IMPLEMENTATION OF THE BIGGERT–WATERS FLOOD INSURANCE ACT OF 2012: PROTECTING TAXPAYERS AND HOMEOWNERS

HEARING

BEFORE THE

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HOUSING AND INSURANCE

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U.S. HOUSE OF REPRESENTATIVES

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IMPLEMENTATION OF THE BIGGERT–WATERS FLOOD INSURANCE ACT OF 2012: PROTECTING TAXPAYERS AND HOMEOWNERS

Tuesday, November 19, 2013

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING
AND INSURANCE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 1:32 p.m., in room 2128, Rayburn House Office Building, Hon. Randy Neugebauer [chairman of the subcommittee] presiding.

Members present: Representatives Neugebauer, Luetkemeyer, Capito, Garrett, Westmoreland, Hurt, Stivers, Ross; Capuano, Velazquez, Cleaver, Clay, Sherman, Himes, Sinema, and Beatty.

Ex officio present: Representatives Hensarling and Waters.

Also present: Representatives Cassidy, Grimm, Jones, Scalise, Buchanan; Lynch, Green of Texas, Richmond, McIntyre, Scott of Virginia, Meeks, Jackson Lee, and Murphy of Florida.

Chairman NEUGEBAUER. Good afternoon. I call the committee to order. We will have opening statements, and they will be limited to 10 minutes per side, as previously agreed upon.

I want to recognize the attendance of Members who are not assigned to the Housing and Insurance Subcommittee. And, without objection, members of the full Financial Services Committee, who are not members of this subcommittee, are welcome to sit on the dais and participate in today's hearing.

Also, without objection, Members of Congress who are not members of the Financial Services Committee may sit on the dais today, but consistent with our committee policy, they may not be recognized or yielded to for any purpose.

If they have any written statements, we will include them in the hearing record under the general leave.

Now, at this time, I will give my opening statement. The title of today's hearing is, "Implementation of the Biggert-Waters Flood Insurance Act of 2012: Protecting Taxpayers and Homeowners."

In other hearings that we have had in the Financial Services Committee, one of the common things that we hear from time to time is that government is not very good at pricing risk. And, quite honestly, one of the reasons that government is not good at pricing risk is because sometimes instead of pricing it actuarially or based on a risk model, it is priced politically.

We only have to look at the GSEs, FHA, Medicare, and maybe even Obamacare to determine that the government, in fact, does not have a very good track record of being in the insurance business.

This has real consequences for the American taxpayers. Currently, we are $17 trillion in debt, and I know if Chairman Hensarling was here, he would want the debt clock up on the board there.

How did we get to $17 trillion in debt? Partially, it is because the taxpayers backed some things that didn't work out, obviously, with almost $200 billion that they put into the GSEs.

The National Flood Insurance Program (NFIP) is another example. GAO decided in 2006 that it was high risk, and it currently is $24 billion in debt and authorized to borrow up to, I believe, about $30 billion.

So the Congress recognized this trend a number of years ago and began to have some discussions, in a bipartisan way, both Democrats and Republicans, of moving the Flood Insurance Program to a model where people were actually paying for the risk that was being borne by the Flood Insurance Program.

Biggert-Waters began that process. And, as I said, Republicans and Democrats overwhelmingly voted to move this process where people were paying their actuarially sound rate which would make sure that the program would be self-sufficient.

And so, today's hearing is really about discussing the progress of the implementation of this program. Also, I think one of the things that we have learned is that there is a lot of misinformation about the implementation of this program.

Hopefully, this will be informative as well of assuring homeowners that there is a process here, there is a method to the madness and that, in many cases, some of the stories that we have heard aren't necessarily true.

But my subcommittee, for example, found out that there was a quite a bit of misinformation, particularly about the Section 207 program. And so, we are going to hear a little bit today about that.

We do know that some of the stories that are out there are troubling to our homeowners, but I think one of the things that everybody needs to understand is that this Flood Insurance Program is designed to provide protection to homeowners who are in highly flood-prone areas. And that its ability to be responsive in the case of natural disasters and flooding is to have a program that is physically sound.

I would particularly like to thank Dr. Cassidy from Louisiana. He has been very helpful to the committee in beginning to understand some of the coastal issues that are going on in his home State of Louisiana. He and his staff have been very good resources for the committee. And so, Dr. Cassidy, we appreciate that. We are glad that you are joining us today.

With that, I will yield back my time. And at this time, I will yield to the vice chairman of the full Financial Services Committee, Mr. Luetkemeyer, for 2 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman. I am glad Mr. Fugate is here today. And I hope that this hearing will produce results about both taxpayers and homeowners alike.

My district includes many communities that sit in the floodplain along major streams and rivers. It is also home to Lake of the Ozarks, which has more coastline than the State of California. I am hearing more and more from my constituents who are astounded by the problems they are having with the National Flood Insurance Program.

We need, in my opinion, to focus on two immediate objectives with NFIP. First, we owe it to our constituents living in the floodplain to create a program that is stable, fair, and accessible. And we need to have the specifics of that program clearly communicated by FEMA to all stakeholders.

Second, we owe it to the American taxpayers to create a program that is solid, and allows for an increased role for the private market. We have taken important steps to create a sound program, a program that includes changes agreed to by 402 of my House colleagues in 2012.

In the last several months, we have seen an increase in the private market's willingness to enter the flood insurance space. I don't think we should completely turn our back on the progress that has been made. It is clear that this program, the manner in which it is being implemented, is in need of greater scrutiny.

I look forward to hearing from our distinguished panelists, and I yield back the balance of my time.

Chairman NEUGEBAUER. I thank the gentleman. Mr. Lynch from Massachusetts is recognized for 2 minutes.

Mr. LYNCH. Thank you, Mr. Chairman. I appreciate your courtesy. And I want to thank this witness, Mr. Fugate, as well as the other witnesses in the following panel for their willingness to come before the committee, and help us with our work.

What I am hoping—I recently attended a local community meeting on the new flood insurance process, which I would say between 1,000 and 1,400 of my closest neighbors from the South Shore of Massachusetts attended. And based on the response there, the number of people who brought their new bills from their insurance companies, and the increase of premiums, we were looking at, in many cases, a 500 percent, sometimes 1,000 percent increase in the premiums of those flood insurance rates under the new maps.

I would say, just based on looking at my district, the threat of forcing people from their homes by these increases in premiums is probably equal to the removal of people from their homes during some of the storms that we are trying to address.

I just hope that during this hearing, during this whole process, we may be able to re-engineer the Biggert-Waters flood map process in a way that allows families to stay in their homes, but recognizes the instability of the fund itself.

But rather than recapitalizing the fund over a very short period, look at what GAO recommended in their study, which was to delay the implementation, or to phase in over a longer period, the increase in rates that would actually allow people to stay in their homes, especially those who are on fixed incomes, who live in the South Shore communities like Scituate and Cohasset that I represent, and Marshfield in Massachusetts, that Mr. Keating represents; and I think accomplish both the goals that we have to stabilize the Flood Insurance Program, but also recognize the reality of people who are living in coastal communities, whether that be Massachusetts, or Louisiana, or Mississippi, or in New York, but taking a more holistic approach to the issue of flood insurance.

With that, Mr. Chairman, I yield back.

Chairman NEUGEBAUER. I thank the gentleman. And now, the gentlewoman from California, one of the primary authors of Biggert-Waters, the ranking member of the full committee, Ms. Waters, is recognized for 5 minutes.

Ms. WATERS. Thank you very much, Mr. Chairman, and Members. I am so pleased that we are having this hearing today. It is most timely, given what is happening across this country in all of our districts.

Both Democrats and Republicans are receiving an unprecedented number of calls and complaints about the Biggert-Waters bill. I feel a responsibility to do everything possible to straighten out the unintended consequences of Biggert-Waters. Ms. Biggert is not here. Ms. Waters is left to deal with this, and deal with it I shall.

In 2012, when I initially agreed to be a co-author of the Biggert-Waters Act, our goal was to create a bipartisan solution to repair our ailing National Flood Insurance Program. I did so because I understand the importance of the program for people living in flood-prone regions.

The program helped rebuild many areas in the southeastern part of the United States after Hurricanes Katrina, Rita, and Isaac. It is helping New York and New Jersey rebuild after Superstorm Sandy. We need a healthy program to ensure all communities have a safety net that helps them to pick up the pieces, should they experience such devastation.

But the reality is, many of these unforeseen catastrophes crushed the program financially, putting it $24 billion in debt. The Biggert-Waters flood insurance legislation was designed to update the National Flood Insurance Program, and put it on a path to stability through a 5-year extension, and a 10-year repayment plan.

The law was supported on a bipartisan basis. And I think I can speak for my Republican colleagues when I say neither Democrats nor Republicans envisioned it would inflict the pain and concern that many Americans are experiencing. That bill was voted out 402 to 18.

In my view, it certainly didn't have to be this way. But I have met with FEMA. I have talked with them, and I think I understand something of what happened with the way that this has been implemented.

The first thing that I want to address is the fact that we included in the bill that there should be an affordability study, which has not been done.

There are some other areas of concern that I have with FEMA that I cannot go into at this time. I don't have enough time. But having said that, FEMA did not complete either the remapping that I think was indicated in the bill, or the affordability study.

But somehow they began to announce dramatic increases for many of the policyholders. I think that this was distorted. Somehow, the intentions of our well-meaning piece of legislation has caused grief to families from coast to coast. I do think this could have been avoided.

I hope, Mr. Chairman, the majority of our time here today can be used to discuss how we can fix this broken program. As many of you know, I have joined with Congressman Grimm, Congressman Cedric Richmond of New Orleans, and 131 other Members of Congress in introducing bipartisan legislation that would delay many premium increases for 4 years, until FEMA and Congress can ensure changes will be implemented in an affordable, responsible manner.

Mr. Chairman, and Members, I think you can see that a number of these co-sponsors not on this committee have joined us here today, including, as I said, Representative Cedric Richmond, and Representatives Bobby Scott of Virginia, Mike McIntyre of North Carolina, Bill Cassidy of Louisiana, and Walter Jones of North Carolina. And we expect some more Members to show up. This is a bipartisan, bicameral effort that will ensure FEMA engages in an accurate and responsible remapping process by forcing it to certify that maps are accurate and reliable. And Mr. Fugate, it will force the implementation of the affordability study of your agency that should have been completed last April.

This bill would mandate that FEMA propose an affordability framework to address flood insurance costs within 18 months after the completion of the study. It would also establish a flood insurance advocate within FEMA who will answer our constituents' questions about the flood-mapping process, and flood insurance rates.

Mr. Chairman, we have to make sure that FEMA implements this program in the way that it was intended, and in a responsible and affordable way. Of course, I look forward to the witnesses' testimony, and a robust discussion to ensure we have a well-organized and sustainable National Flood Insurance Program that will continue to be affordable, and ensure hundreds of thousands of American families have the peace of mind to know they are protected in case of a disaster.

Mr. Chairman, I spent a part of our break in Louisiana. I went down to Plaquemines Parish, where people are suffering. And even though that was the only place that I was able to go to, I did a conference call with over 127 organizations throughout America who are organized around reform, and making sure that we have a program that is affordable, and that will protect the most vulnerable of our citizens at a time when they need it.

I thank you so very much. And I yield back the balance of my time.

Chairman NEUGEBAUER. I thank the gentlewoman. And now, the gentlewoman from West Virginia, the chairwoman of the House Financial Institutions Subcommittee, Mrs. Capito, is recognized for 1 minute.

Mrs. CAPITO. Thank you, Mr. Chairman, for holding this very important hearing on the implementation of Biggert-Waters.

I represent West Virginia. We have a lot of floods, we have a lot of water, we have a lot of mountains, and we have a lot of valleys.

And these newly-released premiums have left many of my constituents very concerned.

I just had a meeting back in my home district. One of the homeowners, a coal miner, just purchased his house in August for $160,000. He has been working 20 years to be able to get his dream home.

At the time, his premium was $1,500. He has gotten caught in this grandfathering and implementation period, where now he is learning that his insurance is going to be $12,000 on a $160,000 house.

He is asking me, "Should I just quit paying my mortgage, and get foreclosed on?" I don't think any of us in this room intended for this bill to cause foreclosures for people who happen to live near a river or near a mountain. So hopefully, we can find some solutions today, and certainly, at least, get the information out to help gentlemen and families like the one I just talked about.

Thank you.

Chairman NEUGEBAUER. I thank the gentlewoman.

Now, the gentleman, Mr. Westmoreland, is recognized for 1½ minutes.

Mr. WESTMORELAND. Thank you, Mr. Chairman, for calling this long overdue hearing. As a former homebuilder, I know the nature of flooding is always changing. Development, environmental conditions, and public policy at local, State, and Federal levels all contribute to either your flood risk or your flood mitigation.

Mr. Chairman, the fundamental question posed by the Flood Insurance Reform bill is one of fairness. Is it fair for everyone to subsidize the insurance of a few? This is the question asked about the Obamacare subsidies, and today it is the same question posed by the flood insurance.

To me, the answer is simple. Taxpayers should not continue to subsidize the flood insurance of those who live in flood-prone areas. It is not fair. I have heard from my colleagues about different scenarios with dramatically increasing premiums. Agreed, there are places in Biggert-Waters where tweaks need to be made to make the reforms work better. I am committed to helping the committee work on these areas where we can find agreement.

But this committee must be committed to working to reserve the reforms to the Flood Insurance Program or risk a taxpayer bailout. Without these reforms, there will not be a Flood Insurance Program. We all know the NFIP owes the taxpayers approximately $30 billion. If reforms are not put in place, then as I mentioned, ultimately the taxpayers will be the ones to bail it out.

This committee must continue to have strong and frequent oversight of FEMA's implementation—putting it in force and holding FEMA accountable. With robust oversight of putting it in, this committee can preserve the reforms of the Flood Insurance Program and be fair and balanced to people currently in the program.

Mr. Chairman, again, thanks for having this committee meeting, and before I yield back, I would like to make a unanimous consent request that a statement from my colleague, Representative Jack Kingston from Savannah, be entered into the record.

Chairman NEUGEBAUER. Without objection, it is so ordered.

Mr. WESTMORELAND. Again, I yield back.

Chairman NEUGEBAUER. The Chair yields 1½ minutes to the gentleman from Florida, Mr. Ross.

Mr. ROSS. Thank you, Mr. Chairman, and thank you for holding this very important hearing. I also want to thank our panelist, the Honorable Craig Fugate, whom I had a chance to work with when he was Director of the Emergency Operation Center in Florida during the devastating 2004 and 2005 storm season.

Florida has a unique relationship with the National Flood Insurance Program. Two out of every five homes covered by NFIP are located in Florida. And yet in Louisiana, New Jersey, New York, and even Texas have received more in claim payments than Florida, and I think this is due in part to our mitigation program and a little bit of luck as well.

We contain so many policies for NFIP because we are a peninsula. Very simply, we have more risk. Our residents, many of my constituents, need affordable flood insurance. The NFIP is over $24 billion in debt. The business model was flawed, and the program faced elimination. The Biggert-Waters bill addressed this problem and aimed to implement reforms to keep the program available.

Unfortunately, the implementation of the Biggert-Waters program has proven problematic. I am hearing reports from my constituents of $15,000 increases in their flood insurance premiums. The communities in my districts are very concerned about the accuracy of FEMA's mapping. Now is the time for discussions about affordability, private market risk, capacity, and the program's premium collection.

I hope today's hearing will shed some light. While some might feel the government should wipe its hands of the problem, I would like to note that Congress created this problem. Congress allowed subsidized rates to continue for over 40 years. Congress passed the reforms that although are ultimately necessary, are very burdensome for some communities.

Government created this problem. Now, we should work towards a solution, and I yield back. Thank you.

Chairman NEUGEBAUER. Thank you, gentlemen.

And now, we are going to recess and go over for Members to exercise their constitutional responsibility. We have a couple of votes. I will remind Members that just as soon as votes are over, please come back and we will resume.

With that, we are in recess.

[recess]

Chairman NEUGEBAUER. The committee will reconvene. I will now introduce our first panel, which has one witness: the Honorable Craig Fugate, Administrator of the Federal Emergency Management Agency (FEMA). H. Craig Fugate was confirmed by the U.S. Senate and began his service as Administrator of FEMA in May of 2009.

Mr. Fugate has been a dedicated public servant for nearly 2 decades, including serving as Director of the Florida Division of Emergency Management, as well as a distinguished emergency management career as a volunteer firefighter, a paramedic, and a lieutenant with the Alachua County Fire Rescue.

