Estimated Outlays	2	0	0	0	0	0	0	0	0	0	2	2
Studies and Reports												
Estimated Authorization Level	6	1	1	1	1	1	1	1	1	1	10	15
Estimated Outlays	6	1	1	1	1	1	1	1	1	1	10	15
Total Changes												
Estimated Authorization Level	448	441	441	441	441	41	41	41	41	41	2,212	2,417
Estimated Outlays	90	249	341	435	439	361	201	121	41	41	1,554	2,319

regulated lending institution, government-sponsored enterprise for housing, or federal lender. Property owners not receiving financing from those entities or located outside a SFHA may purchase flood insurance coverage from a private carrier or the NFIP at their discretion. Under current law, FEMA is authorized to underwrite the sale and renewal of flood insurance policies through November 18, 2011.

Subsidized Premiums. Throughout the program's history, FEMA has charged premiums well below the amount necessary to offset the expected cost (also known as the full-risk or actuarial cost) for properties built before a community's Flood Insurance Rate Map (FIRM) was completed, or before 1975, whichever is later. Those properties, known as pre-FIRM properties, make up over 20 percent of all NFIP policies. FEMA estimates that pre-FIRM policyholders pay average premiums that are about 40 percent to 45 percent of the full-risk cost. Owners of some post-FIRM properties also pay discounted premiums under current law; however, they are few in number (less than 1 percent of all NFIP policies) relative to pre-FIRM properties. It is unclear whether other property owners receive premium subsidies not directly specified in law.[1] For this estimate, CBO assumes that all policies not directly receiving subsidies will generate a sufficient amount of income to cover expected claims and related expenses over time.

Ability to Pay Claims and Other Expenses. The National Flood Insurance Fund (NFIF) is the sole source of claims payments and other expenses associated with the NFIP. Under current law, the fund is credited with premium and fee receipts from policyholders, annual appropriations, interest earned on fund balances, and amounts borrowed from the Treasury. As of July 2011, the NFIP insured approximately 5.6 million policies with written annual premiums in force of $3.4 billion. For fiscal year 2011, the Congress provided the fund with $169 million in appropriations, offset by an equivalent amount of additional fee collections from policyholders (see Public Law 112-10). No interest income will be earned and no borrowing is expected to occur this year, CBO estimates.

The majority of the NFIP's expenses consist of payments for insured claims resulting from outstanding coverage in force, which currently stands at about $1.2 trillion. FEMA estimates that claims payments and other delivery and underwriting expenses in 2011 will total about 80 percent of premium and fee income, based on the historical experience of policies and coverage amounts for properties currently insured by the program. Actual expenses for insured claims, however, have varied widely by year, ranging from less than 10 percent of premiums to almost 800 percent of premiums (based on calendar year totals).

In most years, annual appropriations along with premium and fee income have been sufficient to cover the annual expenses of the NFIP. Prior to 2005, it was occasionally necessary for the program to borrow from the Treasury to meet expenses during greater-than-average loss years; however, that borrowing was relatively small (less than

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

$1 billion) and was repaid with interest. Nonetheless, because of the large subsidy that exists for many policies, CBO estimates that the program will—on average—have greater annual expenses than revenue. This differential became apparent in the aftermath of Hurricanes Katrina, Rita, and Wilma in 2005. Because of the severe and widespread damages experienced during those storms, the program borrowed an unprecedented $16.7 billion in fiscal year 2006 to cover claims and interest expenses. NFIP's current debt to the Treasury stands at $17.8 billion. It is highly unlikely that the program will have sufficient income to repay those borrowed funds within the next 10 years.

Assuming actuarial-level losses in 2012 and beyond, the NFIP will need to continue borrowing from the Treasury until its line of credit (currently set at $20.7 billion) is exhausted, which CBO estimates will occur in 2014 under current law.[2] At this point, because expenses of the program may only be paid to the extent that resources in the NFIF are available, net spending would be zero for a given fiscal year. Payments for claims and other expenses would be delayed until sufficient resources became available to the NFIF from premium and fee collections. If the delay for such claims were to become untenable, policyholders might seek claims payments through a lawsuit. It is unclear how that matter would be resolved.

