F I S C A L   I M P A C T   R E P O R T

SPONSOR Sanchez, M. **DATE TYPED** 02/19/05 **HB**

SHORT TITLE Study Lender Flood Insurance Requirements **SB** SJM 23

ANALYST Kehoe

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
(See Fiscal Impact Narrative)	NFI			NFI	NFI

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
New Mexico Mortgage Finance Authority (MFA)

SUMMARY

Synopsis of Bill

Senate Joint Memorial 23 requests the New Mexico Mortgage Finance Authority (MFA) to study the limits of flood insurance required by lenders making real property loans.

Significant Issues

Senate Joint Memorial 23 states the flood insurance coverage required for residential properties is the lesser of the maximum amount of National Flood Insurance Program coverage available ($250,000), the outstanding principal balance of the loan, or the value of the property minus the land. It further states "there are lenders making loans to owners of real property in New Mexico that require the purchase of flood insurance in the amount of $250,000 regardless of the outstanding balance of a loan on such property—imposing an unnecessary financial hardship on those real property owners."

Senate Joint Memorial 23 requests MFA to study the necessity of requiring flood insurance coverage in excess of the outstanding principle balance of a property loan and to propose legislation to protect the financial interest of property owners who are required to pay flood insurance. MFA indicates it would willingly support and participate in a study of this nature, but any legislation proposing the enforcement of federal flood insurance coverage requirement guidelines would more than likely involve the Financial Institutions Division of the Regulation and Licensing Department and/or the Insurance Division of the Public Regulation Commission.

FISCAL IMPLICATIONS

MFA serves as the state's designated affordable housing finance agency. The study required by Senate Joint Memorial 23 will require staff and financial resources that would be otherwise utilized to provide affordable housing subsidies. MFA's expertise in the area of flood insurance requirements for single-family residential property is limited. MFA may have to contract the necessary expertise to perform the study and to develop recommendations to the legislature.

TECHNICAL ISSUES

Regulatory agencies such as the Financial Institutions Division of the Regulation and Licensing Department and/or the Insurance Division of the Public Regulation Commission may be better suited to undertake the study proposed by Senate Joint Memorial 23.

OTHER SUBSTANTIVE ISSUES

MFA provides the following additional information relative to flood insurance: In 1968, Congress created the National Flood Insurance Program (NFIP) in response to the rising cost of taxpayer funded disaster relief for flood victims and the increasing amount of damage caused by floods. The Mitigation Division of the Federal Emergency Management Agency (FEMA) manages the NFIP, and oversees the floodplain management and mapping components of the Program.

Nearly 20,000 communities across the country participate in the NFIP by adopting and enforcing floodplain management ordinances to reduce future flood damage. In exchange, the NFIP makes federally backed flood insurance available to homeowners, renters, and business owners in these communities.

Flood damage is reduced by nearly $1 billion a year through partnerships with communities, the insurance industry, and the lending industry. Further, buildings constructed in compliance with NFIP building standards suffer approximately 80% less damage annually than those not built in compliance. FEMA's website indicates that every $3 paid in flood insurance claims saves $1 in disaster assistance payments.

The NFIP is self-supporting for the average historical loss year, which means that operating expenses and flood insurance claims are not paid for by the taxpayer, but through premiums collected for flood insurance policies. To get secured financing to buy, build, or improve structures in Special Flood Hazard Areas (SFHAs) borrowers are required to purchase flood insurance. Lending institutions that are federally regulated or federally insured must determine if the structure is located in a SFHA and must provide written notice requiring flood insurance.

Flood insurance is available to any property owner located in a community participating in the NFIP. All areas are susceptible to flooding, although to varying degrees. According to FEMA, 25% of all flood claims occur in low-to-moderate risk areas. Flooding can be caused by heavy rains, melting snow, inadequate drainage systems, failed protective devices such as levees and dams, and tropical storms and hurricanes.

LMK/yr