

For those of you out there who depend on flood insurance to protect your property from losses during drastic weather conditions, did you know that there is no guarantee that your flood insurance will be renewable when it expires? You see, the flood insurance program is sponsored by the federal government and the laws that allow this program to exist are currently being debated and caught up in other bills that leave some doubt as to whether or not we will have a National Flood Insurance Program after May of this year.

You might be wondering why the federal government is mixed up in an insurance program like this in the first place. Well, flood insurance is a funny animal in that those that need it most (those in flood plains) are the only ones who will ever consider purchasing. Since those with no risk (those who live at the top of a hill) will never want to buy flood insurance, the insurance companies selling flood insurance would face an adverse selection process when they sell flood policies. This would make the cost of flood insurance nearly unaffordable as there is no subsidy at all from the lower risk buyers. So the federal government steps in with the NFIP.

The NFIP must be continually reauthorized by Congress periodically as its charter expires. The most recent extension was passed at the 11th hour on Dec 23, 2011 but this extension only authorizes the program through May 31, 2012. Barring an extension past that date, the NFIP will cease to function. Normally this kind of deadline doesn't create a huge problem, in fact the current extension is the 15th one since 2002 and in 2010 the NFIP was allowed to lapse four different times. There were 53 days in 2010 when you could neither purchase a new flood insurance policy nor renew an existing one. And I'm willing to bet that most of the homeowners who lost coverage during that time were at best only dimly aware of the new risks they were taking on.

The problem for the NFIP, and the reasons it is getting band aid type treatment as opposed to long term funding support are complicated but in large part are unrelated to the NFIP itself. The debt limit issues that the government ran into in late 2011 led to this current short term extension instead of a multi-year solution. Also, the bill in which the legislation to extend the NFIP charter into 2016 is also tangled up with a few political hot potato items such as tax rates and the Medicare payments to doctors debate.

If you live in a flood prone area, be aware that your homeowners insurance policy will not cover losses due to flooding. You will need to purchase a flood insurance policy to have protection. If you have a flood insurance policy in place, then keep a close eye on your mail or stay in touch with your agent to make sure that your policy remains in force after May 31st. At this point there

is no certainty that you will be protected on June 1st

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