Mr. Fugate, thank you for your public service. You are now recognized for 5 minutes to summarize your written testimony. And without objection, your written testimony will be made a part of the record.

And with that, welcome.

STATEMENT OF THE HONORABLE CRAIG FUGATE, ADMINISTRATOR, FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)

Mr. FUGATE. Thank you, Chairman Neugebauer, Ranking Member Capuano, committee members, and Members of Congress who are sitting in on this hearing.

In 1968, Congress determined that there was a need to provide insurance for a hazard that the commercial industry was no longer able to cover, and that was flood insurance.

As part of that, to make flood insurance available to the public, one of the goals was to decrease and reduce future risk—the idea being, at the point we were going to start offering flood insurance, the other goal should be to decrease, in the future, the risks of flooding in this Nation. That would have hopefully been achieved if we were able to make sure that rates being charged were really changing behavior about how and where we built for the future.

But as it is, we have a program now, after all those years, that has grown exponentially in exposure, and, at the same time, we continue to see growth and development in those areas in the country where, again, we still see our risk increasing.

There is a lot of discussion about maps. There is a lot of discussion about how much are formal rates. But you can't argue with this: we are $24 billion in debt.

We currently have $350 million worth of cash on hand. We have the borrowing authority for another $6 billion.

If you take all the other discussions away, that alone says that this program does not provide the funding necessary to cover catastrophic losses. And that exposure to catastrophic losses is what I think began driving the discussion as we look to reauthorize the Flood Insurance Program.

We were very much supportive of getting flood insurance reauthorized for a 5-year period. This is something we heard from REALTORS®, from local communities, from our Write-Your-Own policies; they wanted to see stability.

At the same time, I think there was a growing understanding that we need to set the right point of how much risk as a nation we can afford to subsidize and ensure that we are getting a return on that investment.

So, Mr. Chairman, I want to break this down into a couple of segments and then I am ready for questions.

Section 205 is the section of the Reauthorization of Flood Insurance Act that speaks to one particular type of property: secondary homes. I don't think there is any question—I know there is some concern out there, but is there any question that we should be subsidizing somebody's vacation home?

So, I want to focus on primary homes, because I think this is the area about which we share a lot of concerns. And that is you own your home; we have a requirement to now begin moving to actuary-based rates, and in the case of update maps under our Section 207, the section requires that we increase those rates 20 percent over a 5-year period until we are at the full rate, understanding that for a lot of homes and built infrastructure, it is going to be prohibitively expensive.

And to give you an illustration of this, we use a term: base flood elevation. Base food elevation is what we say—a 100-year risk—which is not once every 100 years; it means a 1 percent risk each year—that we could get flood waters high enough to get in the structure. If you are built about that—just 4 feet above that, to insure $250,000 of home and $100,000 of content, is about $500 a year. Your base flood elevation—it is several thousand dollars.

If you drop below that, there is a 25 percent increase for each foot you go down. So, for every 4 feet, you are doubling that policy.

So, it is very likely if you have somebody whose home was built on a river or other coastal area where the base flood elevation could be as much as 8, 10, and in some cases even 16 feet above where they are built, you are going to see rates that are astronomical.

Mr. Chairman, we want to work with Congress in looking at how do we set the right point to ensure we are not subsidizing risk going forward?

But we want to look and work with Congress on how we look at affordability for somebody who is in their home now and how we look at affordability from a standpoint that is means-tested upon an ability in income, not just arbitrarily given to an entire designation as what the program used to do.

We used to grandfather in the whole community, regardless of the ability to pay. So, we agree, and want to look at how we build in affordability.

The last piece, Mr. Chairman, is there has been a lot of discussion about the affordability study. And as far as we have been able to determine with our attorneys and our reviews, there was a requirement to implement these programs concurrently—not waiting for a study to be completed.

That would be a different direction Congress would need to give us to do. But we have already implemented Section 205 on secondary homes. Section 207, which would be about map changes, is still not implemented for current homeowners and will not be implemented until October of 2014.

And again, this is an area, Mr. Chairman, in which we are ready to work with Congress.

[The prepared statement of Administrator Fugate can be found on page 79 of the appendix.]

Chairman NEUGEBAUER. I thank the gentleman, and now the chairman will recognize himself for 5 minutes for questioning.

Mr. Fugate, in your testimony to the Senate Banking Committee, I think you testified that you felt like that the fund needed an additional billion and a half dollars to really get to where it was actuarially sound.

And you also just mentioned that I think you had about $300 million on hand. Kind of two questions here—if you have another significant event, you are in trouble, right?

Mr. FUGATE. Yes, sir. We have approximately $6.4 billion left that we could borrow. And then at that point, we would exceed our borrowing authority, and we would be required to come back to Congress to get more authority.

Chairman NEUGEBAUER. So if Congress decides to change course here and move away from actuarially sound rates, that would begin to reduce the inflows. And how would that impact the fund?

Mr. FUGATE. It is going to continue the challenge that we have an existing debt that if no new disasters happen, we were slowly paying down from Katrina. We had actually gotten down to about $18 billion—almost under $18 billion when Sandy hit.

But we are still talking about many years to pay down this debt. What the increases really do is ensure that future losses are being paid for by rates collected and allow us to then keep growing—not grow the risk.

But I think that given what we have now with the current debt, even with these increases you are not going to substantially see this debt retired any time soon.

Because just the average payouts each year and the cost of operating this program, that overhead, precludes taking all of these increases and merely applying it to past debt. You have to use that for your future losses.

Chairman NEUGEBAUER. One of the things that our committee has had is a lot of different Members come up to us with different scenarios. And some of those just really kind of turned out to be either misconceptions or rumors; some of them founded.

What are the two or three most repeated misconceptions about the implementation of Biggert-Waters?

Mr. FUGATE. I think one is on current homeowners. If I have my house—and again, about 20 percent of policies are subsidized; 80 percent are already paying, calculated out, actuarially sound. So, 80 percent of the policies see no change in this statute.

The 20 percent that are currently subsidized—there is a very small percentage of secondary homes. They have already gotten their bills. They will get, by the end of this year—we started in January 2013—as of January, they will all have been moved to an actuarially sound basis.

Where you do see the concerns is I own my home, the maps—they are talking about changing the maps. What is going to happen? And, as it has been in previous programs, as long as I am paying my policy, my premium, I have been getting that subsidized rate.

But if we change the map and the community adopts that map—this is not a one-way street, FEMA works with the communities and the community adopts and enforces those maps, then their rates will start increasing 20 percent over a 5-year period until they reach the full level.

That is not even phased to be implemented until October of 2014 based upon the additional work it requires to implement that rule. So there are a lot of numbers flowing around, and there are a lot of questions out there.

We can tell you what it will be if you got a secondary home. We have been doing those calculations. But for primary homeowners with map changes, that doesn't change until October 2014.

It is a 20 percent increase per year, so it is not all in the first year. And those have still not been finished as far as the implementation. That is still in rule-making and the process to have that ready to go next October.

Chairman NEUGEBAUER. One of the other things that I think was in your testimony was about some of these uncertified levees. And I know it is particularly interesting to some of my friends in Louisiana where they have a lot of levees, many along major rivers.

And you are actually doing some work to give some partial credit, so to give some credit for a levee that may not be certified. Can you elaborate a little bit on that?

Mr. FUGATE. Yes, sir. Previously when we looked at levees, if they were not certified to the standard that the Corps of Engineers was using, we would identify that as "without levee" and would calculate that as if there was no structure there.

We agreed with many constituents who said we should at least be looking at how that would affect the flood risk. And so we agreed to come back and begin modeling as they were built, not did they make standard.

So we didn't zero them out as if they were perfect, but we did look at them for the protection they offered. We are currently doing pilots in Louisiana based upon that, which will require a rule change. But we are doing the pilot now to make sure we can get the right calculations and determine risk and have that now reflected in what they would be looking at for their risk and what those rates would be not on a certified levee, but on what is built there and how it would perform.

Chairman NEUGEBAUER. And one last thing, you have a grant program to help with some of the mitigations. If some of the cities and States were to chip in, in partnership with you, on some of this mitigation, that would change some of the maps and could dramatically change some of the flood insurance premiums, could it not?

Mr. FUGATE. Yes, sir. And we have had some States, most notably North Carolina after Hurricane Floyd did quite a bit of investment of their mitigation dollars to get the best map data.

Previously, in the State of Florida, I worked to get better data for coastal communities to calculate storm surge.

So, there are programs to get better data. We are also looking at the technology that is changing to speed up and reduce the cost of getting the best data while making sure that it is cost-effective and accurate in determining these risks.

Chairman NEUGEBAUER. My time has expired. And now, the gentleman from Missouri, Mr. Clay, is recognized for 5 minutes.

Mr. CLAY. Thank you, Mr. Chairman, and thanks for conducting the hearing.

Mr. Fugate, we have heard reports of consumers being faced with multiple rate quotes for the same property. Can you describe the options available to a consumer in this situation?

Mr. FUGATE. Again, sir, a lot of this is being done with preliminary information. We hadn't even finalized until this year what those rates would be on new purchases that are not subsidized.

The phase-in piece is still being worked on so that hasn't even been finalized for existing homeowners who were looking at map changes where they would have to be phased-in.

And we have been working with "Write-Your-Owns" and other partners to make sure we get the accurate information out there when you do go and get your rate.

But here is the challenge, sir. Unlike a lot of insurance policies, I cannot just look at where you are and determine your risk. I have to have an elevation certificate to know the risk.

As I said—

Mr. CLAY. Yes.

Mr. FUGATE. If you are at base flood elevation, you are going to pay a certain amount, and you are going to get discounted for every foot you are above that, and those savings will be substantial.

Likewise, if you are below that base flood elevation for that flood risk, the penalties and the increases can also go the other way and you will see increases in the rate far greater than what they had previously seen.

Mr. CLAY. So you would agree that the premium rates serve as incentive or disincentive to locate a property at a certain level?

Mr. FUGATE. Yes, sir.

Mr. CLAY. And, up to this point, has it worked? Have there been less locations of properties outside of those levels or outside of the floodplain?

Mr. FUGATE. In some cases, communities have made decisions to turn their most vulnerable areas into green ways and green space because the cost of construction would be prohibitive.

And in other cases, they changed their construction techniques to build at a rate above base flood elevation. This is what the statue requires: If you are participating in the Flood Insurance Program, you have to build one foot above base flood elevation on the current maps.

So we have seen in communities side-by-side homes that were built prior to the maps and homes built after the maps and the ones that were elevated after the maps did very well, and the ones that were not, flooded and people lost everything.

And, again, I realize there is a cost to insurance and, in some cases, that cost is an issue we have to address.

I want to go back to the one thing that flood insurance does do. It provides protection to people who lose their homes and their contents, and it is much better not to have flooded in the first place, then to deal with the consequences of a flood.

Mr. CLAY. Okay. Let me ask you then, do you agree that it would make sense for FEMA to have an advocate that could provide a central point of contact for and work to educate policyholders about their individual flood risk and their options in choosing a policy, assist property owners through the map appeal process and improve outreach and coordination with local officials, community leaders, and Congress?

Mr. FUGATE. Congressman, not only do I think it is a good idea, I am looking at that internally, what it would take to do that and what resources would be required.

But, I agree, this is a very—from the standpoint of a consumer, since we work through a variety of Write-Your-Own insurance companies, I want to look at the best way to ensure we can get questions answered uniformly.

So we are taking that. I understand it is being considered legislatively, but we are looking internally is there a better way to provide that within the Flood Insurance Program?

And so concurrent with your approach, and we want to work with the committee and staff on this, I want to look at this as well and see what we can do.

Mr. CLAY. Okay. Can you explain the basis for FEMA's decision to wait to implement the rate increases under Section 207 dealing with grandfathered properties?

Mr. FUGATE. The delay is based upon the time it takes to implement the program. There was no delay that was built in other than this is a very complex process to move through.

We implemented Section 205 first. We are now working on Section 207, but it is still something that we estimate we will be implementing, and the rate notices and the changes would be effective in October of 2014.

So there was no intention to delay it other than the time it takes to implement this part of the bill.

Mr. CLAY. Why was the decision made to move forward with the rate increases under Section 205 for subsidized properties?

Mr. FUGATE. That was clear because there was not a requirement when you looked at existing homeowners who were receiving subsidies. Secondary homes were easier to identify and that was the first part of this.

It is far fewer policies that we insure than the much larger pool of primary residences.

Mr. CLAY. I thank the gentleman for his response.

Chairman NEUGEBAUER. I thank the gentleman.

I would say to my fellow committee members that we are going to try to adhere as much as possible to the 5-minute rule. We do have two panels, and we have lots of Members here today.

And so if I start cutting you off, it is not because I don't like you, it is just because we need to move on.

Next, I recognize the vice chairman of the subcommittee, another gentleman from Missouri, Mr. Luetkemeyer, for 5 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

And thank you, Mr. Fugate, for being here today. You are dealing with a very difficult issue that is affecting millions and millions of people.

In my district, I represent the Lake of the Ozarks, which is a recreational area, retirement center there in central Missouri. It has more miles of shoreline than the State of California. That tells you how impactful it is, how large it is.

And we have some significant problems with the flood maps. I know the premiums are what the discussion has been about so far, but the maps are really of a concern to me.

I also have the Missouri River right through the middle of my district, and I have part of the Mississippi River. So, I have lots and lots of concerns with the mapping.

I will give you an example: I have a lady who lives in a third-floor condo, that is the condo is on a 40-foot bluff above the level of the dam. She is 40 feet plus 2 floors above the dam, and yet she has a flood insurance policy.

This is rampant. We have thousands of people around the lake who are in this situation. Is there a way that we can meet with you or your staff, somebody who can sit down and look at this mapping and get it straightened out.

I know what happens is every time a piece of property has to sell, they have to go get a new elevation statement, and it takes a lot of money and a lot of time for each individual property around that lake, and there are thousands of properties.

Is there a way we can fix the maps without going through this process?

Mr. FUGATE. I am more than happy to meet with you, but I am not sure you are going to like what I am going to tell you and I want to—

Mr. LUETKEMEYER. Well, let's talk about what we like then.

Mr. FUGATE. When we do mapping, we map the risk based upon the area, not each structure. There are not enough resources to map each structure. And this has, again, been the challenge in doing maps.

When you are setting an insurance risk rate, you set it based upon the area. And then, the elevation certificate tells you how high you are above or below that risk in that area and that sets your rates.

The program has never been resourced, meaning funded, to do a structure-by-structure risk-base analysis. It has been based upon establishing risk for the community, for the neighborhood, for the block, and then you determine by that elevation certificate what that property's risk is relative to insurance.

That is an additional step and cost, and that is why, for Write-Your-Owns, this is not an easy policy to administer. There have been questions about what it costs and the percentages that they receive.

Mr. LUETKEMEYER. Okay. My question is, would you be willing to have your staff or somebody like yourself meet with us and sit down and work through this?

Mr. FUGATE. Absolutely.

Mr. LUETKEMEYER. I appreciate that. Along that line, I know that there are a lot of other trade associations and groups out there that have some of the same concerns that I have.

And I assume you have probably seen the letter to you dated November 15th from, I think, 16 different organizations requesting a meeting with you, a sort of flood-insurance summit. I don't know if you are aware of it or not. But would you be willing—

Mr. FUGATE. I have not received that.

Mr. LUETKEMEYER. Okay. Would you be willing to meet with those groups?

Mr. FUGATE. Yes, sir.

Mr. LUETKEMEYER. Okay. I have a letter to be entered for the record, Mr. Chairman.

Chairman NEUGEBAUER. Without objection, it is so ordered.

Mr. LUETKEMEYER. Thank you. I would appreciate that, because I know that everybody has some concerns about this, how it affects each different group—whether they are individuals or consumers or commercial folks; everybody has a problem.

I guess one question I would like to ask you as well is, I guess there are several different flood insurance companies that are getting into the flood insurance field. Are you aware of those? I am sure you—

Mr. FUGATE. They have been in the field.

Mr. LUETKEMEYER. Okay.

Mr. FUGATE. We only cover $250,000. So if you have a jumbo mortgage, you have always had to go in the commercial, to write over that.

Mr. LUETKEMEYER. Okay. The question I have then for you is, what is the difference in their approach versus your approach?

Mr. FUGATE. We are insuring the greatest risk and the greatest liability at the least cost to anybody else, except for the taxpayer. They are writing the piece of the risk that is the least amount, and they can write it very affordably.

Mr. LUETKEMEYER. I think I have an example here in this article from—looks like the Tampa Bay Times. There are a couple of different companies there in Florida, apparently, that are writing it from the ground up, and from the first dollar up. So what is the difference in their approach versus yours?

