<u>Nunc Pro Tunc</u> Federal Flood Insurance

The Proposal: Create a fund from which victims of Hurricane Agnes and the Rapid City, S.D. flood could be paid benefits as though they had been insured under the Federal Flood Insurance Program. Impose conditions on receipt of such benefits designed to support future use of flood insurance and to minimize reconstruction in flood-prone areas.

The Federal Flood Insurance Program, as it presently exists, is well conceived to (1) protect flood victims against loss (2) encourage local adoption of land use controls to discourage new construction in flood plains, and (3) to reduce the need for federal disaster assistance. Flood insurance has not been available privately because the actuarial cost is prohibitive.

Unfortunately, because the Federal Flood Insurance Program is relatively new and not well-known, few of these victims of Agnes had obtained coverage. The problem is how to compensate them without undermining the fledgling Federal Flood Insurance Program.

The proposal described above would provide one-shot Federal assistance to victims of Agnes and the Rapid City flood <u>as though</u> they had bought insurance. This can be justified on humanitarian grounds, but is equitable and sensible <u>only if</u> it is clear that the uninsured victim will fare no better than his more provident neighbor who bought coverage, and only if it is clear that this is the last time the Federal government will bail out those who were unwilling to avail themselves of insurance.

Restrictions should be imposed which would limit eligibility to residents of communities which have adopted the land use controls required by the existing program (they should be given a reasonable period to do so) and only to persons who agree to purchase and maintain Flood Insurance in the future.

Insurance benefits are available under the present program to homeowners (maximum benefit $17,500 for real property loss, plus $5,000 for personal property) to renters (up to $5,000 personal property) and to businesses (maximum benefit $30,000 for structure, plus $5,000 contents). Benefits payable under the proposed nunc pro tunc program should be no greater than these, and should probably be reduced, so that the improvident "grasshoppers" get slightly less than the provident "ants" who bought coverage. Suggested reductions are:

(1) Deduct an amount equivalent to one year's premium.

(2) Adopt a deductible amount somewhat higher than the $200 or 2% feature of the present program. A $1000 or 10% deductible is suggested.

3. Those who agreed to build outside the special flood hazard area would receive the full amount of their damage up to the specified maximums, less the appropriate annual premium and less the deductible. Benefits would be limited to 75 percent of the uninsured losses (up to 75 percent of the statutory maximums) if they rebuild in their present location.

To encourage persons who had purchased flood insurance to rebuild outside of the special flood hazard area or to rebuild with proper safeguards against the flood hazard, they would receive a bonus payment equal to 25 percent of the amount of insurance they received, over and above the insurance payment, to compensate for the added expense of moving or more costly construction.

Certainly such a program should be accompanied by strict Federal action, such as requiring Flood Insurance on all FHA or VA or Farmers Home assisted new construction in the future. Furthermore, it should be noted that, effective December 31, 1973 the present National Flood Insurance Act will deny any Federal disaster assistance to flood victims eligible for insurance for a year or more who didn't buy it.

The program could probably be administered by HUD's FIA on a contract basis using local insurance adjusters and a lot of temporary staff.

ADVANTAGES

Public appeal - political plus

Broad coverage - no arbitrary geographic limits

Relatively quick payoff

Substantial indemnification

If Congress accepts restrictions and conditions, proposal is supportive of insurance approach, and should reduce demands for non-insurance disaster assistance in the future.

DISADVANTAGES

Demand for retroactivity and broad future applicability could balloon cost -- natural disasters cause $10 billion of damage annually in U. S.

Unless carefully limited by Congress, the program would:

(1) undermine the flood insurance program

(2) lead to unplanned repair or rebuilding in flood-prone areas

(3) develop pressures to rebuild public infrastructure in flood plains