

March 19, 2010

Hon. Edmund G. Brown Jr.
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Krystal Paris
Initiative Coordinator

Dear Attorney General Brown:

Pursuant to Elections Code Section 9005, we have reviewed a proposed statutory initiative related to flood insurance (A.G. File No. 10-0013).

Background

Owners of residential and commercial property typically buy insurance to protect their real property against various types of exposures to risks. For instance, homeowners typically insure their residential property against fire and theft. Many owners also insure their property against flood damage.

Federal Requirements for Flood Insurance. Currently there are no state laws related to flood insurance for residential and commercial property. However, federal law requires homes and buildings located in special flood hazard areas (SFHA) that are financed with federally backed loans to have flood insurance. For example, these federal requirements would apply to loans that are made by federally regulated lenders. The SFHAs are identified by the Federal Emergency Management Agency (FEMA). The FEMA also administers the National Flood Insurance Program, which allows property owners to purchase flood insurance backed by the federal government. Based on December 2009 data, insurers collect over \$195 million in premiums annually on federally backed flood insurance coverage in California.

There are no federal requirements for flood insurance for loans for homes and buildings that do not have federal backing. Almost all property loans in SFHAs are federally backed and thus subject to federal flood insurance requirements. Private lenders generally require flood insurance on the relatively small number of loans that are not subject to the federal requirements.

Major Provisions

This measure prohibits the state from requiring owners of property within the state to have flood insurance. The measure also prohibits lenders from requiring flood insurance as a condition of providing loans on property in the state. Because the measure only relates to state law, it would not affect federal requirements for flood insurance in flood hazard areas.

Fiscal Effect

As noted above, this measure would prohibit private lenders from requiring flood insurance on property in a SFHA. This could make private lenders less willing to make real property loans in these flood hazard areas. The extent of this potential change in lending practices is unknown. Because private lenders account for a very small percentage of real property lenders in the state, however, the impact on state and local revenues would not be significant.

Summary

- No significant state and local fiscal impact.

Sincerely,

Mac Taylor
Legislative Analyst

Ana J. Matosantos
Director of Finance