Direct Spending and Revenues

CBO estimates that enacting this legislation would have no net impact on direct spending over the 2012-2016 or 2012-2021 periods. We estimate that enacting the bill would increase revenues from the collection of civil penalties by about $1 million per year over those periods.

Section 104 of the legislation would provide FEMA with the authority to continue selling and renewing policies through fiscal year 2016. While this authority would otherwise expire in fiscal year 2012, the program is assumed to continue in the CBO baseline, consistent with rules governing baseline projections of mandatory programs. Thus, extending the NFIP under this legislation would have no effect on direct spending relative to the baseline.

In addition to extending the NFIP, the legislation would make a number of changes to the program. The changes that would affect direct spending are:

- Premium increases for some pre-FIRM policyholders;

- Temporarily discounted premiums for new and existing policyholders that are required to pay a higher premium under a revised FIRM; and

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2. Actuarial-level losses take into account the full range of possible losses, including rare catastrophic events like Hurricane Katrina.

- Required capitalization of a reserve fund.

The aggregate budgetary effects of those changes are shown in Table 2.

TABLE 2. CHANGE IN NET INCOME TO THE NFIP UNDER THE FLOOD INSURANCE REFORM AND MODERNIZATION ACT OF 2011 OVER SELECTED TIME PERIODS

	By Fiscal Year, In Millions of Dollars		
	2012-2014	2012-2016	2012-2021
Receipts			
Premium Increases for Some Pre-FIRM Policies	362	1,310	4,565
Temporarily Discounted Premiums	-12	-20	-50
Additional Premiums to Capitalize Reserve Fund	50	154	775
Total Changes to Receipts	400	1,444	5,290
Expenses			
Increased Payments to WYO Companies	120	438	1,600
Reduced Claims Due to Dropped Policies	-100	-274	-975
Total Changes to Expenses	20	164	625
Change in Net Income [a]	380	1,280	4,665
Cumulative Net Effect on Direct Spending	-380	0	0

Note: FIRM = Flood Insurance Rate Map; WYO = Write-Your-Own.

a. After the NFIP's borrowing authority has been exhausted, changes in net income are reflected as a corresponding increase or decrease in the delayed payments of claims and do not affect direct spending.

The bill also would increase the minimum policy deductible and the average annual limit on premium growth. CBO estimates that those changes would not affect net direct spending.

Overall, CBO estimates that changes made by this legislation would increase net income to the NFIP by $380 million through 2014. CBO expects that the flood insurance program will not have exhausted its remaining borrowing authority during this period. Therefore, additional net income of the NFIP over that period would reduce expected borrowing from the Treasury—a source of direct spending. However, assuming annual program deficits, CBO estimates that any reduction in direct spending in those years would be offset by increased direct spending financed by additional borrowing in 2015 (up to the limit on the NFIP's borrowing from the Treasury), resulting in no net effect on the federal budget over the next 10 years.[3]

3. CBO estimates that changes made by the legislation would reduce the aggregate subsidy built into premiums under current law by about 50 percent by 2021; however, because the legislation would not completely eliminate subsidies for all policies, we estimate that the program would typically continue to operate with a deficit.

After the borrowing authority of the NFIP has been exhausted, the changes made by the legislation would not affect net direct spending because CBO expects that any additional income earned by the program would be used to fulfill obligations (mostly claims payments) that would otherwise be delayed. However, enactment of the legislation would improve the financial status of the program by reducing this "backlog" of unfulfilled payments. Under current law, CBO estimates that delayed payments would total $3.6 billion by 2016 and $12.6 billion by 2021. Under this legislation, we estimate that the "backlog" would total $2.3 billion in 2016 and $8.0 billion in 2021, a reduction of about $1.3 billion and $4.7 billion, respectively.

