Is it in or out?
Rethinking the Mandatory Purchase Requirement
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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