CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 14, 2017

H.R. 1422
Private Flood Insurance Market Development Act of 2017

As ordered reported by the House Committee on Financial Services on June 21, 2017

Under current law homeowners with mortgages held by federally regulated financial institutions or that are guaranteed by the federal government must maintain a flood insurance policy if the home is located in a flood zone. H.R. 1422 would clarify that flood insurance provided by private firms satisfies that requirement. Today, private flood insurance options are not widely available but some insurance companies are developing analytical tools to underwrite flood insurance policies. Additionally, regulatory agencies are developing rules to clarify that private flood coverage meets the requirement for homeowners to maintain flood insurance. The private market for flood insurance is likely to continue to evolve and some homeowners may obtain private flood coverage.

About 80 percent of the National Flood Insurance Program (NFIP) policies have premiums that equal the expected cost of flood insurance, known as actuarial premiums; such policyholders also pay fees and surcharges to the NFIP that help cover the cost of the program. To the extent that NFIP policyholders that pay actuarial premiums leave the program and obtain private coverage under the bill, there would be a loss of budgetary receipts to the program. CBO cannot determine whether enacting H.R. 1422 would lead to the development of a robust private insurance market that would not otherwise occur, but as the private market for flood insurance policies continues to evolve, the NFIP will probably realize reduced receipts as some policyholders leave the program.

The bill also would direct the Federal Emergency Management Agency to consider policyholders who drop an NFIP policy and then later return to the NFIP as having continuous coverage if they can demonstrate that a flood insurance policy from a private firm was maintained throughout the interim period. That provision would permit policyholders paying a subsidized rate for an NFIP policy—about 20 percent of existing policyholders—to be eligible for subsidized rates if they return to NFIP and have maintained continuous coverage. Because such policyholders are not eligible for subsidized rates if they do not maintain continuous NFIP coverage, enacting that provision would increase direct spending by effectively reducing premiums for those policyholders.

Pay-as-you-go procedures apply because enacting the bill could affect direct spending. However, CBO estimates those effects would not be significant. Enacting the bill would not affect revenues.

CBO estimates that enacting H.R. 1422 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2028.

H.R. 1422 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 CBO staff contact for this estimate is Aurora Swanson. The estimate was approved by H. Samuel Papenfuss, Deputy Assistant Director for Budget Analysis.