Premium Increases for Some Pre-FIRM Properties. Section 106 would direct FEMA to increase flood insurance premiums for certain pre-FIRM properties, including nonresidential properties, nonprimary residences, and severe repetitive loss properties (defined as residences with at least four paid claims greater than $5,000 or with two paid claims that cumulatively exceed the market value of the house). Following the first rate adjustment that occurs at least three months after enactment (which CBO assumes would take place in the spring of 2012), policyholders of properties fitting the criteria of the bill would begin receiving premium increases of 25 percent per year until the amount collected covers the full cost of the insurance.[4] New policies that fit such criteria would pay the full-risk premium beginning three months after enactment.

Based on current policy information obtained from FEMA, CBO estimates that more than 440,000 existing policies would be subject to such premium increases under this provision. Those policyholders currently pay an average premium of about $1,174 per year. Once subsidies are completely phased out, we expect that annual premiums for those policies would be, on average, about two and one-quarter times greater than the premium that would otherwise be charged under current law. While some policyholders would reduce or eliminate coverage as a result of those increases, CBO estimates that any resulting decrease in premium receipts would be more than offset by increases from properties that remain in the program.

Additional premium receipts from pre-FIRM policyholders would total about $1.3 billion over the 2012-2016 period and about $4.6 billion over the next 10 years, CBO estimates. Under current agreements, Write-Your-Own (WYO) companies would receive a portion of that additional premium (about 30 percent), as shown in Table 2, to offset an increase in expenses. Subsidized policyholders that drop out of the NFIP would save the program the cost of paying claims on those policies, resulting in a decrease in expenses. As a whole, CBO estimates that implementing the premium increases outlined in the legislation would increase net income to the NFIP by $1.2 billion over the next five years and by about $3.9 billion over the 2012-2021 period.

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4. The 25 percent would include some increase that FEMA would have applied to the policy under current law; thus, the increase in the per-policy premium attributable to this legislation would be less than 25 percent.

Temporarily Discounted Premiums. Section 108 would direct FEMA to phase in increases to the premiums it charges as a result of an updated FIRM. The phase-in would occur over a four-year period following the effective date of the updated map. In the first year, policyholders would pay 40 percent of the increase they would otherwise be charged. In each year thereafter, premiums would increase by an additional 20 percent until the full increase is implemented in the fourth year.

For some properties newly mapped into a SFHA, FEMA would charge a higher premium under this section than would otherwise be charged under current law. This assumes that FEMA's Preferred Risk Policy (PRP) Extension program, currently available to properties newly mapped into a SFHA, is discontinued.[5] For some policies, the aggregate discount under the PRP Extension program would be greater than the discount those policies would receive under this bill. For some other policies, including those not eligible for the PRP Extension program, the aggregate discount under the bill would be greater. On net, CBO estimates that implementing this section would decrease premiums received from properties newly mapped into a SFHA by $50 million over the next 10 years relative to current law. Net income to the NFIP would fall by a lesser amount ($35 million) because of reduced payments to WYO companies.

For properties already located within the 100-year floodplain, the net effect of this provision is less certain. Under current law, an existing policyholder determined to be at a higher risk under an updated map is "grandfathered" into the lower-risk class as long as the policy remains active. Those policies might see premium increases under this bill; however, those increases would be offset by new policies that receive a discount. CBO does not have sufficient data to estimate the number of policies that are currently "grandfathered" into lower-risk classes nor the number of new policies already in an SFHA that would receive a discount under the bill.

Require Capitalization of a Reserve Fund. Section 114 would require FEMA to establish a National Flood Insurance Reserve Fund with a balance equal to at least 1 percent of flood insurance coverage in force during the previous year. While the bill does not specify a date for full capitalization, the NFIP would be required to deposit an amount into the fund equal to at least 7.5 percent of the target ratio each year. Under the legislation, FEMA would have the authority to increase premiums each year (up to the 15 percent maximum allowed by the bill) as necessary to make the required deposit; however, a smaller deposit would be allowed in years when excess premium receipts were less than sufficient (due to higher-than-expected expenses).

