Section-by-Section of the Flood Insurance Bill

Section 1. Title

"Flood Insurance Reform and Modernization Act of 2006."

Section 2. Findings

The flood insurance program is bankrupt, and is no longer a sustainable program under its current structure;

Major reforms must be made to this program including but not limited to subsidy reductions/eliminations, map modernization, cost analysis for greater efficiency within the write your own insurance program, stricter compliance of mandatory coverage, and increased participation;

Section 3. Definitions

Defines the term 500-yr flood plain and 100-yr flood plain;

Section 4. Reform of Premium Rate Structure

Subsection (a) will gradually phase out the current subsidies on several pre-FIRM properties as follows

- Non-primary residences;
- Any severe repetitive loss property;
- Any business property;
- Any property that has incurred damage in amounts exceeding its current FMV;
- Any property which has sustained substantial damage exceeding 50 percent or substantial improvement exceeding 30 percent of its current FMV;

Subsection (b) changers the annual premium increase for the program as follows:

- The overall maximum annual premium increase is changed from 10 percent per year to 15 percent per year;
- The premium increase for phasing out the subsidized properties under subsection (a) of this section is 25 percent per year until that property is no longer subsidized under this program;

Section 5. Mandatory Coverage Areas

Requires the director of this program to issue an amended final regulation of special flood hazard areas to include areas known as residual risk areas located behind manmade structures such as levees and dams. Residual risk areas are areas that would otherwise be within the 100-year flood plain but are currently not required to obtain flood insurance because they are protected by manmade structures such as levees and dams;

Subsection (c) creates a limitation that does not require mandatory participation within the flood insurance program for structures that are in residual risk areas until such time as all residual risk areas are mapped that the Director deems essential to carrying out the flood insurance program;

Section 6. Premium Adjustment

All rates within the program are subject to an adjustment each time a FIRM is updated;

Section 7. State Chartered financial institutions

This section requires that by December 31, 2008, all state chartered financial institutions be subject to the same requirements of federal depository institutions to maintain mandatory flood insurance on all mortgages within the mandatory coverage areas of the program;

Section 8. Enforcement

Section 8 increases the civil money penalties from "$350," per violation to "$2,000" per violation against lenders who fail to ensure that individuals who must participate within this program maintain flood insurance on their mortgage. This section also eliminates the $100,000 annual cap on fines that can be levied against lenders;

Section 9. Escrow of flood insurance payments

Section 9 requires that flood insurance payments be placed into an escrow account on behalf of the borrower;

Section 10. Financing of Funds from the Treasury

This section authorizes the Secretary of Treasury to provide funds to cover existing obligations of the NFIP for the 2005 hurricane season;

Section 11. Borrowing Authority Debt Forgiveness

This section completely eliminates any obligations owed to the United States Treasury by the National Flood Insurance Program for the 2005 hurricane season;

Section 12. Minimum Deductible levels for claims

This sets minimum annual deductible for pre-FIRM structures at $2,000, and post-FIRM structures at $1,000. All deductibles are at an annual basis, and once the deductible has been met, no further deductible is required;

Section 13. Considerations in Determining Chargeable Premium Rates

This section requires an examination of all years within the program including catastrophic loss years to determine the appropriate historical loss average;

Section 14. Reserve Fund

This section creates a reserve fund of up to 1 percent of all risk exposure in force and effect within the program;

This section sets up a mechanism in order to hit the target 1 percent ratio within 10 years;

This section also gives discretion to the Director to report to Congress if hitting the reserve target ration for any given fiscal year would serious negative implications for the overall program;

Section 15. Repayment Plan for Borrowing Authority

This section requires that anytime the NFIP uses its borrowing authority, it must submit a repayment plan to both the Secretary of Treasury and to Congress;

Section 16. Technical Mapping Advisory Council

This section creates a new technical mapping advisory council of 1994. The additional participants to the original council include the Office of Management and the Budget (OMB), the Army Corp of Engineers, and a representative from the Department of the Interior, and it excludes all necessary ;

Section 17. National Flood Mapping Program

This section requires the NFIP, with the guidance of the Technical Mapping Advisory Council, to map the 500-yr flood plain and areas of residual risk as well as updating the 100-year flood plain. This section directs the NFIP to use the latest technology and the most accurate flood elevation data in creating and updating the flood maps;

Section 18. Removal of Limitation on State Contributions for Updating flood maps

States are no longer prohibited from contributing more than 50 % of their own funds to ensure that their maps are updated;

Section 19. Non-Mandatory Participation in 500-Year floodplain

This section states that it is not mandatory for individuals who reside in the 500-year flood plain to obtain flood insurance;

Section 20. Notice of Flood Insurance Availability under RESPA

This section creates a new notice provision under RESPA to ensure that individuals who purchase land in areas of elevated flood risk are made aware of the risk and given an opportunity to purchase flood insurance;

Section 21. Testing New Flood Proofing Technologies

This section requires the NFIP to allow testing of any new type of flood proofing technology to determine if the new advancement complies with NFIP standards;

Section 22. Participation in State Disaster Mediation Programs

This section allows for the NFIP to be required in state non-binding mediation claims where there are multiple insurance claims on the same subject property

Section 23. Reiteration of FEMA Responsibilities Under 2004 Reform Act

This section requires the Director to submit a report to Congress every 30 days detailing the progress made on implementing the requirements of the appeals process of section 205 of the 2004 flood insurance reform Act;

Section 24. Studies, Audits, Reports

Subsection (a) requires GAO to conduct an in depth study on the Write Your Own program that shall produce alternatives to the current structure of the WYO system;

Subsection (b) is a complete audit of the NFIP by GAO including the $23 billion dollars spent on claims during the 2005 hurricane season;

Subsection (c) also requires the Director of the NFIP to submit an annual report detailing all financial aspects of the program for the preceding year;

Subsection (d) requires the GAO to study the affects that expanding flood insurance beyond the current caps might have on the private insurance market;

Subsection (f) requires the Secretary of Treasury to conduct a study and submit a report to Congress on the remaining subsidies within the program;

Subsection (g) requires GAO to study the effects of allowing individuals from non-participating communities to purchase flood insurance through the NFIP direct program;