Mr. FUGATE. Well, currently under—and this is something Biggert-Waters was also addressing, and is going through rulemaking, if you have a federally-backed mortgage, it still requires a National Flood Insurance policy. That is being changed to allow any commercial policy that provides the coverage to the mortgage. So it is no longer exclusive to NFIP, which I support very much.

Where we have seen the private sector engage in is the area that I have been trying to push, getting to the point where we are not subsidizing rates, where they are not going to write the least-risk areas, and begin taking on more and more of the responsibility, and literally move them back to more of a capitalist, private-sector model of managing risk.

So, I very much support that. Again, if they are able to write those policies cheaper, I think that is great for everybody. And as to the details of theirs and ours, it depends upon what they are writing.

But right now, we are required to write the policies of service to federally-insured mortgages. And when that rule change occurs, that is going to open up that market. And I will be very interested to see how many more participants we are going to have in writing insurance below $250,000, for that first amount.

Mr. LUETKEMEYER. Thank you very much. I yield back.

Chairman NEUGEBAUER. Time has expired. The gentlewoman from California, Ms. Waters, is recognized for 5 minutes.

Ms. WATERS. Thank you very much. First, let me—Mr. Neugebauer, you asked about participation by cities or States, or local communities in mitigation. Right now, there is a cap of 50 percent. Is that right, Mr. Fugate, of ability of a local entity to participate in mitigation?

Mr. FUGATE. It depends upon which program. I am not sure if that is in the flood insurance buyout program. The other programs are 75 percent Federal, 25 percent State and local.

Ms. WATERS. Why is there a limit on the ability for local communities to help themselves with mitigation?

Mr. FUGATE. There is one area I am familiar with, and that is this is a rule-changing, we support it, that if they use their money to do certain work, we had not recognized that before. And as we have been briefed on it, we want to change that.

So if a community is putting up their money, we recognize that, and do not preclude that from being a tool to factor in the mitigation.

Ms. WATERS. We are going to attempt to change that in the legislation, the bipartisan, bicameral legislation that we have put together. But my question is, none of us are expert in this business of the Federal Flood Insurance Program. But we don't get you from FEMA initiating changes that make good sense.

If you knew, and you know that makes good sense for local communities to be able to participate in their own mitigation, even if it is 100 percent, why haven't you come to us and recommended that?

Mr. FUGATE. I wouldn't be able to answer that. I would have to go back to staff. But I do know that in the one case where we did have this, we found a workaround for a community to allow them to use those funds. It was tied back to some rules that, quite honestly, until I got briefed on it, I hadn't heard of before.

Ms. WATERS. Let me just go on, on this same vein of questioning. There was a pre-owned property. It was purchased in 2011 by a Pennsylvania couple as a future retirement home. Upon hearing of the changes in the Biggert-Waters Act, the owners sought an elevation certificate, and learned that the full-risk rate of the home had increased from $3,300 to over $59,000. Even with the phase-in of rates, this sharp increase has made the home unaffordable, and the home is now up for sale. The owners fear that they will not be able to sell the home because of the poor risk rate.

When your people began to see rates increase like this to an unreasonable, outrageous amount, why didn't you come to us and inform us that something extraordinary was going on, and come up with a fix to help us with this? You are the expert.

Mr. FUGATE. We have been working on this issue. And as we come across this, we have been trying to do our due diligence. It was something the Administration went on record that before we had even began calculating this, we were concerned about—there was no affordability provision in this.

Ms. WATERS. If you were concerned about no affordability, why didn't you find a way to do the affordability study?

Mr. FUGATE. The affordability study, again, based upon the direction that we had when we approached the national academies to contract with them, they informed us that the amount of funds and the timeframes would be insufficient, and they would only be able to begin part of that study.

We went back and notified staff that was the response. But because the legislation was fixed at a certain price—

Ms. WATERS. Did you come back to this committee to ask for some help with that? Now, we are fixing it in the legislation, that is the bicameral, bipartisan legislation, and we are putting some money in there for an affordability study.

But you didn't come back here and tell us any of what you are telling us now. Why didn't you do that?

Mr. FUGATE. Again, my understanding is staff were communicating with staffs. I apologize if that did not happen.

Ms. WATERS. This issue requires leadership. And let me just say, all of the harm that has been caused to thousands of people across this country who are calling us, who are going to lose their home, who are placed in this position, it is just unconscionable.

That was not the intention of Biggert-Waters. And I am absolutely concerned that with your knowledge, with FEMA's knowledge, that you should be talking to us more, helping us to understand how to best be of assistance, and have a program that works.

Mr. Chairman, I yield back the balance of my time.

Chairman NEUGEBAUER. I thank the gentlewoman. And I will just take a little bit of your time. Section 100219 of Biggert-Waters, "permits states to invest in unlimited additional funds in mapping by removing the limitation that states can only contribute up to 50 percent of the cost—"

Ms. WATERS. We can't hear you, Mr. Neugebauer.

Chairman NEUGEBAUER. I'm sorry. Basically, in Section 100219, it says that "states can invest in unlimited additional funds in mapping by removing the limitation that states can only contribute up to 50 percent."

So in Biggert-Waters, some of that was addressed. But I think the gentlewoman does make a good point in as far as building infrastructure, if we have limitations on infrastructure that States and local communities can build, we probably need to address that. So, thank you for bringing that point up.

I now yield 5 minutes to the gentleman from Florida, Mr. Ross.

Mr. ROSS. Thank you, Mr. Chairman. I apologize for the hoarseness in my voice. I lost it on a 4th-and-18 touchdown "Hail Mary" pass over the weekend for my Auburn Tigers.

Mr. Fugate, as I said in my opening statement about Florida being a donor State, and it just seems a little contradictory, could you explain why that is? Two out of five policies are written in Florida, yet they don't lead to claims.

Mr. FUGATE. It is because we have been fortunate that we have not had the large-scale flooding event. Florida sees itself as a donor State. But they have also have to understand that they also have some of the biggest risk.

If a category 2, category 3 was to impact Miami-Dade County with a storm surge, you are talking anywhere from $2 billion to perhaps as high as $4 billion in payouts from one event. You go county by county, you see that kind of exposure.

So although the impression is we have paid more into the program than we see premiums paid out, it is based upon the risk. And again, I caution that we just don't make the assumption, because we haven't had the payouts, risk isn't there. I think it gets back to the original issue, is the affordability in this from the existing homeowners?

Mr. ROSS. With regard to the Biggert-Waters implementation, do you think we should delay it for any period of time with regard to the rate adjustments, or go forward?

Mr. FUGATE. I think I would be very measured in delaying this. Particularly, what we have looked at is in Section 207. This would be the section that if a map change occurred, you would lose your preferred risk, or your preferred rate, and it would have to be increased.

But I would also caution that what we have found before when we did this for everybody is we didn't change the outcome. What we basically did was the delays never went forward, and we ended up subsidizing risk.

We would like to work with Congress to make this actuarially-based, but also if we are going to give any preference to reductions or affordability, that it be means-tested.

Mr. ROSS. And with regard to the study that you have been charged with having, do you think it would be wise to wait until such time as we have had the results of the study performed by FEMA, or should we—

Mr. FUGATE. I think for Section 207 it is the area that has not been implemented yet, it is the one that there is a lot of work to be done on affordability. I would say that section—most of the sections of 205 are implemented. I don't think we could pull back on secondary homes.

But there is another issue about when—your State has had this—we have had escrow accounts that didn't service the policies, and they lapsed, and they immediately went to the new rate. I think there are some technical issues there.

But the affordability—and what makes this complicated is it goes back to the mapping question. You almost have to look at enough structure by structures to see how many people are above or below, and at what levels, to determine how many of the extreme cases there are versus, "This is affordable."

Mr. ROSS. Thank you, Director. I apologize. I only have a couple of minutes left. With regard to the private market, you testified you are woefully undercapitalized for anything that is going to happen.

Is there a sufficient capacity in the private sector to meet the needs of the flood insurance liability of this country?

Mr. FUGATE. My sense is—and I cannot speak for the insurance companies—if we change the regulation that requires you to have flood insurance to back a federally-insured mortgage, I don't see a lot of private-sector insurance making up the difference for the highest risk, but I do think as we saw in Florida with wind pools—

Mr. ROSS. Exactly—

Mr. FUGATE. The government is going to have some responsibility in the—

Mr. ROSS. And if we use some creative means—up in wind pool, we did the percent deductibles, which worked. I think Mr. Luetkemeyer talked about surplus lines insurance coming in there.

There are some creative opportunities, not only that, but there is also an opportunity because this is a government-created problem, but to do glide path in terms of the transition, the increase in the rates so that we get a market going while we are also allowing for the government to be the backstop.

Now, let me quickly ask you, are you familiar with agreed value flood insurance policy proposals, where you have—it is almost like a scheduled injury if you were in liability, but in terms of flood insurance it would be a scheduled event using the BFE, the Base

Flood Elevation, to sell policies that are supported by insurance-linked securities such as cat bonds?

Mr. FUGATE. No, but I would be interested in hearing about it.

Mr. ROSS. Good, because I would like to have the opportunity to sit down and talk to you about that.

I think what we are trying to do is to provide not only some education as to how to mitigate against these flood zones, but also to encourage a private market to come into play so that they pool some of their risk and take it away from you.

Lastly, I just want to talk about mitigation. Florida has had a great mitigation program. What can we do to foster more mitigation in low, in flood zones?

Mr. FUGATE. It goes back to the maps. The better the data, the better we know where to make our investment decisions, where and how to build—I am not at all saying we shouldn't build just because there is flood risk—

Mr. ROSS. I agree.

Mr. FUGATE. —but I do know we can build in a way so—

Mr. ROSS. To withstand.

Mr. FUGATE. —that people don't lose their homes when there is a flood.

Mr. ROSS. Exactly.

I appreciate that, and I yield back my time.

Thank you.

Chairman NEUGEBAUER. I thank the gentleman.

And now the gentleman from Massachusetts, Mr. Capuano, the ranking member of the full Financial Services Committee, is recognized for 5 minutes.

Mr. CAPUANO. Thank you, Mr. Chairman.

And thank you, Mr. Administrator for being here.

Mr. Administrator, every time that FEMA goes into a disaster area, do you know what you are getting into every single time?

Mr. FUGATE. No, sir.

Mr. CAPUANO. So, no on a regular basis, probably every single time, when you go in some place, you are well-intended, you know what you want to get done, but when you get on the ground, you have to be flexible.

Is that a fair statement?

Mr. FUGATE. Yes, sir.

Mr. CAPUANO. That is how I feel about this whole issue.

We passed a bill a couple of years ago, because I agree with the policy and the philosophy about trying to get to an unsubsidized basis. I think it is a good idea. But we also put the affordability study in there, because we weren't sure how all this would be impacted. And to be perfectly honest, for me, the policy, the philosophy, with you 100 percent.

But, I don't live in an ivory tower.

I live in the real world, and when I start getting phone calls from people saying, my insurance is going up 5,000 percent—and it is not just one person—we have a responsibility to react. And my definition of a good reaction is to say, pause, deep breath, what is causing this, let's take a little break, figure out what happened and if we want to do something about it, which is why we are here today.

I think that is exactly what we are doing.

I think that we should have done the affordability study before we implemented any of these prices. And anybody who told you that they couldn't do it, you should have talked to us.

Okay, it has happened. We are here today.

I want to be really clear, I strongly disagree with you about second homes. I strongly disagree with the legislation that has been put forward that exempts small businesses. A lot of people own second homes. They are not all Bill Gates. Most of the second homes owned in New England are trailers, small little houses—many of the houses that are impacted used to be second homes.

Florida, the Gulf Coast, and North Carolina are full of second homes mostly owned by middle-income people struggling to get that, and to say that they should be thrown out, in my opinion, is an inappropriate response, an inappropriate action.

It doesn't mean that in the long term, we may decide to do something different with them, but today not only will you kill those second home owners, you will hurt the economy that they are in, because most of those homes are located in places where the entire economy is revolving around those second homes, including the small businesses that service them. All of whom are going to get massive—or potentially, will get massive hits under this, all of whom deserve the same pause button and then a re-attack on the issue.

I don't think you will find anybody here today who argues or will argue with the policy of trying to get off subsidies. I totally agree.

How? To me, that is what this hearing should be all about. How we got here, we get it, okay. It is done.

What do we do? I would argue that we need to pause, and I just want to hear from you, do you agree or disagree—now again, not as the Administrator, because you have a job to do, I get it, you are just doing what the law says as you read it—but if you were me, would you be asking to hit that pause button for a little while so we can take a deep breath?

Not to stop new maps.

Not to stop increases.

Not to stop actuarial-based insurance.

But to see how it impacts real people.

Would you hit that pause button or would you just pile forward?

Mr. FUGATE. I think the affordability piece is the part I am most concerned about, and I would like to have the time to work on that for existing homeowners.

I also know that communities have been through this before. They have faced these same issues. They rebuilt differently. Their economies came back. Not everybody got to come back, but the communities came back.

This is not new. We have been through this with Hurricane Hugo, Hurricane Andrew, and Hurricane Katrina, and we are now going through it with Sandy. I have been through it in my home State of Florida, in numerous small communities that were wiped out that, faced with the Flood Insurance Program, thought they would never come back.

And this is going to be a true statement: For some people, they will not be able to afford to come back because of these requirements. It does not mean that communities have not come back and thrived with the new requirements and are more resilient and more likely to be able to survive the next event.

Mr. CAPUANO. None—I don't disagree with a single word you just said, with the sole exception being those are specific areas—this is country-wide all in one fell swoop, which is again—I am not arguing—I may come to the conclusion that what you are doing is absolutely necessary, that it is an unfortunate necessity.

I am simply saying, we are there now—I won't speak for anybody else, but for me, to a great surprise that these numbers came out the way they did. I am not arguing against the maps, that is fine. None of that bothers me.

What bothers me is that we are acting as if a $5,000 or $10,000 cost to an average homeowner is nothing. And, it is a lot. It is a lot to ask.

And again, if we all decide as a Congress, and you as the Administrator, decide, well it is necessary for the greater good, fine. I don't think anybody here, certainly not me, thought that we would be seeing these kinds of increases.

So that being the case, my time is up, and I appreciate the chairman's—

Chairman NEUGEBAUER. The gentleman from Virginia, Mr. Hurt, is recognized for 5 minutes.

Mr. HURT. Thank you, Mr. Chairman.

And Mr. Fugate, I thank you for appearing before our committee.

I apologize for missing your opening remarks. But I wanted to first of all talk a little bit about the mapping process, what if there are those who would like to delay provisions of the Biggert-Waters Act, what is the timeline for getting the mapping done to a sufficient level that takes all that into account?

What is the timeline?

How long does that take?

And is there anything that we can do to assist in expediting that?

Mr. FUGATE. Again, with mapping and updating maps it is the requirement of the funding to update the maps, the prioritization of that, and to the detail. And I explained this earlier, but I think this is one of the challenges with maps. A map update does not determine risk house by house, structure by structure. It determines what the flood insurance rate is for an area. And it still requires further work to get an elevation certificate to determine based upon that risk where you are at.

So more funds to get more work done, but we are having to go back and re-study and do other work based upon challenges. If we are going to continue to do this, if we wait until all the maps are updated to a level that everybody agrees on, that it will indefinitely delay implementation.

Mr. HURT. Is there a reasonable timeframe that you can forecast for that to be done?

Mr. FUGATE. When I was still a county person, they began modernization and updating maps. This is going to be a multi-decade process as these are not static situations; there is change that is involved. We have to continue as the science gets better.

One of my hopes is we can actually speed up—with some of the new technologies, as they are proven—this is one of the things that Congress directed us to do is a technical map advisory committee to look at not only our process, but also adapting new technology to get more accurate readings at a lower cost.

Mr. HURT. Second question, if we were to delay the implementation of these rates—the increased rates that we are seeing, how long would it then take to get this program into fiscal solvency?

That seems to me to be the big question at a time when this program is $24 billion underwater, how long will it take?

Mr. FUGATE. Until Hurricane Sandy hit, we had managed to pay down a little over $2 billion worth of the premium out pay from Katrina, so a very long time. I just—I can't even give it to you, because you have to factor in, do you get any new events, and what your average events are.

But, we were not moving the needle very much on Katrina, and trust me, if we did not get the favorable interest rate the Treasury gives us, we wouldn't even be able to keep up with interest payments.

Mr. HURT. I guess a follow-up question—sort of a big picture question is, if we were to go in the direction of some sort of delay, isn't it a reasonable argument that we are actually just delaying the inevitable? That we are not really fixing anything, we are just pushing it down the road, pushing the pain down the road?