5. For properties newly mapped into a SFHA after October 1, 2008, that previously qualified for a PRP premium (that is, could not have two or more claims or disaster relief payments of $1,000 or more, or three losses or payments of any kind), FEMA currently offers a discount equal to the difference between the premium the policyholder would have paid and the PRP premium. That discount is available for two years. For properties mapped into a SFHA after October 1, 2008, and before January 1, 2011, the discounted premium is available for the two policy years effective between January 1, 2011, and December 31, 2012.

Under current law, FEMA charges flood insurance premiums that are greater than the historical average cost of such coverage.[6] The main purpose of such charges is to build surpluses (or pay down debt) for future years when costs may be greater than historical averages. Because the reserve fund would be used for a similar purpose, CBO assumes that FEMA would adjust premiums so that aggregate receipts would exceed historical average costs by an amount roughly equal to the required contribution to the fund under the bill. Thus, during a year when costs equal historical averages, the program would collect exactly enough to make the full required deposit. Using this approach and assuming historical premium growth and insurance coverage growth of about 5 percent, CBO estimates that the aggregate premiums that would be collected under current law would not be sufficient during a historical average year to make the capital deposit required by the bill. Therefore, CBO expects that FEMA would increase premiums as a result of this provision. We estimate that those additional premiums would increase the net income of the NFIP by about $735 million over the next 10 years after accounting for additional payments made to WYO companies.

Increase in the Minimum Policy Deductible. Section 112 would increase the minimum deductible for some flood insurance policies. For the current policy year (which began in October 2010), the standard deductible is $2,000 for most subsidized properties and $1,000 for nonsubsidized properties; however, pre-FIRM policyholders may reduce that deductible by $1,000 in exchange for a higher premium.

CBO estimates that about 255,000 pre-FIRM policies currently carry deductibles below levels required by the bill and thus would be affected by this provision. We do not have enough information to determine the number of post-FIRM policies that would be affected. By increasing the insurance deductible on some flood insurance policies, this legislation would reduce average insured claims. However, because the bill would not change the amount of subsidized coverage, we expect that premium receipts would decline by an equivalent amount over time, resulting in no net impact to the NFIP or the federal budget.

Increase in Average Annual Limit on Premium Growth. Section 106 would authorize the NFIP to increase premiums within a specific risk category by an average of up to 15 percent per year. Under current law, the limit is 10 percent. Based on historical experience, CBO assumes that raising this limit would not result in annual premium increases of more than 10 percent for most subsidized policies (with the exception of policies that would receive larger premium increases because of other sections of this legislation). (Under both current law and this legislation, actuarially rated policies are assumed to receive premium increases necessary to cover the full cost of the coverage but not additional amounts to subsidize those policyholders that pay insurance premiums that

6. The historical average cost for a flood insurance policy is not necessarily equal to the full-risk, or actuarial, cost. Historical average costs reflect actual losses observed over some period of time (in this case, between 1978 and 2008) and does not include the full range of possible losses that have not yet occurred. Because of this, actuarial loss estimates are much greater than historical costs for some properties.

are below actuarial rates.) Therefore, implementing this provision would have no net effect on the NFIP or the federal budget.

Civil Penalties. Section 110 would increase the civil penalty from $350 to $2,000 for lenders and government-sponsored enterprises that violate current law and would eliminate the limit on the aggregate amount of penalties that could be assessed on any single institution in one year. CBO estimates that the increased revenues from penalty collections would amount to about $1 million a year.

Study on Affordability. Section 140 would authorize FEMA to use up to $750,000 from the NFIF to conduct a study on the participation and affordability of flood insurance for certain eligible policyholders. Spending for the study would not be subject to appropriation. CBO estimates that enacting this provision would increase costs to the NFIP, and thus reduce net income to the program, by $750,000 in 2012, requiring additional borrowing in that year. The additional borrowing in 2012 would be offset by reduced borrowing in 2015 (when CBO expects that the NFIP's ability to borrow would be exhausted), resulting in no net impact on the federal deficit over the next 10 years.

Changes Subject to Appropriation

CBO estimates that the discretionary costs of implementing this bill would be about $1.6 billion over the 2012-2016 period, subject to appropriation of the necessary amounts.

Flood Mapping Program. Section 118 would authorize the appropriation of $400 million for each of fiscal years 2012 through 2016 to update and maintain flood maps. In 2011, the Congress provided $182 million for this activity (see Public Law 112-10).[7] Under the bill, FIRMs would be regularly updated to include all populated and potentially populated areas located in the 100- and 500-year floodplains, areas of residual risk, and the level of protection provided by flood control structures. Based on historical spending patterns, CBO estimates that implementing this provision would cost about $1.4 billion over the 2012-2016 period and an additional $560 million in later years.

Mitigation Assistance Grants. Section 129 would consolidate several existing mitigation programs of the NFIP and would increase authorized spending for those programs by a total of $40 million a year. Under current law, FEMA operates three separate programs that provide grants to state and local governments to purchase, relocate, or elevate NFIP-insured properties—the Flood Mitigation Assistance (FMA) program, the Repetitive Flood Claims (RFC) program, and the Severe Repetitive Loss (SRL) program. Current law authorizes the appropriation of $40 million and $10 million per year, respectively, for the FMA and RFC programs. The SRL program is not authorized in fiscal year 2012 or beyond under current law.

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7. That law also made available up to $147 million for floodplain management and mapping; however those amounts were to be offset through additional collections from policyholders through the Federal Policy Fee.

The legislation would consolidate the three existing mitigation programs of the NFIP into a Mitigation Assistance Grant program and would authorize the appropriation of $90 million per year—an increase of $40 million over current law—for those activities. The bill also would adjust the federal cost share and allow for grants to be made directly to property owners in certain cases. Based on historical spending for flood mitigation activities, CBO estimates that implementing this provision would cost $102 million over the 2012-2016 period, assuming appropriation of the specified amounts.

Commission on Natural Catastrophe Risk Management and Insurance. Title II of the legislation would establish a 16-member Commission on Natural Catastrophe Risk Management and Insurance. The commission would report to the Congress on various aspects of public and private insurance markets and efforts to mitigate losses in future disasters within one year after enactment. The commission would terminate 90 days after issuing this report. Based on historical costs for current and previous commissions of similar size and scope, CBO estimates that implementing this provision would cost $2 million in 2012, assuming appropriation of the necessary amounts.

Studies and Reports. The legislation would direct FEMA and GAO to conduct studies and issue reports on a number of topics. Some of those studies, including research on expanding the program to include coverage for business interruption and living expenses, the purchase and affordability of reinsurance, inclusion of building codes, and reimbursement expenses of WYO companies, would conclude after a set period of time. Other reports on interagency coordination, program activities, and claim-paying ability would occur annually. Based on the cost of similar studies, CBO estimates that producing the reports required under the legislation would cost about $10 million over the next five years, assuming the availability of appropriated funds.

Other Discretionary Changes. The legislation would make a number of other changes that CBO estimates would not affect net discretionary spending for the NFIP. Those changes include establishing a Technical Mapping Advisory Council (section 117) and a Scientific Resolution Panel (section 120). The Technical Mapping Advisory Council would be an 18-member council that would review and recommend new and existing mapping standards for FIRMs. The five-member Scientific Resolution Panel would assist in settling disputes between FEMA and communities related to revisions to a flood map.