Mr. FUGATE. We would be back to where we were before Sandy, and it is a balancing act towards—my biggest concern is, how do I deal with the folks who are facing this now who are in their homes in some way that makes sense that we are not putting people out of their homes who can't afford it, but more importantly, how do we not continue increasing the risk going forward?

This program has always grown a risk greater than our ability to afford it. So we have to say at some point that we cannot subsidize going forward, and then we have to look at our built infrastructure and ask, what is the best path forward to move to where the market—preferably the private sector—can insure that risk, and we narrow down the exposure to the taxpayer to only that risk that cannot be borne by the market, and through no other means can people stay in their homes.

And then, we are going to have to look at that—what makes sense for the basis of that.

Mr. HURT. Last question, really quick—my time is almost expired—if we were to implement some sort of delay, how would the NFIP and the Write-Your-Own companies—would that be a problem administratively for them to make a change that has already been implemented?

Mr. FUGATE. I don't—in Section 207, which would be the existing homeowners if we change maps, I think that would have the minimal impact, because that does not occur until next year, October at the earliest based upon what we think we are going to be able to implement by then. Where it would probably affect immediately is people who have already gotten a change where they had bought new property or they had a lapse and their rates went up, or they are trying to sell their homes.

And then again, on secondary homes, those notices already went out, so we are in the final part of that billing cycle. So if we are going back to secondary homes, that has already changed, that would be a big undertaking.

Mr. HURT. Okay, thank you. My time has expired.

Thank you, Mr. Chairman.

Chairman NEUGEBAUER. I thank the gentleman.

Just a 5-second question.

Are you doing any satellite and aerial mapping now? Or are you still doing it on the ground?

Mr. FUGATE. We are using a LIDAR, which is a laser. That is one of the tools to get the digital elevation maps, as well as ground surveys.

But there are some really interesting tools that are coming along the line that are giving very high resolution, including the structures, at a much lower cost. And this is one of the things that we want to look at.

It would increase—we could then map by structure at a much lower cost. But there are emerging technologies that are changing so fast that we want to get that into our system to make the maps more accurate.

Chairman NEUGEBAUER. Thank you.

I now recognize the gentlewoman from New York, Ms. Velazquez, for 5 minutes.

Ms. VELAZQUEZ. Thank you. Thank you, Mr. Chairman.

I represent the seventh congressional district and it is a sea coastline in New York which has been badly impacted by Sandy. And I have a question about how do we incentivize mitigation, because in the long run, it will affect affordability.

Many private WYO insurance plans do not allow homeowners and businesses to use claims to improve flood resiliency through activities like increased base elevations, flood-proofing basements or raising electrical controls above flood levels.

This seems counterintuitive to what many might see in future payouts. What is FEMA doing to ensure that NFIP and WYO claims might be used to improve property resiliency for future floods?

Mr. FUGATE. It won't go through the Write-Your-Owns, because their obligation is to pay actual damages out, so there wouldn't be any additional funds to mitigate.

But you have also authorized us in previous flood insurance authorizations to use money from the program on repetitive loss to either elevate or buy out property so that the owner can have the option to sell out and not have to rebuild, or we can help elevate it.

We also work very closely with the Small Business Administration. They have a program where they can make loans available to rebuild, but also mitigate. And then we use our hazards—

Ms. VELAZQUEZ. Are you talking about the disaster loan?

Mr. FUGATE. Yes. Yes, ma'am.

Ms. VELAZQUEZ. Let me tell you—I did a report on the disaster loan through the SBA; 74 percent of those disaster loans were declined.

Mr. FUGATE. And—

Ms. VELAZQUEZ. A lot of those businesses that were waiting for that help are not there anymore.

Mr. FUGATE. So, again, they offer that. The additional hazard mitigation dollar States get can be used. And I know that both in New Jersey and New York, they are looking at those areas to do elevations and buyouts to create more barriers.

There are programs. But the Write-Your-Own—they are servicing actual losses, the idea being these are the damages that have to be repaired to bring the home back up to code so it services the requirement of the mortgage.

Ms. VELAZQUEZ. My next question is about the inability to use private insurance claims to assist with future flood resiliency, which has made it difficult for New York homeowners to comply with CDBG's disaster relief-based elevation requirements for Sandy recovery.

How does FEMA plan to resolve this conflict?

Mr. FUGATE. I would need to work back—these are with the Community Development Block Grant dollars?

Ms. VELAZQUEZ. Yes.

Mr. FUGATE. We were working with Secretary Donovan. Part of the present direction with the Rebuilding Task Force was to get to these very types of issues.

We are hoping that we are working complementary with the Community Development Block Grants and our mitigation dollars to increase the amount of funds available. But I will be more than happy to take this back and work with Secretary Donovan on it.

Ms. VELAZQUEZ. Thank you.

Thank you, Mr. Chairman. Mr. Chairman, I would like to ask for unanimous consent to include in the record two testimonies that were submitted by constituents of mine who were impacted by Sandy.

Chairman NEUGEBAUER. Without objection, it is so ordered.

Ms. VELAZQUEZ. Thank you.

Chairman NEUGEBAUER. The Chair recognizes the gentlewoman from West Virginia, Mrs. Capito, for 5 minutes.

Mrs. CAPITO. Thank you, Mr. Chairman. And I want to thank our witness—he has been very good.

I alluded in my opening remarks to a homeowner—first of all, I wanted to ask a unanimous consent to submit for the record the news article that discusses the case of Richard Holmes with the flood insurance.

Chairman NEUGEBAUER. Without objection, it is so ordered.

Mrs. CAPITO. Okay, thank you.

So, Richard Holmes bought his home when he was sort of in this not knowing that he had any idea that he was going to have a $12,000 flood insurance premium on a $160,000 house because the regulations, I believe, hadn't been formulated in time.

You were shaking your head when I described it earlier. How can we assist somebody like this and—I don't know what to tell him to help him. I did tell him to keep paying his mortgage, however.

Mr. FUGATE. Again, I don't have the—if I had the answer, I would have already done it.

This is one of the things, and again, I have talked to the chairman about, is we want to make sure that we have affordability addressing as means-tested—that not just anybody can get a subsidized rate.

But there was no provision to do that. And so, what we found is that when this regulation went into effect, if you bought your home with that designation that has changed or had changed previously, there was no grandfathering in.

And so, it is a small group, but it is a group that is being hit very hard. It is affecting—you are going to hear from REALTORS® and everybody else about how this is affecting closings right now—

Mrs. CAPITO. Right.

Mr. FUGATE. Because the way it was implemented, once it went into effect, when you change your status, you go to the full rate.

So, if you drop your policy or you are selling, the buyer goes to the full rate. There is no phase-in. The other parts of the bill had phase-ins.

Mrs. CAPITO. The other thing I was surprised to learn from him was that there was no notification at his closing that this could be a possibility. Does that gel with what you are hearing across the country?

Mr. FUGATE. What I heard—and, again, I am reading news articles similar to what you saw where the first time somebody realized this is—because generally, when you go to closing, you have to go find out what the insurance is and you have to certify your insurance in order to send the mortgage.

When they went to the insurance company to get that was when they found out. Because they usually were doing this—"What were you paying? That should be about my—I can afford that."

Mrs. CAPITO. Right. That is what happened to him.

Mr. FUGATE. Each designation—and this is, again, you are going to hear from REALTORS® and others—when people go get that, it is shutting down the deal, because what somebody was paying in the past is not what you are likely to be paying in the future if you are substantially below that base flood elevation. Now, if you are above that, it is less of an issue. But it is those homes built prior to data or below flood elevations—and, again, it about doubles for every 4 feet you are below that.

Mrs. CAPITO. Right. I think in his case, he knew he was purchasing a home in the floodplain. That was designated—pre-designated. He just was unaware at closing, after he closed, that this was going to be the price.

So, now he is looking at—really, his flood insurance premium is going to be more than his mortgage. And I don't know if maybe the solution is to grandfather folks like that in, or try to hold the premium to the value of the house.

He is not sitting at the base of a river—we have plenty of those, as well, in our State. And I don't know the flood elevations. But he knew he was purchasing in a floodplain area designated. That wasn't the issue.

The issue was he is already into this contract and now he doesn't know what to do because it is unaffordable for him.

Ms. WATERS. Will the gentlelady yield?

Mrs. CAPITO. Yes.

Ms. WATERS. You should be able to tell your constituent that there is a bipartisan, bicameral piece of legislation that would force them to do the affordability study and the review and everything that we were doing would take 4 years.

So, this is retroactive and that he should not have to pay that increased amount. After the affordability study is done and the 4-year period of time, we will have recommendations that will help us to determine what makes good sense and what is fair.

Give them the hope and the understanding that we are working—

Mrs. CAPITO. Right, and I—

Ms. WATERS. To do this.

Mrs. CAPITO. If I could reclaim my time, I am trying to hear his issue and trying to help him, as well.

But then, if you look at the whole neighborhood, then you look at property values. Who is going to buy a house at $150,000, no matter if it is 4 years from now or next week, that has a $12,000 flood premium? That is unaffordable.

So does the—and then you look at the retiree who owns her own home. She is all by herself. She is thinking if she has to go into a nursing home someday, her only asset is her home, and the value of her real estate is plummeting because of this issue. Then, we all pay. So, there are all kinds of residual issues around this one issue. I appreciate it, and I am out of my time. Thank you.

Chairman NEUGEBAUER. I thank the gentlewoman.

And now the gentleman from Missouri, Mr. Cleaver, is recognized for 5 minutes.

Mr. CLEAVER. Thank you, Mr. Chairman, and Ranking Member Capuano.

Most of my questions have already been raised concerning the affordability study. But to preface the reason for the question I will ask, I am from Kansas City, Missouri, and contrary to what you might believe, we are surrounded by water.

The Missouri River is the longest river in North America. It is the longest tributary to the Mississippi—2,400 miles. And in fact, the word Missouri means, "those who paddle in wooden canoes."

So, water is an issue. And now that I have established that I am not from Kansas, let me just find out—in your statement, you said that you would begin issuing guidance to insurance agents in March.

Mr. FUGATE. Yes, sir.

Mr. CLEAVER. Did that happen?

Mr. FUGATE. Yes. We have been working with the Write-Your-Owns. In fact, we have continued to work on increasing that and more training as we have found more concerns and issues.

But this program—and this is part of the reason why it wasn't implemented immediately on the date of signing. We had to implement, train, communicate with Write-Your-Owns, develop the rules and implement this. So, this is an ongoing process.

Mr. CLEAVER. Were prospective homeowners warned about the changes in their flood policies?

Mr. FUGATE. Again, I get this question, and I guess if the question was, has FEMA notified directly all policyholders, the answer is we do that through the Write-Your-Owns. And it—

Mr. CLEAVER. Through what?

Mr. FUGATE. Through the Write-Your-Own—the people who are servicing the policy. And it depends upon their status.

The only change that we are seeing with this, again, is about 20 percent of the policies. That is a big number.

But for most policies, this has not really changed anything that they have. It is only those people who were getting either a subsidized risk, which is about 20 percent, or they have a map revision.

And so, those notifications were being based upon when people were coming up for renewals if that status changed. So, if I went to buy a policy for the first time, that is when I would find out.

Mr. CLEAVER. So, what—you couldn't get us the number of—

Mr. FUGATE. No, sir.

Mr. CLEAVER. —houses? Okay.

I yield back the balance of my time. Thank you, Mr. Chairman.

Chairman NEUGEBAUER. I thank the gentleman.

And now, the gentleman from Ohio, Mr. Stivers, is recognized for 5 minutes.

Mr. STIVERS. Thank you, Mr. Chairman. I appreciate you holding this hearing. And thank you, Mr. Fugate, for coming and explaining the current status of where we are with the Flood Insurance Program.

You have said a couple of times that 80 percent of the policyholders see no increase, and that of the 20 percent, those folks are either impacted because there is a change in the flood map, or their subsidy is reduced.

So of those 20 percent, how many of those folks are being shifted immediately to full risk-adjusted rates, and are there any—what kind of hardship concerns are you hearing from those folks?

Mr. FUGATE. As was pointed out, if you have a secondary home, we eliminated that, and—

Mr. STIVERS. But I want to try to understand, of that 20 percent, how big is that?

Mr. FUGATE. It is not a very big percent, but they started as of January 1st of this year. Their rates will be going up 25 percent of what they were paying.

It is an extended horizon, because they don't do it like you would think, 25 percent in 4 years. It is 25 percent of what they were paying, and it goes up 25 percent until they get to that level.

If you buy a new policy, it is in effect now. So if I haven't had a policy before, and I am buying, I am going to pay the full rate.

If I had a lapse in my policy, I didn't make the payment, it went up. And if I sold my home, and buying it, it went up, or I had a repetitive loss, which we have not seen that yet. But if I had repetitive losses, one of the concerns—we have had properties that get flooded out every couple of years, they never had to pay more.

But for everybody else, it has not changed yet, and won't change until either maps are updated, or they lapse their policies.

Mr. STIVERS. So you are saying, essentially, that the only two groups of people who have seen an adjustment to a full risk-adjusted rate are people who have allowed their policy to lapse for nonpayment, or for some reason, it lapsed, or a brand-new home that didn't have any coverage before?

Mr. FUGATE. Yes, sir.

Mr. STIVERS. Okay. So if Congress were to pass the Grimm-Waters bill, or whatever name we are calling it, or some subsequent bill, and then FEMA were to give the consumers and the Write-Your-Own folks some kind of direction regarding those changes, it will have been almost a full year since this whole process started. And so, almost every impacted policyholder would have seen a bill already.

How do we fix the confusion related to the fact that they will have already at least seen a bill, or had a bill due, or some of them will have already started to pay bills? What kind of confusion would those time lapses create, and is there a way to get around that? And I am not saying that is a reason not to do it, but—

Mr. FUGATE. It would be, again, something we are going to have to look at. It would really depend upon how Congress structured any new changes, and what those requirements were.

Knowing that this is a much smaller population than the overall number of folks who are currently receiving subsidized risk, I would have to really go back to staff and go into numbers of people that this would impact, what it would take, depending upon Congress' direction to address?

Mr. STIVERS. And you have read the proposed bill?

Mr. FUGATE. I have staff reading through it. I haven't had a chance to read it myself. We are still working through the—there are several, but we are looking at the different bills to do staff analysis.

Mr. STIVERS. So the way I read it—and maybe I am not right—has your staff told you at what point, if this bill were to pass, we would start to move to risk-adjusted rates? Would there be almost a 4-year lag before we actually move to risk-adjusted rates?

Mr. FUGATE. My understanding so far, what staff analysis is, is that there would be a delay to complete the affordability study, and implement those back to Congress with rules to implement that, and then the implementation timeframe of that.

And based upon our conversation, the National Academy of Science has advised that it would take several years to work through all of the affordability studies. And then past that, you would be looking at how would you implement that, recommendations that either we have authority to implement, or we require additional direction from Congress.

Mr. STIVERS. So you look at it the same way I do, that it could actually take years to actually move toward risk-adjusted pricing under this bill?

Mr. FUGATE. Based upon my understanding, yes, sir.

Mr. STIVERS. I think the bill is well-intended, and I want to try to make sure that folks who are potentially seeing huge spikes all at once, we need to try to look out for that, and try to phase things in the best we can. But we do need—I believe we need to move our Flood Insurance Program to actuarially sound rates.

That is one of the problems with government pricing risk, is government doesn't do a very good job. So I guess now that my time is up. I will yield back. But thank you for your time.

Chairman NEUGEBAUER. I thank the gentleman. Now, the gentleman from Connecticut, Mr. Himes, is recognized for 5 minutes.

Mr. HIMES. Thank you, Mr. Chairman. And thank you, Administrator Fugate, for being here.

And I would be remiss if I didn't say thank you for visiting my district in Southwestern Connecticut just over a year ago when Sandy came through and did a lot of damage. It was great to see you then, and your people. It has been great not to see you since then in my district.

I wonder, absent the affordability study, I am curious if we can put at least some sense of magnitude on the challenges that are facing the stories that we have heard today.

If I am reading your testimony correctly, there are about 1.1 million people who are still receiving subsidized rates, and you estimate that about $1.5 billion annually is necessary to get to actuarially-sustainable rate. Am I right? Am I reading your testimony correctly?

So if I do a little math in my head, it is about, on average, those 1.1 million people would have to pay an additional, on average, $1,000—just shy of $1,400 a year. It is a pretty big number.

What do we know about the ability to pay? Does FEMA have any mechanism for getting at the income or the assets of those 1.1 million people? Do you have a sense of the average income and assets for the persons in that population?

Mr. FUGATE. No, sir. And that is one of the goals of an affordability study, was to determine that. As you point out, that is the average.

The average, though, means that if I am a little bit above the base elevation, that goes down. If I am below that, it increases significantly.

And so that affordability piece was—again, my—and looking at this, as I have gone, we need to do something to make sure that we are actuarially sound, but also means-tested and affordability at a point which—and this may sound awkward, but here is how I look at it: We need to make sure we are not subsidizing risk below which is for the benefit and the interest of the U.S. taxpayer.

And I think that is the question on which I really need to come back to Congress. How do you determine what is affordable, at what income, at what level?

That is not something FEMA does. That is why we support the affordability study to bring in subject matter experts who talk about that, and ask, "At what point is affordability, and how much of that risk should be shared with the taxpayer, is in the common good of the public?"

Mr. HIMES. I completely agree. I don't think anybody up here disagrees, that over time we want to move to an actuarially-sound system.

Granted, we haven't done the affordability study. But again, just to help us think about the magnitude of the problem, I would assume that when somebody applies for flood insurance, a Social Security number is involved. So I would assume it wouldn't be that hard for you to generate a profile for us of who is in this 1.1 million.

Mr. FUGATE. It would be a bit different, because currently, the majority of our insurance policies are actually serviced by insurance agents. And, so we would again have to look at a system where we would now collect data from the Write-Your-Owns to get financial information.

So again, that is why this is a very complex process, and that I don't sell you the policy directly, in most cases. I sell that—there is another company that is selling it to you, and they are collecting information.

For me to get financials, and then determine eligibility, would be something that we would have to build in. That is why we are saying not only do you have to do the study, you are also going to have to look at how do you implement that.

Mr. HIMES. Okay, thank you. I yield back, Mr. Chairman.

Chairman NEUGEBAUER. I thank the gentleman. And now, the gentleman from New York, Mr. Grimm, is recognized for 5 minutes.

Mr. GRIMM. Thank you very much, Mr. Chairman, for allowing me to sit in today and to ask some questions. I would also like to thank our witness, Administrator Fugate, for your service, first of all, and on a personal note, for all the work you and your team has done for Sandy. It did not go unnoticed, and it is appreciated.

I completely understand the need for actuarially-sound programs. But I think where we are missing it is the balance between actuarially sound and functionally and practically sound. Would it be a true statement to say that if premiums are too high, and people can't afford them, then it jeopardizes the whole program?

Mr. FUGATE. What it would do is jeopardize rebuilding those homes, or building in those areas. I think of the program as a whole, the amount of cases that are like that would not affect the overall program. In fact, what you tend to see is, those are actually the policies that have the greatest risk to the overall program.

I think a different concern would be if you cannot afford to rebuild, what impacts does that have on communities, because the insurance is not affordable. Which again, depending upon which side of the debate you are on, there are going to be people behind me, telling you the moral hazard of subsidizing risk is we are going to rebuild right where we were, just the way it was, and we are going to get wiped out by the next hurricane.

Mr. GRIMM. Reclaiming my time. I agree with you that after a hurricane, to rebuild just the way it was doesn't make sense. But I don't think that is actually what is happening here.

I have homeowners who in 2012, their policy was $971. They just got their new premium, $38,000 and change. So less than $1,000, and now it is almost $39,000.

Now, would you agree with the statement, "You can't get blood from a stone?"

Mr. FUGATE. Yes.

Mr. GRIMM. Okay. On a home that cost what this home cost, you wouldn't spend $48,000 a year. So they will walk away from their property, and no one else will buy it.

And I think that does jeopardize the overall program, because your opening statements in your first few questions, you mentioned how the program is $24 billion in debt, and the projections, based on the new premiums you are expecting, are supposedly going to get us out of that debt.

But I would pause it, that is absolutely not true at all, because you are never getting these premiums. That is pie in the sky. This person is not paying $38,000.

So your computer, and those working on this can say, "Hey, we are expecting $38,000," but they are never actually going to receive it. So that is why I do say it does jeopardize the program.

Mr. FUGATE. If the game plan was to charge rates to pay back the previous debt, you are absolutely right. That is not what the actuarial tables are designed to do. They are designed to deal with the future risk. So, they are calculated about what your future risk is. And, again, on coastal areas, where you are below that base flood elevation, we are seeing those numbers. And that is why, again, I am very supportive of an affordability study to look at how we take existing infrastructure, means-test it, and deal with that issue you raised. But it is not about paying off the previous debt, it is about facing the future, and ensuring that premiums coming in are covering the exposed risk, not merely just paying off the previous debt.

Mr. GRIMM. And to expand on that, would you agree—we talk about the common good for the taxpayer, and I agree with you—we do have to balance the common good. But the profound impact on the overall economy for a certain community—when you start seeing foreclosures and abandoned homes, that could be more expensive than the Flood Insurance Program. Is that not a possibility?

Mr. FUGATE. That is, again, a point that we raised in the Sandy Recovery Task Force, that without affordable insurance, we are going to lose the ability for people to stay in their communities. And I have also been supportive of this, of looking at how we make a means-tested—again, I think it should be based upon the individual, not just broad blanket community-wide.

Mr. GRIMM. Right.

Mr. FUGATE. But it should be means-tested to affordability so that we don't face those situations for existing built infrastructure, but not be applied to new growth.

Mr. GRIMM. One last question in the last few seconds here.

You mentioned before that the premiums wouldn't go up until after the maps were adopted. But in New York, we haven't adopted the maps yet, but premiums have been raised 40 times.

Mr. FUGATE. Again, we are—I will have staff give you—if you are getting a new policy or you had a lapse in policy, those changes. So, I would be very interested in seeing that, because under the existing rules, we have not implemented the increases for permanent homeowners.

Mr. GRIMM. I will give you a heads-up—it is happening.

Mr. FUGATE. Are these homes that are not primary residences? Because that did go into effect. So, if it is a non-primary residence, then yes, that has happened.

Mr. GRIMM. Thank you. I yield back.

Chairman NEUGEBAUER. I thank the gentleman. And now, another gentleman from New York, Mr. Meeks, is recognized for 5 minutes.

Mr. MEEKS. Thank you, Mr. Chairman.

I was going to just bring up what Mr. Grimm did, because it is happening. First, I want to thank you, also.

The damaged community I represent in the Rockaways was devastated by Superstorm Sandy. But we are, as Mr. Grimm has indicated, that some of the flood maps have not been finalized. And people's rates are going up. And one of the questions that I was going to ask was about that. Because folks—these astronomical rates that they are getting, where they say that they can't afford their insurance. Yet, they don't know what to do. Some are going to rebuild their homes.

But because the mapping is not done, what level should they—or how high do they have to raise their foundations? What should they be doing inside? They have no clue, so, they could try to mitigate the increasing cost of insurance. But they have no idea until the mapping is done, and thereby wanting to have the affordability study done so that they—because when a person that the home—the average middle-class homeowner—the greatest investment that they will make in their lifetime is this home. And now, the likelihood of them maybe being able to afford it has substantially changed. And that is even before we have completed this affordability study and looked at what is done.

So, where the mapping is not finished, folks don't know where to elevate their homes. The dollars that are available through the insurance company, even to raise is questionable at times. What is a homeowner supposed to do?

That is the reason why we wanted this bill, to delay the implementation until we can have all the mapping done, as well as the affordability study, so that we can move in a direction that will keep individuals in their homes, and/or make a more intelligent decision on how we proceed thereafter, because we want to—but so what do you tell a homeowner, where the mapping is not done? What should they do in that scenario? And yet, they are in danger of their rates going astronomically high, and can't afford it. And they are willing to raise their home, do what is necessary.

Mr. FUGATE. I agree that fundamentally, one of the risk factors we need to look at, and affordability factors, is homeownership. I think it is a very important part of calculating, should we look at subsidized rates? Now, let's be clear—we would be looking at subsidized rates, but I do think homeownership is a key part of that affordability that is means-tested. We need to look at that.

As far as the others, I will repeat what I said in the Senate. The way that we have been trying to implement this, we are not finding that leeway. And if that is what Congress wants to do, I am going to need your help to get there.

And, again, we are working with and are willing to provide technical assistance. But if that is where Congress wants to go, then I don't have the authority to do that without more direction. I cannot delay parts of this program.

I think it needs to be balanced against what the overall exposure is. But I do agree, homeownership is a factor we need to look at very closely. This is something we have identified in the Sandy Rebuilding Task Force that we recommended to the President—that affordability of insurance was a key to successful recoveries. And not withstanding all the other factors that we are dealing with, as we are implementing this, I think we need to keep in mind that we have a balance between future risk and our built infrastructure.

Mr. MEEKS. Even talking about that, because is there coordination, for example, with FEMA and, say, the Army Corps of Engineers? Because when you talk about mitigation—I know when you are talking about the Rockaways, certain areas did not have dunes or jetties or other things that will reduce the damage or mitigate against floods. And that will then—should have a direct effect on how much insurance would cost.

And so, I know that there has been a study around the Rockaways, for example. That study is now being done by the Army Corps of Engineers—they are going to put in some dunes, some jetties, and sea wall. You have some private communities that are looking to do certain things themselves and financing themselves that should have a direct effect on their cost of insurance. But if they move forward with the rates going up now, they could never get reimbursed for it. So, that is the reason for the need for the delay.

Mr. FUGATE. It is—

Mr. MEEKS. And coordination.

Mr. FUGATE. For those projects where we know we have Federal funding, where we have local dollars to mitigate future, we are able to use that to build that into the rates now. This was something that Representative Waters brought up about what if the local community was putting your money in? That has always been a problem. If it wasn't Federal dollars, we couldn't delay the implementation, knowing that it was going to be mitigated.

This is part of the reason why the President is putting together the Sandy Recovery Task Force—we knew that there would be tremendous overlap of all of our Federal programs, and we wanted to make sure that we are working together to build back better. But where we have programs that our folks can look at that will map the update—and we know that funding is there—we are able to factor that in now, and not wait till that project is completed.

Chairman NEUGEBAUER. I thank the gentleman.

Mr. MEEKS. I should like to ask—

Chairman NEUGEBAUER. The gentleman—

Mr. MEEKS. I didn't get to put in an opening statement, so I ask unanimous consent.

Chairman NEUGEBAUER. Without objection, it is so ordered.

Mr. MEEKS. Thank you.

Chairman NEUGEBAUER. Thank you.

And now, the gentleman from Massachusetts, Mr. Lynch, is recognized for 5 minutes.

Mr. LYNCH. Thank you, Mr. Chairman.

Just a couple of business items here.

First, I would like to ask for unanimous consent to submit a letter from Otto K. Harling, Ph.D, 212 Otis Street, Hingham, Massachusetts, former engineering professor at MIT. Also, the National Association of Home Builders. These letters are all in support of the Grimm-Waters legislation.

Also, the National League of Cities, the National Association of REALTORS®, the Independent Community Bankers of America, and the Independent Insurance Agents, all in favor of relief from the Biggert-Waters legislation, in favor of a delay.

Chairman NEUGEBAUER. Without objection, except for that one from MIT. Is that a credible—yes.

[laughter]

Mr. LYNCH. Yes, well—we have to accept that one. He is a voter.

Chairman NEUGEBAUER. I hear you. Without objection, it is so ordered.

Mr. LYNCH. All right. Thank you. I appreciate that.

And also from the letter, a pretty smart guy.

Sir, I just want to make sure we are on the same page here. When we included the affordability study in the Biggert-Waters legislation, I think it was pretty obvious that we wanted the affordability to be part of the decision in terms of what rates might be.

It makes no sense. It makes no sense to implement the premium increases first—in some cases, a 3,000 percent increase—and then do the affordability after you have forced the family from their home to figure out whether that was affordable or not. And I think that one of the good things that the Grimm-Waters legislation does is it makes sure that study is completed.

And I think you are absolutely right. I think it might take 4 years before we get the data back and Congress has a chance to do a meaningful review.

When we had our FEMA forum in Scituate, Massachusetts, a beautiful coastal community, the folks from FEMA indicated that in terms of losses generated year-to-year, they pointed out that about 1 percent of the policyholders or the homeowners were responsible for almost a third of the drawdown. So, there were these severe repetitive loss locations that were really drawing heavily—as I say, up to a third of the funds available.

Now, if we can get at that—looking at those locations that are repeat and severe losses, you would think that would do a lot to help the financial viability of the fund, no?

Mr. FUGATE. And you gave us some powerful tools.

Previously, many repetitive losses, where we have offered to buy or elevate refused, because they had a cost adjustment. They had a cost share. You changed the statute so that if they refuse, they are going to go to the full rates, which would be an incentive there.

But, yes, I agree. But the problem is with that 1 percent, it isn't that they have had a previous loss. These are the highest risk. So, there is a lot of potential. And, again, when you narrow it down, it is these policies that are paying these $30,000, $40,000, $50,000. When you do the actuarial rates, there are the smallest number of policies, but they have the greatest risk. And they just—they literally put us in the greatest risk to having insolvency in this program, because a few policies—when you are paying out full amounts versus a lot of policies that have minimal damages—it is hard to offset that, unless you are actually basing it upon that risk. That is why it is so high.

For every foot you are below—

Mr. LYNCH. Okay, I want to reclaim my time here. You are going on a little bit.

One of the problems that we also have is the high number of appeals on the mapping process. And that much being said, there is the fact that when we are doing the appeals on behalf of homeowners—and some towns are now filing appeals for the entire town—we are still appealing to the people who made the original decision. Is there any thought about—and you know how that is going to go. If you are defending your own decision, generally, you are going to rule in your own favor.

And I just think that there is—it may be more accurate to have an independent party put in that process to review the decision, or the mapping process used by the individual homeowners or town versus the one contracted out by FEMA.

Mr. FUGATE. I agree. And you gave us additional tools. We are in the process of—we did the registry notice and we hope to have the first meeting in December of the Technical Map Advisory Committee—

Mr. LYNCH. Okay.

Mr. FUGATE. Providing that outside advice in that avenue.

Mr. LYNCH. Okay. And lastly, if I could just say—one of the problems I am having in my district is that the FEMA maps that have been put out there do not agree with the historical data.

In other words, we have had some severe storms. The blizzard of 1978, notably, where folks didn't even get water in their basement during that entire storm—that was a big one. And yet now they find out that they are in the middle of a special hazard flood zone. So, I am just curious. Generally, the data would agree with the historical experience. And in this case, it is not even close.

Mr. FUGATE. Absolutely not. It doesn't—

Chairman NEUGEBAUER. I would like to follow up with a written response to that question—

Mr. FUGATE. Yes.

Chairman NEUGEBAUER. The time of the gentleman has expired.

Mr. LYNCH. Okay. I thank the gentleman for his courtesy.

Mr. FUGATE. Yes.

Mr. LYNCH. I yield back.

Chairman NEUGEBAUER. The gentleman from Florida, Mr. Murphy, is recognized for 5 minutes.

Mr. MURPHY. Thank you, Mr. Chairman. And Mr. Chairman, I ask unanimous consent to enter a letter into the record from the National Association of Federal Credit Unions.

Chairman NEUGEBAUER. Without objection, it is so ordered.

Mr. MURPHY. Thank you.

And thank you, Mr. Administrator, for being here. Thank you for your time and your service.

You have heard from many of us already about the astronomical rate increases for our constituents. Of course, some 4,000 or 5,000 percent—several people in my district, as will be the case in many others, will simply not be able to afford this and will therefore not pay it.

Have you done a study on what that will do to the overall solvency of the program if people simply do not pay? And I think we could take a guess. If it is three, four times as much—upwards to 5,000 times as much—people just aren't going to pay.

What would that do to the overall solvency?

Mr. FUGATE. Probably not what you would expect. I would have to go back to the actuaries. But I think if I took my highest risk policies out, it would not be as negative of an impact.

The premiums paid in versus the exposure, unless they were paying the full actuary rates, wouldn't make much difference. The continuing-to-get-subsidized rate does make me insolvent.

Mr. MURPHY. Okay. My next question—I have a letter I am sending to you tomorrow from the Palm Beach County—I represent the Palm Beach, Treasure Coast area.

Mr. FUGATE. I have been there for a lot of hurricanes.

Mr. MURPHY. In the letter, we ask for a delay on the comment period from FEMA. I am wondering what you are doing—reaching out to other counties having these same sort of issues to make sure that all the comments are taken into consideration, because we all have different topographies; we all have different districts with different issues—what you are doing to make sure we get all of these concerns on the table so they can be accounted for?

Mr. FUGATE. What comment period specifically are you referencing?