Under current law, spending for floodplain management activities (which CBO assumes would include operations of the Technical Mapping Advisory Council and the Scientific Resolution Panel) are subject to approval in appropriation acts. FEMA is authorized to offset those costs through the collection of a fee (known as the Federal Policy Fee) from policyholders. As such, CBO estimates that implementing this section would have no net effect on discretionary spending over the next five years, assuming appropriations of the necessary amounts and corresponding increases in fee collections.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for the Flood Insurance Reform and Modernization Act of 2011 as Ordered Reported by the Senate Committee on Banking, Housing, and Urban Affairs on September 8, 2011

	By Fiscal Year, in Millions of Dollars											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
NET INCREASE OR DECREASE (-) IN THE DEFICIT												
Statutory Pay-As-You-Go Impact	-26	-126	-231	379	-1	-1	-1	-1	-1	-5	-5	-10
Memorandum:												
Changes in Outlays	-25	-125	-230	380	0	0	0	0	0	0	0	0
Changes in Revenues	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-5	-10

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

The bill would impose intergovernmental mandates as defined in the Unfunded Mandates Reform Act. It would require state agencies that regulate mortgage lenders to require that those lenders provide borrowers with information about flood insurance if the property covered by the mortgage is located in the 500-year flood plain. It also would require state agencies that directly offer mortgages to provide such information and to notify borrowers about how to continue flood insurance coverage once the mortgage is repaid-in full. Based on conversations with industry representatives, CBO estimates that the cost to state regulatory agencies would be minimal, and the number of loans for which state agencies would be required to provide flood insurance information would be small. The total cost for state agencies to comply with those requirements would be well below the annual threshold established in UMRA for intergovernmental mandates ($71 million in 2011, adjusted annually for inflation).

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The bill would require mortgage lenders when making, increasing, extending, or renewing any loan secured by property located in an area within the 500-year floodplain to notify the purchaser or lessee and the servicer of the loan that such property is located in the 500-year

floodplain. The bill also would require certain mortgage lenders to notify policyholders that insurance coverage may cease with the final mortgage payment and to provide direction as to how the homeowner may continue flood insurance coverage after the life of the loan. In addition, certain mortgage lenders would be required to deposit premiums and fees for flood insurance in an escrow account on behalf of the borrower. Finally, the bill would require lenders to provide all purchasers a disclosure of the availability of flood insurance under the Real Estate Settlements Procedures Act. According to industry representatives, the cost for mortgage lenders to provide the additional notices and information and to escrow flood insurance payments would be small. Therefore, CBO estimates that the aggregate direct cost of complying with the mandates would fall below the annual threshold for private-sector mandates established in UMRA ($142 million in 2011, adjusted annually for inflation).

PREVIOUS CBO ESTIMATE

On June 8, 2011, CBO transmitted a cost estimate for H.R. 1309, the Flood Insurance Reform Act of 2011, as ordered reported by the House Committee on Financial Services on May 13, 2011. CBO estimates that both this legislation and H.R. 1309 would have no net impact on direct spending over the 2012-2016 and the 2012-2021 periods. This legislation would increase federal revenues by about $1 million a year more than H.R. 1309 because of additional civil penalties for lenders and other entities included in the bill.

CBO estimates that enacting this legislation would increase net income to the NFIP by about $500 million more than H.R. 1309 over the next 10 years. This difference mainly results from the faster phase-in of actuarial rates for certain pre-FIRM properties and the expected collection of additional premiums to capitalize the reserve fund under this bill. CBO expects that fewer pre-FIRM policies would be subject to premium increases under this legislation, relative to H.R. 1309; that would only partially offset the increase in net income to the NFIP attributable to other effects.

CBO estimates that the discretionary cost for this legislation would be $1.2 billion higher over the 2012-2016 period than that for H.R. 1309. About $1.1 billion of that difference would be for FEMA to revise and update flood maps. The majority of the remaining difference is attributable to additional funding for mitigation grants under this bill. (H.R. 1309, as passed by the House of Representatives on July 12, 2011, includes a similar increase in funding for mitigation grants, but that provision was not a part of the version estimated by CBO.)

H.R. 1309 also contains a mandate on private mortgage lenders that would require them to accept flood insurance from a private company if the policy fulfills all federal requirements for flood insurance. The bill would also require such mortgage lenders to include specific information about the availability of flood insurance in each good-faith estimate. Those

mandates are not contained in the Senate legislation; CBO estimated that the cost of complying with those mandates would be small and fall below the annual threshold.

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