Mr. MURPHY. In the Palm Beach area, we sent a letter and we got one delay already. We are asking for another delay. And I know other counties—

Mr. FUGATE. This would be in your map-up date?

Mr. MURPHY. Yes, in the map-up.

Mr. FUGATE. Okay—

Mr. MURPHY. Topographies.

Mr. FUGATE. Okay, we work with the communities. Again, this isn't about delay—it is about getting the best information. And mapping is not just FEMA; it is the local community working together, because they ultimately have to adopt their maps as their ordinance.

So, they can continue to work with that. We have numerous processes to get to that map process, so we will continue to work with Palm Beach County as they go through their map updates through that process.

Mr. MURPHY. Last week, we had a big roundtable in my district and had the administrators and REALTORS® and bankers, et cetera. One of the things that came up was that in many communities—many of the new developments that have been built—there are new codes, and they are building on higher elevations, with different building codes, different permitting, et cetera.

They were concerned that is not being taken into consideration by FEMA. And I can just imagine that this is happening across the country, and how much work that would be for you.

Are these being taken into consideration—all these new building codes and—

Mr. FUGATE. Absolutely. In fact, if you have done those steps, you are not going to see dramatic increases in flood insurance. It would be if we changed maps. And since Palm Beach County, as we are going through this map revision, my experience in Broward, Miami-Dade, and others—we have people who go into the higher risk. We have people who come out.

So, until we see the maps, we don't know what that is. But by building to higher elevations, it is the whole goal here. It reduces that risk and it allows the affordable premiums.

I think the challenge in Palm Beach County is going to be how much has been built based upon the existing map data and is there a change there, and what does that change do? And are there any of those areas that they built to one level that now is below that?

That would be the concern. But until we see the maps, I couldn't really say what that looks like.

Mr. MURPHY. Okay. And my last question is, you mentioned earlier that you are completely supportive of the affordability study and means testing, et cetera.

What exactly do you need from the Congress—do you need from us? What do you need us to do to make sure we get this done as quickly as possible?

Mr. FUGATE. Again, we have been providing technical drafting assistance on some of this. Based upon our work with the National Academy of Sciences, we would need additional funds and time for them to complete a study, and then we would need time to implement that, based upon those findings.

Mr. MURPHY. Regarding the funds, in the original bill—it is my understanding that there was $11 million for the affordability study.

Mr. FUGATE. No, sir.

Mr. MURPHY. In the new bill.

Mr. FUGATE. The new bill was—

Mr. MURPHY. There is $11 million.

Mr. FUGATE. The previous bill was—it was far less than that. And—

Mr. MURPHY. And in your testimony to the Senate, what did you say would be required?

Mr. FUGATE. Again, it would depend upon the scope of the study. Initially, some discussions with the National Academy of Sciences indicated that it would be $1.5 million to $2 million. But really, we have to define what that would be, and that would just be one part of it.

You still have the implementation timeframe. So, not precluding any additional language, that was based upon the previous legislation. So, I don't know what would change.

We would have to go back to the National Academy of Sciences and look at what future costs would be based upon the new requirements.

Mr. MURPHY. Okay. I think the bottom line for all of us is that we get this done right. And if there is X amount of money needed for you to get it done as quickly as possible, that we know that as soon as possible, so we can get it done and move on and get this right for our constituents. So, thank you.

I yield back.

Chairman NEUGEBAUER. I thank the gentleman, and I believe that is all of the questions for this witness.

Mr. Fugate, thank you very much. Your testimony has been very informative and we certainly appreciate the relationship that we, the committee, has had with you and your staff.

I think you have shined some light on some issues and we look forward to working with you and appreciate what you are doing. And with that, you are dismissed.

And we will call up the next panel.

Mr. FUGATE. Thank you, Mr. Chairman.

Chairman NEUGEBAUER. I would ask everyone to either take a seat or take conversations out in the hall so we can hear from these panelists.

I want to thank the panel for being here. Thank you for your patience, and as you know, each one of you will be recognized for 5 minutes to give a brief summary of your written testimony, and without objection, your written testimony will be made a part of the permanent record.

Our second panel consists of: Josh Saks is the legislative director at the National Wildlife Federation; Michael Hecht is the president and chief executive officer of Greater New Orleans, Inc.; Maurice "Moe"Veissi is the immediate past president of the National Association of REALTORS®; Barry Rutenberg is the immediate past chairman of the board of the National Association of Home Builders; Chad Berginnis is the executive director of the Association of State Floodplain Managers; and Douglas Holtz-Eakin is the president of the American Action Forum.

I note that the two people on the panel who have the biggest smiles on their faces are Mr. Veissi and Mr. Rutenberg, as both of them are past president and past chairman. We welcome the panel today.

Mr. Saks, you are recognized for 5 minutes.

STATEMENT OF JOSHUA SAKS, LEGISLATIVE DIRECTOR, THE NATIONAL WILDLIFE FEDERATION (NWF)

Mr. SAKS. Thank you, Mr. Chairman, Ranking Member Capuano, and members of the subcommittee.

I serve, as you said, as legislative director of the National Wildlife Federation, the Nation's largest member-based conservation advocacy organization with more than 4 million members and supporters, and I appreciate the opportunity to speak with you today about the NFIP and Biggert-Waters.

First and foremost, NWF has been and continues to be a strong supporter of Biggert-Waters. It helps to reduce the habitat loss that accompanies unwise, federally-subsidized development in coastal and riverine areas and it helps protect people and communities from floods and storms.

NWF has worked for decades to protect and restore the Nation's coasts, wetlands, and floodplains, areas that provide some of the most vital wildlife habitat for a wide range of species while helping to protect and buffer people and communities from floods and storms.

Key reforms in Biggert-Waters took steps to address the shortcomings of the NFIP—reforms that will help lessen its environmental impacts and protect ecosystems. Specifically, these reforms are a move towards risk-based rates, increased science guiding mapping, and improved mitigation.

We continue to support these reforms and we believe they should be implemented on schedule. However, we recognize there could be some people—owners of primary residences—who now find themselves facing higher flood threats as a result of policies pursued by Federal and State Governments and could potentially face unaffordable rate increases.

Among those facing these threats are communities in coastal Louisiana where NWF has worked to restore coastal wetlands for over a decade. And we are concerned that the real progress being made in Louisiana and elsewhere to integrate flood risk management with large scale ecosystem restoration could be undermined by reactions to the rate increases.

To address these concerns while ensuring continued and timely implementation, we believe that Congress should consider targeted fixes to help those most at risk without rolling back rate reforms.

Four principles underlie these policy proposals: one, delay of rate reforms is not a solution; two, the flood risk to homeowners is real and it is increasing and the NFIP should reflect that; three, maps must be accurate and rates must send a meaningful market signal that is fair to both policyholder and taxpayer; and four, policyholders deserve certainty.

Specifically, we suggest several steps to provide relief in certain cases. First, we believe in the power of pre-disaster mitigation.

Unfortunately, Federal funding to mitigate flooding and disaster risk has fallen far short of demand. Congress must significantly increase the investment in these programs, and ensure that a percentage of funds allocated through these programs are directed towards areas being hardest hit by rate increases.

We also encourage Congress and FEMA to allocate funds from the NFIP reserve fund, created by Biggert-Waters, to provide needed mitigation dollars. Hopefully, with careful mitigation, we can reduce NFIP premiums for those who are hardest hit by rate increases.

While mitigation is ultimately the key to both risk reduction and cost containment for NFIP policies, we recognize that other remedies may be needed to limit the shocks associated with these rate increases. We recommend that Congress lengthen the phase-in period for rate increases to grandfathered properties facing updated rate maps.

Biggert-Waters provided this class of property holders with the shortest of all phase-in periods in the bill. Congress should extend the phase-in period to limit the financial impact of rate increases, and to give people and communities ample time to take mitigation actions so they will hopefully never see a rate that they cannot afford.

In addition, Congress should consider limits on premium rates imposed on primary residences, to ensure that the final premium cost does not exceed what is affordable to homeowners. NWF also endorses means-tested subsidies to offset the cost of a risk-based rate for primary residences, and homeowners who cannot afford the cost of the policy.

The Congress should immediately establish that fund and make sure they do it outside of the rate structure of the program, and that it is based on need. We also urge Congress to address regional concerns that are impacting rates in some areas of the country which are heavily dependent on levee systems for flood control.

Particularly in parts of Southern Louisiana, some property owners are likely to experience dramatic rate increases, because updated flood maps are not crediting the flood protection provided by non-Federal or nonaccredited levees. Congress should immediately remedy this by ensuring that appropriate credit is given to those levees.

In closing, the National Wildlife Federation is committed to working with members of this committee and our partners across the country to ensure that Biggert-Waters reforms are fully implemented, while limiting financial hardship as much as possible. We must move forward with implementation of this historic flood reform, while rapidly addressing some of the unintended consequences of Biggert-Waters in a targeted and responsible way.

In an era of increasingly frequent and severe storms and flooding events, enacting reforms to the Flood Insurance Program in a responsible and fair manner is now more urgent than ever. Thank you.

[The prepared statement of Mr. Saks can be found on page 164 of the appendix.]

Chairman NEUGEBAUER. Thank you. Mr. Hecht, you are now recognized for 5 minutes.

STATEMENT OF MICHAEL HECHT, PRESIDENT AND CHIEF EXECUTIVE OFFICER, GREATER NEW ORLEANS, INC.

Mr. HECHT. Good afternoon, Chairman Neugebauer, Ranking Member Capuano, and members of the subcommittee. It is an honor to speak with you here today on the effects of rising flood insurance costs across the country.

My name is Michael Hecht. I am the president and CEO of Greater New Orleans, Inc. (GNO, Inc.), the 10-parish or county economic development organization for Southeast Louisiana.

Since May 2013, GNO, Inc., has been leading the Coalition for Sustainable Flood Insurance, a national alliance that is formed to ensure that flood insurance will be both affordable and financially sustainable.

The Coalition for Sustainable Flood Insurance now represents nearly 200 businesses, trade organizations, and local governments in 27 States across America, from the Carolinas to Oregon, from North Dakota down to Florida.

We understand and appreciate the tremendous efforts of the subcommittee, and the full Financial Services Committee that you have put into the long-overdue reauthorization of the National Flood Insurance Program. We know it was a well-intentioned balancing of the interest of various regions of the country, and the budgetary constraints that our government faces in revising this essential program.

Our testimony today, therefore, is not to criticize, but actually to highlight some inequities that even the co-author of the Act, Ranking Member Waters, has acknowledged. And we do deeply appreciate her leadership on the issue, as well as that of others, including Representatives Cassidy, Richmond, Scalise, Grimm, and many others on this issue.

GNO, Inc., and the Coalition for Sustainable Flood Insurance support a fiscally-sound, actuarially-responsible NFIP that does communicate true risk to our citizens. None of us want to incentivize, want to create perverse incentives for building in harm's way, nor do we advocate for the continued subsidization of severe repetitive-loss properties.

However, we have a moral and economic duty to protect property owners who have played by the rules, and built exactly where the government has told them. These people should not lose their homes and their businesses.

We are dealing with a problem of profound, unintended consequences here. It is a three-way confluence of the Biggert-Waters Act, incomplete FEMA maps that artificially inflate risk, and questionable actuarial calculations.

This is leading to the premium increases that you have heard about today of 3,000 percent or more, including massive rate increases for policyholders who, again, have built exactly as FEMA has told them, and in many cases, have never flooded.

These clearly unaffordable premium increases are not limited to properties with severe repetitive loss, or beachfront properties. They are primary residences of all income levels that have never flooded. These are the ones that are being impacted.

There are several examples in your packet that highlight these extreme increases. For example, there is a primary real estate transaction that just recently fell through in Southern Louisiana, because the flood insurance skyrocketed from just over $1,370 a year to $8,340 a year.

And another example, a sergeant in the U.S. Army, who is stationed at MacDill Air Force Base in Tampa, Florida, purchased a home in Oldsmar, Florida, worth $158,000. He was quoted a premium for $4,307. This was a 431 percent increase from what the previous owner paid. This house has never flooded.

NFIP rates suddenly jumping as much as 3,000 percent in the middle of the mortgage, when the owner had really no reason to anticipate this unaffordable increase when the original contract was signed, contradicts typical insurance practice and reasonable expectation. And businesses and individuals don't have a choice.

We know that about 55 percent of the country lives within 50 miles of the coast. And oftentimes, its insurance is government-mandated.

Furthermore, the flood insurance maps that are being rolled out across the country are artificially inflating risk by excluding local flood protection features like levees and railroad embankments from the maps. Not only does this falsely inflate risk for policyholders who are protected by local levees, but it produces a disincentive for local governments to invest in these structures.

And I have to be clear, this is not just for the 20 percent who are currently subsidized because they were built before 1973. This is for the 80 percent who are going to lose their grandfathering.

And this number is not 1 million. This number could be another 4.5 million, on top of the 1 million. So it is a much bigger problem than just the 20 percent who are going to be losing their subsidized rates.

And finally, the calculations we are seeing don't really make actuarial sense. For example, a homeowner in St. Petersburg, Florida, is trying to sell her primary home. That home is valued at

$250,000. But she cannot, because the flood insurance premium is going to escalate from $1,074 a year to $10,872 a year. The home has never flooded.

And the question is, if the FEMA-based flood elevation is indexed to a 100-year storm, then why is this family being charged a premium that would buy a replacement every 23 years? It just doesn't seem to make actuarial sense.

Now, the good news is that there is a bipartisan solution that has been supported now by over 130 co-authors, emerging in the House and Senate, to address these unintended consequences. H.R. 3370, the Homeowner Flood Insurance Affordability Act of 2014, will delay premium increase for 4 years, until FEMA has had the opportunity to complete the affordability study mandated by Biggert-Waters and Congress, and Congress then has an opportunity to consider the recommendations set forth in the study.

This is common-sense legislation. We should understand the potential impact of Biggert-Waters before we go and we implement it. I urge you to bring this up for consideration as soon as possible.

I encourage this committee to act immediately to protect the American economy, and the investments of taxpaying American citizens, by bringing up for consideration H.R. 3370. If we do not, the National Flood Insurance Program will grievously harm the very Americans that it was designed originally to protect.

In conclusion, to implement Biggert-Waters as it currently stands would be economically unwise, and would be morally unjust. We must do better. Thank you so much.

[The prepared statement of Mr. Hecht can be found on page 88 of the appendix.]

Chairman NEUGEBAUER. Thank you. Mr. Veissi, you are recognized for 5 minutes.

STATEMENT OF MAURICE "MOE" VEISSI, IMMEDIATE PAST PRESIDENT, THE NATIONAL ASSOCIATION OF REALTORS® (NAR)

Mr. VEISSI. Chairman Neugebauer, Ranking Member Capuano, and members of the subcommittee, thank you for holding this hearing on the implementation of the Biggert-Waters Flood Insurance Act.

My name is Moe Veissi. I am the REALTOR®-owner of Veissi and Associates in Miami, Florida, and have been a REALTOR® for more than 44 years. As past president of the National Association of REALTORS®, I am proud to represent the views of more than a million-plus members of our Association.

I want to begin, first and foremost, by thanking you for authorizing the National Flood Insurance Program under Biggert-Waters. It put an end to an uncertainty that was shutting down about 40,000 home sales per month.

I would also like to acknowledge Congresswoman Waters for her leadership over many years, working to maintain access to affordable insurance through that gridlock. We asked her to carry a heavy burden, and she delivered, not just for the Nation's 75 million homeowners, but for all Americans who aspire to the American dream of homeownership.

There is no doubt that the Biggert-Waters reauthorization brought stability to the NFIP. But it was too tall an order for FEMA to implement in such a short amount of time. And there have been unintended circumstances as a result.

Perhaps the best way to understand the issue is to hear stories of those who have been impacted. First-time homebuyers, Tim and Catherine Clearwater, from a small town in Hawaii, spent 2 years searching for their home, for that entire time, and finally, identified one of just under 900 square feet, a modest home in a small town close to where he worked as a Merchant Marine.

Like many other families across the country, the Clearwaters went ahead and bought before they could be warned about the insurance situation. When they bought, they were paying just $2,700 a year. They are facing a nearly 1,000 percent increase to about $28,000, unless Congress acts now.

If unable to get a loan to further elevate the property, they are facing certain foreclosure. While rate shock is one of the worst problems consumers are facing, there is widespread insurance confusion. Cost is not the only issue. Establishing a baseline is.

In one case, a buyer received 6 different quotes ranging from $10,000 to $30,000 per year. Three of the quotes came from three different agents out of the same company.

All six agents provided inaccurate information about the property, and the mistakes that they made were driving the quotes. When the correct data was entered into the system, the true rate turned out to be just $480 a year, which by the way, we confirmed with FEMA.

Sadly, those unforeseen and unintended circumstances are happening across the country. We also understand this is not a partisan issue. We are confident that both sides will be able to come together to sort through the issues and to agree on a longer-term fix.

But before we do, we need Congress to call a time-out and to delay further implementation until FEMA can investigate and report back to Congress. We need an affordability baseline before we proceed.

Thankfully, Congressman Grimm and Congresswoman Waters and 132 of their colleagues have introduced bipartisan legislation to do just that. It is called the Homeowner Flood Insurance Affordability Act. We urge the committee to take up this legislation immediately. I can assure you time is of the essence.

Rates went up October 1st, and every day you wait, the problem only compounds. The economy is still recovering as the housing market is today. We need this. The National Association of REALTORS® and our 1 million members stand ready to work with the committee and with FEMA to find a way to move forward.

We owe it to the Americans who know that their hearts are in homeownership are still intact and the beacon for homeownership and prosperity in the 21st Century lies in that ability to be able to buy and sell a home in America.

Thank you for the opportunity to testify. I am happy to answer any of your questions.

[The prepared statement of Mr. Veissi can be found on page 170 of the appendix.]

Chairman NEUGEBAUER. I thank the gentleman.

Now, Mr. Rutenberg, you are recognized for 5 minutes.

STATEMENT OF BARRY RUTENBERG, IMMEDIATE PAST CHAIRMAN OF THE BOARD, THE NATIONAL ASSOCIATION OF HOME BUILDERS (NAHB)

Mr. RUTENBERG. Thank you, Chairman Neugebauer, Ranking Member Capuano, and members of the subcommittee. My name is Barry Rutenberg and I am a home builder from Gainesville, Florida, and NAHB's immediate past chairman.

NAHB believes in a strong and viable NFIP and supported the Biggert-Waters Act. However, we are concerned about dramatic flood insurance premium increases and the negative impact these increases are having on the construction, remodeling, and sale of homes.

The National Association of Home Builders strongly supports the requirement for FEMA to redraw flood maps using scientifically-based data to show the true risk of flooding and a clearer picture of where actuarial rates should be set. FEMA has neglected to factor in privately funded flood control structures, resulting in many properties being mapped in a higher rate zone, causing homeowners to be forced to purchase unneeded flood insurance or pay higher than necessary premiums.

Other examples of inaccurate mapping have resulted in homes unnecessarily being drawn in the flood maps or placed in the higher rate zones for the first time. It typically takes years for those mistakes to be fixed, often requiring lengthy and costly appeal processes, as well as forcing the payment of escalated premiums until the problem is resolved. For some, it may force them from their homes, causing property values to drop and neighborhoods to decline.

The Biggert-Waters Act requires the immediate payment of full risk rates upon sale or transfer of property. Adding to today's tight credit conditions, this change is already deterring prospective buyers who fear the higher rates will make their mortgages unaffordable. Homeowners may also be unable to sell their current homes and be prevented from becoming move-up buyers of newly constructed homes. In fact, we have heard of many cases where pending sales have been canceled at the last minute.

Of concern to NAHB is the lowering of the substantial improvement cumulative threshold from 50 percent to 30 percent. Any renovation that meets the new lower threshold will trigger a phase-in to higher rates and must immediately be brought into compliance with the current requirements such as elevating a building above the base flood elevation.

We estimate that the new substantial improvement threshold will place up to $8.5 billion in annual remodeling economic activity at risk. We believe this will adversely impact homeowners by forcing them to either forego even the simplest of remodeling jobs or face extensive and expensive renovations which sharply increase flood insurance rates.

NAHB appreciates that many in Congress share our concerns and have introduced a wide range of legislative proposals. NAHB recognizes that they are not the only possible solutions. However, they largely represent steps that balance affordability or the viability of the program. We recommend that Congress delay all rate increases until the affordability study is complete. NAHB recommends that Congress provide FEMA with the necessary funds to complete the study as quickly as possible.

Only then will FEMA and Congress have a true understanding of the economic impact the higher rates will have on homeowners. While delay might not be the most ideal solution for the long-term fiscal stability of the NFIP, the current situation is undercutting the effectiveness of the program and causing unnecessary economic distress.

Further, NAHB recommends that Congress require that FEMA take into account all flood control structures when mapping, allow for sufficient time for public review, and independent vetting of the new maps, and prohibit rate increases based on incomplete or inaccurate maps.

We would also recommend that Congress reinstate the higher substantial improvement threshold, allow FEMA to continue flexibility for the basement exception, and regional issues, and urge FEMA to match its definition of primary residence to that of other Federal tax regulations.

NAHB is committed to working with this subcommittee and with Congress to find pragmatic solutions that will prevent undue hardship in the recovering housing market, prevent home values from decreasing, and make the NFIP stronger and more effective for years to come.

We appreciate your leadership and thank you for your time today and for the opportunity to testify before you.

[The prepared statement of Mr. Rutenberg can be found on page 104 of the appendix.]

Chairman NEUGEBAUER. I thank the gentleman.

Mr. Berginnis, you are recognized now for 5 minutes.

STATEMENT OF CHAD BERGINNIS, EXECUTIVE DIRECTOR, THE ASSOCIATION OF STATE FLOODPLAIN MANAGERS (ASFPM)

Mr. BERGINNIS. Thank you, Chairman Neugebauer, Ranking Member Capuano, and members of the subcommittee for lasting this long. I am Chad Berginnis, executive director of the Association of State Floodplain Managers. Our 15,000 members and our 35 chapters are on the frontlines trying to implement Biggert-Waters as we help educate homeowners as well as those affected on how to deal with these rate increases.

I want to start by talking about some successes about Biggert-Waters because I think these are important to also talk about. Superstorm Sandy has shown that the basic principles of Biggert-Waters reforms work; that once people are aware of and accurately price risk, they will take mitigation actions such as elevating, floodproofing, or relocating out of harm's way.

There is more interest in mitigation activities up and down the affected areas, and when talking to long-time floodplain managers, they have said that we have seen more mitigation activities actually occurring after this large event than we have in previous events in modern history.

Communities are considering higher building standards such as enhanced free-board factors—some communities requiring up to 3 feet above flood elevation. And that results in lower flood insurance rates and better resiliency.

Elsewhere in the country, property owners are seeking mitigation options to deal with increased rates. There is more interest in the community rating system. And the scientific resolution panel to solve difficult mapping problems has successfully remedied such issues. Lenders are being more careful to review their portfolios to ensure those who are required to have flood insurance do indeed have it.

Ultimately, though, the cumulative impact of the reforms was too much and too fast for many property owners of at-risk, pre-flood insurance rate map (pre-FIRM) buildings. The Nation has operated under a program that for 45 years worked under the following premise: policy discounts for older, at-risk structures, and for those whose flood risk has gotten worse.

ASFPM supports many of the reform principles in Biggert-Waters, but we do want to highlight some of the most impactful suggestions among our 20 specific recommendations found in our written testimony.

The first suggestion is to extend the phase-in of full-risk rates for pre-FIRM structures, reducing the per-year increase to a range of 5 to 10 percent annually, and eliminate the current structure which phases in these rates either over 20 percent, 25 percent, or immediately. What we have been finding is the most onerous triggers are the immediate triggers to full-risk rates, and those are affecting primary households, the very group that Congress was seeking to protect under the Biggert-Waters reforms.

The longer phase-in period allows progress to be made on the NFIP affordability study, as well as giving time for property owners to seek mitigation options and assistance to reduce their flood risk. It also provides certainty.

But we can't forget that regardless of how we deal with that issue, there is a broader affordability problem brewing. The average flood insurance rate for A zones and B zones, those that are required to get flood insurance, increased by 17 percent this year. The committee should take immediate action on new and innovative affordability concepts versus waiting for the completion of the affordability study. Pilots could include group- or community-based flood insurance, means-tested vouchers, and those vouchers linked to low-interest loans, and just stand-alone low-interest loan programs to mitigate those homes.

Third, existing mitigation programs need to be enhanced and need to be made more efficient to help with the affordability issues. Within a flood insurance policy, there is a provision called "increased cost of compliance (ICC)." The 2004 reform of the NFIP broadened that to require the triggering of ICC whenever a FEMA offer of mitigation was made. That has not been fully implemented, and that provision could be more accommodating and flexible.

The flood mitigation assistance grant program had $300 million in applications this fall alone, but the authorization is only $90 million. The pre-disaster mitigation program is one that FEMA has proposed to eliminate twice in the past 2 years and that could provide direct mitigation assistance to affected homeowners.

Fourth, flood mapping in the Nation must be completed and it must be maintained. ASFPM fully supported the creation of the national flood mapping program, but we have been sorely disappointed to see the Administration's budget request of less than one-quarter of the authorized funding in 2014. As was said many times earlier, mapping is a fundamental part of the actuarial soundness of the program. And to not complete the mapping further threatens the long-term program fiscal solvency.

We must also do something about the program's debt. Congress has reacted quickly by increasing the borrowing authority of the NFIP after Hurricanes Katrina and Sandy, but is slow to recognize that catastrophic losses cannot be repaid by reliance on the insurance mechanism alone, especially prior to Biggert-Waters.

Given the very high risks associated with flooding and the high occupancy of flood areas, and the multiple purposes of the NFIP, as there are very valid public benefits of having the program, ASFPM desires to ensure that the program is on solid financial footing, reduces flood losses, and protects the natural functions of floodplains well into the future.

Thank you.

[The prepared statement of Mr. Berginnis can be found on page 62 of the appendix.]

Chairman NEUGEBAUER. I thank the gentleman.

And finally, Dr. Holtz-Eakin is recognized for 5 minutes.

STATEMENT OF DOUGLAS HOLTZ-EAKIN, PRESIDENT, THE AMERICAN ACTION FORUM

Mr. HOLTZ-EAKIN. Thank you, Chairman Neugebauer, Ranking Member Capuano, and members of the subcommittee for the chance to be here today. It is late. I will be brief.

The history of the NFIP is a history of underpriced premiums, program financial shortfalls, and poor incentives. And this is a story that is quite familiar from other Federal attempts to manage risk, as the chairman mentioned at the outset.

When I was the Director at CBO, we undertook a systematic study of a wide variety of risk management efforts by the Federal Government: Federal deposit insurance; the Federal Housing Administration; Fannie Mae, Freddie Mac and the GSEs; Federal student loans; Federal health programs. And those studies revealed the tale exactly as we have seen it in the NFIP: underpriced premiums, and the taxpayer left holding the financial shortfalls that those programs have produced.

From that perspective, the reforms in Biggert-Waters, which involve fundamentally better measuring the risks that are presented and then more accurately pricing those risks are entirely desirable and should be embraced by the committee and indeed by the Congress as a whole.

What we have seen, I think, is instead a fear that the transition costs for a small number of affected policies might drive policy instead of the entirely desirable reforms for the program as a whole. And I would urge the committee and the Congress to look at targeted transition relief for those who merit it on the grounds of income or special circumstances and not to put off the reforms the program needs or otherwise undercut a desirable move toward accurately measuring risk, pricing that risk, and providing the incentives to avoid putting value at risk going forward.

I thank you for the chance to be here today, and look forward to answering your questions.

[The prepared statement of Dr. Holtz-Eakin can be found on page 94 of the appendix.]

Chairman NEUGEBAUER. Thank you.

I now recognize myself for 5 minutes to ask questions.

One of the things that we have heard a number of people talk about today—they used the word "affordability," and they referred to the affordability study. So when we talk about affordability, that means that there may be people who—I guess we are assuming—can't afford the premium on the flood insurance on the residence.

Just for example, if Congress decided to do something about the affordability issue for those people and give them a subsidy or a voucher or something like that, who is going to pay for that?

Mr. Saks, if somebody can't pay their share, then who should pay?

Mr. SAKS. Thank you, Mr. Chairman.

I think the question here is how much do we want the taxpayer to pick up that subsidy? And, certainly, there is a role for the taxpayer, but the Congress has to decide what a comfortable place is.

I think what we would like to see is communities, individuals taking as much mitigation responsibility as they can ahead of time so we don't have to get to those rates, and so ultimately nobody has to pay that higher cost.

Chairman NEUGEBAUER. So you would have the taxpayer pay for it?

Mr. SAKS. Frankly, as a conservation group, sir, it is not really our place to say who should pay for it, but—

Chairman NEUGEBAUER. But your answer was the taxpayer.

So Mr. Hecht, who should pay?

Mr. HECHT. Thank you, Mr. Chairman.

Yes, I think that I would agree that to some significant degree, living and working near the coast is a bit of a public good. We get our oil and gas; our seafood, our ports are there. And so there has to be, I think, a responsible look at to what degree that would be paid for as a public good. But, again, I am an economic developer, so I am considering it from that perspective.

Chairman NEUGEBAUER. So if it is the taxpayers, is it the taxpayers all across the country or is it the taxpayers in Louisiana for Louisiana residents?

Mr. HECHT. Thank you.

I think, given that the National Flood Insurance Program is held in all 50 States, and the issue spans the whole country and the entire country benefits from things like our port activity, that is a general issue for the country.

Chairman NEUGEBAUER. Thank you.

Mr. Veissi, who should pay?

Mr. VEISSI. I think one of the reasons we are here is to anticipate the opportunity to be able to extend this out for a 4-year period so we can figure out who pays, how they pay, and what distribution works across-the-board. This isn't a taxpayer issue; it hasn't been initially, anyway. It has been an issue that was a loan from the Treasury. It is going to be paid back. We don't know exactly how long it will take to get paid back, but we know it is a loan that has to be paid back to the Treasury.

So our position, quite frankly is that better minds together over the next few years can best figure out exactly how this is distributed accurately and fairly across-the-board. That is why we are asking for a timeout and to have a baseline.

Chairman NEUGEBAUER. Well, there are only two groups of people who can pay for it: the other policyholders—so you would spread the love over other policyholders; or the taxpayers. So which one do you choose, the policyholders or the taxpayers?

Mr. VEISSI. Congress has already chosen that for me. They have said the Treasury is responsible. We have borrowed that money from the Treasury.

Chairman NEUGEBAUER. Yes, but the Treasury—

Mr. VEISSI. I'm sorry?

Chairman NEUGEBAUER. —is the taxpayers. We use that word like it is a magic word. Where does "the Treasury" get their money? They get it from me and you.

Mr. VEISSI. There is—

Chairman NEUGEBAUER. Mr. Rutenberg, do we get it from the taxpayers or from the policyholders?

Mr. VEISSI. We will ultimately, hopefully, answer that question by having that timeout to be able to take a hard look at where that happens. We know it is a loan; we know it has to be paid back. We are not sure whether it is going to be paid back in 5 years. We are not sure it is going to be paid back in a longer period of time.

Chairman NEUGEBAUER. Okay, Mr. Rutenberg?

Mr. RUTENBERG. Mr. Chairman, I think there are more than two choices, not to be disrespectful. But I know that in the developments that I have done, we have spent lots and lots of money to mitigate stormwater. And currently, those are not being addressed in the calculations.

So my question is, I am looking forward to the study and the discussions, because I think, perhaps, we are assuming a certain price for the insurance and it may not be the right price.

Ultimately, it may need to be the taxpayer or the ratepayer. It may be the market. And if we have the right data, and we get the right prices, then people will start to move around to where it makes sense for them. That will go on over time. I think we need to have some transition to that.

And I am speaking personally. I am not speaking for the association policy. As far as I know, we have no policy on the matter.

Chairman NEUGEBAUER. Mr. Berginnis?

Mr. BERGINNIS. I also think there are two answers, and it is the taxpayer or the taxpayer—and it depends how we want to pay.

The taxpayer, if we don't have a targeted-type program like a voucher program and folks walk away from their homes or they drop their flood insurance and they get disaster assistance, the taxpayer pays. So, isn't it better to have at least partial payment through an insurance mechanism where the insurance fund then covers those losses and those individuals do not have to take out disaster assistance—

Chairman NEUGEBAUER. So basically, it is a transfer. And so the question is, do you transfer it to other policyholders, other people who have flood insurance policies, or do you transfer that risk to the taxpayers? That is the question.

Mr. BERGINNIS. And I do think, with other policyholders, part of the problem is—as I mentioned in my testimony—the rates for other policyholders are going up. As FEMA implements the reserve fund, for example, which is a very good provision of Biggert-Waters, but that reserve fund is going to go up 5 percent a year for the next several years. And so the average rates, again, for the mandatory purchase areas, they increase 17 percent this year. I wouldn't expect that to abate anytime in the next few years.

And so, I think to also include a subsidy on those policyholders creates an affordability issue over there.

Chairman NEUGEBAUER. Mr. Holtz-Eakin?

Mr. HOLTZ-EAKIN. Obviously, our first choice is the ratepayers. I would point out, as I did in my written testimony, that historically you can make the case that this program has never broken even, and it has been running at a real economic loss since its inception. So they have never paid—much less add on a subsidy. It would be desirable if they did.

The second set of taxpayers might be in a local area or a State. And as I mentioned in my testimony, you could imagine this type of insurance, if it is not fully priced, being offset against other kinds of insurance—ex-post disaster rates to States—so that they had incentives to go out and do the kind of mitigation that Mr. Rutenberg mentioned—and that would lower the insurance and provide affordability.

And the last choice, I would, suggest would be the taxpayers as a whole.

Chairman NEUGEBAUER. I thank the gentleman.

The gentleman from Massachusetts, Mr. Capuano, is recognized for 5 minutes.

Mr. CAPUANO. Thank you, Mr. Chairman.

I would just like to point out that generally, as I understand it, most ratepayers are also taxpayers, and the same is true of taxpayers are ratepayers, because they pay insurance somewhere.

I have never had a tornado in my district, but I am sure I have covered some people who do. I have never had an earthquake in my district, yet I am sure I cover some people who do. That is the whole idea here, spreading it out because there are certain national interests. This may or may not be one of them.

But that is not where I wanted to go. Where I wanted to go—because I think it is a fair question. And I think, again, I have been happy that the entire panel and, to my knowledge, every Member on both sides of this aisle have all said the goal is to try to get off subsidies. Now, of course, the reality is that we are getting hit in the face with significant increases which none of us expected.

So now the question is, what do we do? And some of us have said, "Pause, let's try to figure this out."

Mr. Berginnis, I saw your 20 points. Some of them I don't understand. I would love to have that discussion, but I can't do it in a day. It is going to take a little while. And that is the whole idea of hitting "pause."

And before I ask my question, Mr. Saks, Mr. Holtz-Eakin, are you surprised that you are kind of on the same side of the whole thing? I am. I just think it is great to have the two of you guys on the same side of an issue. It is—

Mr. SAKS. I am not surprised. I think often good environmental policy means reducing harmful subsidies. So, there are many cases where conservation is—

Mr. CAPUANO. We don't want to talk about corporate subsidies just yet. That is a different issue.

But I do want to talk about one thing. Mr. Berginnis, all of your floodplain managers—a lot of them have seen or witnessed, I am sure, significant flooding. When flooding occurs, does it only hit primary residences? Does it somehow go around small businesses and second homes?

Mr. BERGINNIS. No, it does not.

Mr. CAPUANO. It hits everybody?

Mr. BERGINNIS. Yes.

Mr. CAPUANO. And when someone owns a small restaurant, when they lose that restaurant to a flood, are they any less impacted than somebody else who might lose a home?

Mr. BERGINNIS. Even some of the FEMA data and the statistics—I heard a public service announcement just the other night that up to 40 percent of businesses that experience a major disaster never reopen. So one might argue they have more of an impact.

Mr. CAPUANO. The reason I ask is because the bill that several of you mentioned—I am not a co-sponsor yet, though I agree with the bill. And I am not a co-sponsor because it does not include small businesses and second homes.

And, again, I get the feeling that some people think that all second home owners are Bill Gates—and I am sure he has a lovely second home, or probably 12 of them. I don't know and I don't care. But Mr. Veissi, you are the REALTOR®, surely you have a lot of members of your REALTORS® who sell second homes, do they have the experience that every second home owner is a multi-millionaire who can just throw money away?

Mr. VEISSI. We recognize that a vast majority of the second home owners in this country are not multi-millionaires; they are working fellows and gals just like you and me. We know and understand that. We want to make sure that they get a fair shake, and that is why we are asking for a pause to get a baseline for them so that each of us—

Mr. CAPUANO. So you wouldn't oppose an amendment to H.R. 3370 that would include second homes and small businesses?

Mr. VEISSI. I wouldn't oppose an opportunity to include all of that information after a timeout so that we can at least noodle it through and figure out where we are going to go with second homes, small businesses, and primary residences.

We know one thing; we have a fledgling economy just recovering in the housing market, one that is enormously important to this economy, but more important to the social and cultural fabric of this country.

Mr. CAPUANO. Thank you.

Mr. Rutenberg, would your association oppose doing—whatever it is we do for primary home owners, would you oppose doing the same for small businesses and second home owners?

Mr. VEISSI. We wouldn't oppose the—

Mr. CAPUANO. Mr. Rutenberg.

Mr. VEISSI. Oh, I'm sorry.

Mr. CAPUANO. You already answered.

Mr. VEISSI. We have spent a lot of time together.

Mr. CAPUANO. That's okay. My wife answers for me all the time.

Mr. RUTENBERG. We very much are supporting small businesses. Most of us are small businesses. And the secondary homes—the typical income of someone in a secondary home is $74,000. And it is us, and I think that we need to have the study so that we can know what we are doing, and we can do this well.

One of the problems that I was thinking of after my answer is that 25 percent to 30 percent of the money that is spent on claims goes for 1 percent and repeats. We have a number of different subjects that we have to attack and we very much support small businesses and second homes.

Mr. CAPUANO. Mr. Berginnis, would your managers oppose—whatever it is we do, would you oppose doing something comparable for small business and second homes?

Mr. BERGINNIS. In fact, in our testimony, and this is why we have suggested that you remove all of the triggers, the immediate 20 percent and 25 percent, and replace it with something like in the 5 percent to 10 percent range, that includes all properties primary homes, small businesses, and secondary homes.

You could differentiate, be on the lower end of the spectrum for primary homes recognizing potentially all of the value and impacts there and maybe on the higher end of the range. But overall, all of them would have that reduced transition. Because it is important to us to at least get on the path to going to actuarial.

We spent a lot of time in this program with subsidized rates, and it is going take us some years to dig out of it.

Mr. CAPUANO. I agree.

My time has expired. I appreciate the chairman's indulgence.

But again, I just want to repeat, I am glad that we are all kind of on the same general chapter, if not the same page; again, no one is opposed to getting to actuarially sound rates if at all possible, but we all need to do this in a way that doesn't single out a certain number of people unintentionally.

If we intend to do it, so be it. But I think everybody would agree that what has happened, and what is happening now, is an unintended consequence, which is why many of us are trying to hit the pause button.

Thank you, gentlemen, for your indulgence.

And I thank the chairman.

Chairman NEUGEBAUER. And now the gentleman from Ohio, Mr. Stivers, is recognized for 5 minutes.

Mr. STIVERS. Thank you, Mr. Chairman.

I would like to thank the panel for their testimony, and Mr. Rutenberg, you just said something a minute ago that really kind of hit me about the number of claims that are related to a few number of homes that have repeat claims.

Do you think the system would be better off—I certainly don't think anybody wants to kick anybody out of their homes, but when those folks who have repeat claims are either rebuilding or in the process of selling their home for FEMA or the Federal Government to actually purchase that property and take it back to green space, give them the value of that property and then allow them to build somewhere that doesn't have as much risk?

Mr. RUTENBERG. I think it is—we are dealing with family histories, but I think the options should be examined, and this is again personal, not association policy, but I think you should examine it because it could be that both the Flood Insurance Program and the families would be better off if we did something innovative.

And there are certainly—if it was your personal business, and you had that kind of lost history you would be looking at what would be a smart alternative and would treat the people fairly.

Mr. STIVERS. And you may or may not have information on this, but when home builders build a new home, if it is inside or near a floodplain, how often do they sit down with the person who is building the home and advise them on mitigation techniques that might decrease their risk and therefore decrease their insurance?

Mr. RUTENBERG. I can answer in my area that every time we build in a platted subdivision where we are selling a lot the floodplain information is on the plat, it is part of the discussion, what zone they are in, what needs to be done, and it is assumed that we automatically take care of it in our construction. It is, I think, the difference would be when dealing on someone's property that they have had, then we have to be a little bit more careful and that does show upon the surveys. And then you have the re-sales and that is another issue that is not part of new construction.

It also does come to bear on remodels. And when you go for your building permit, it becomes an issue there.

Mr. STIVERS. Sure.

Mr. Saks, what about people who build in environmentally-sensitive areas and rebuild in environmentally-sensitive areas? Shouldn't there be some way—actuarially sound rates, I think, help do this, shouldn't there be some way to help give them an incentive to not re-build in an environmentally-sensitive area?

Mr. SAKS. I think—

Mr. STIVERS. And again, nobody wants to kick anybody out of their ancestral home, or anything like that, but should the rest of the taxpayers in this country subsidize them?

Mr. SAKS. Of course Congressman, I think there are a couple of answers to that, first for new development or re-development, Biggert-Waters and the changes associated with it do send a strong market signal, and I think that is the name of the game here, to use market forces to help impact the decisions we make, and in the case of those areas, it does help lessen floodplain development.

And the corollary is that we have seen over the years, the rates associated with NFIP really exacerbate floodplain development. For homes that are already there, as you said, it is a very personal decision that hopefully rates help people take mitigation actions and when possible when communities and homeowners and everyone else can agree when we can provide buy outs for them, that is good for communities and for the environment.

Mr. STIVERS. Thank you very much.

I think several of you have proposed solutions and ideas about how to adjust the program, and certainly all of us as policymakers are sensitive to the price shocks that some folks are experiencing, and I know a couple of you have suggested just holding off any rate increase, and several others have talked about capping rate increases. Can we go down the line and talk one at a time about what your preference is, about how policymakers should move forward?

Obviously, we need to move toward actuarially sound rates over time.

Mr. SAKS. Our preference is some type of cap and a longer phase-in period, and the reason for that, Congressman, is we have talked a lot about market signals, mitigation—

Mr. STIVERS. And I only have 20 seconds left, so I really just want—

Mr. SAKS. We want to get those signals.

Mr. STIVERS. —to get to the bottom line here, yes, thanks.

Mr. HECHT. Thank you, Congressman.

Nobody in our constituency is against paying more. We would say, first have it means-tested and possibly capped. We have been looking at 1 percent of the assessed value of the home.

Mr. VEISSI. We are looking for the opportunity to have a long-term solution, that long-term solution through the investment of time and information over this full period in this brand new piece of legislation.

Mr. RUTENBERG. While we are in this long-term discussion, I hope that we are bringing up doing the affordability study, that we are looking at the private water management that has been done and we are thinking not only about new houses but all of the housing and making it fair. Let's get the NFIP so it is actuarially sound on good data.

Mr. BERGINNIS. To not delay the rates, but phase them in over a longer term.

Mr. HOLTZ-EAKIN. Keep moving and provide those who are in excess of an income-based cap system.

Mr. STIVERS. Thank you. I yield back the balance of my time.

Thank you, Mr. Chairman.

Chairman NEUGEBAUER. I thank the gentleman.

Mrs. Beatty is recognized for 5 minutes.

Mrs. BEATTY. Thank you, Mr. Chairman. And thank you to all of our witnesses who are here today. I think that Congressman Stivers has given me a great segue into my comments and questions to you.

Certainly as someone who got on board with supporting this, and I think it was because of the sensitivity of the price shock, what I have learned today is that we need to collectively figure out how we can work with FEMA, the insurance companies, us as lawmakers and policymakers to find a long-term sustainable solution which will restore the solvency to the National Flood Insurance Program, and also keep Americans in their homes.

And certainly, as many of my colleagues have said, I support the return to actuarially priced premiums, but I am worried about the long-term viability if too many of the policyholders cancel their policies.

But let me shift gears and go to you, Mr. Saks. In your testimony, you expressed concerns about the development of coastal areas, marsh and swamp lands and the construction of dams and levees around the country. Specifically, you mentioned the impacts on the environment and the local wildlife and the communities that are in areas that are prone to flood.

Can you tell me how these concerns are related to the National Flood Insurance Program, and why the National Wildlife Federation supported the Biggert-Waters reform?

Mr. SAKS. Yes. Thank you, Congresswoman.

It so happens that floodplains—the areas where flood waters go—are some of the most important ecological areas we have in the country. And they give us a lot of environmental benefits aside from wildlife habitat. They are places where groundwater settles, they keep pollution from running into our rivers and streams. They do a lot of important things.

And unfortunately, those are also the areas where people like to live. And we are not saying that people shouldn't live there, but there should be a fair market signal so that people take into account all of these things when they are going to decide where to live.

Unfortunately, by suppressing rates we have masked that signal, and people have developed these areas, and the Biggert-Waters bill helped increase rates so hopefully we will see some of these market signals lessen the development of those areas and the habitat loss.

Mrs. BEATTY. Mr. Rutenberg, can you please speak to how, if at all, the developers engaged in subdevelopment of new communities use flood mapping to determine where to build?

Mr. RUTENBERG. I can talk about some of them, because it is different in different areas—I am familiar with the Southeast. I am not necessarily familiar with the Northwest or other areas. So, in my area, what we normally do is, we do an ecological study, and we do topographic, and we start with that. And we try and figure out where it is that we can build.

I would also like to mention that I serve on the board of the Conservation Trust for Florida, and I have been an adviser for the Florida Defenders of the Environment for some time. And you can have development and environmental at the same time. They are not mutually exclusive.

We do look very carefully at where we can be, and we determine where we can be. And then, we start working on the layout and the lot size, depending what the product is.

It is interactive. We have water management districts. We have environmental departments. And we have all sorts of people with whom we are coordinating. It is pretty well gone through by the time we get to a development.

It has changed dramatically in the last 30 years. It is not what it used to be.

Mrs. BEATTY. And lastly, with the expectation that the flood insurance premiums will rise dramatically in the near future, would that impact construction?

Mr. RUTENBERG. We will break it into a couple of categories. One is, in new construction in my area, I think our premiums would go down because we have done so much private mitigation to it. But we are also concerned with the entire housing industry. We are concerned with the people who have been in the house for 4 years, the people who have to move. Someone who has to go to a nursing home and sell their house—it needs to be viable.

If you are going to buy a new house, you are often moving out of an old house and selling it. It is a very interactive change, but the actual new homes, I think, on an actuarial basis, will fare very well, because their cost to the system should be very low.

Mrs. BEATTY. Thank you.

And I yield back.

Chairman NEUGEBAUER. I thank the gentlewoman. And the gentlewoman from California, the ranking member of the full committee, Ms. Waters, is recognized for 5 minutes.

Ms. WATERS. Members of the panel, I don't know if you were here in the room when we had the discussion with the head of FEMA. And the information that was shared by many of us about the complaints that are being received from our constituents, and the astronomical premium increases that some people are being told that they have to pay.

So, let me ask Mr. Douglas Holtz-Eakin, president of the American Action Forum, you mentioned in your testimony that you feel it is important for premiums to move to full actuarial risk rates. But clearly, many of these rate increases are so drastic that they will lead to greater foreclosures and depopulation of the program. Wouldn't this increase taxpayer exposure, because the Federal Government would provide more expensive disaster relief following the next inevitable disaster?

Mr. HOLTZ-EAKIN. Thank you. A couple of things. First, some of the testimony seemed to suggest that the rate quotes were inaccurate. So, let's just stipulate at the outset that these are accurate quotes about the cost of flood insurance, and I hope that is the case.

These large rate increases actually serve a valuable purpose. We may not be able to control floods and other natural disasters, but we can control the capital and economic activity we put in harm's way. And large premium increases say we are putting that activity in harm's way, and people need to know that. And we need to avoid that wherever possible. That is a danger.

And, so, I don't think the issue is premium increases, per se. The issue is, the transition costs for those of modest economic means when faced with large price increases. Means-tested transition makes sense, but the notion that somehow, we should ignore what is being conveyed—that we are locating their homes, businesses, and other valuable—

Ms. WATERS. So, if I may, one of the examples I gave was a property where the premium was $3,300, and it went up to $56,000. And you are saying that it is accurate, and you know it is? And what represents the risk?

Mr. HOLTZ-EAKIN. No, I am saying—I don't know if it is accurate. I am hoping that quote is accurate.

Ms. WATERS. What was it you wanted us to stipulate?

Mr. HOLTZ-EAKIN. I wanted to stipulate for this discussion that the quote is accurate. If there are mistakes being made, then they need to be fixed. I understand that.

Ms. WATERS. Of course, I won't agree with the stipulation. But let me just say this: You also heard that a lot of the mitigation attempts are programs that have been put in place may not be accurately assessed. You also heard that there is a limit on how much local entities can support mitigation. You also heard that the price increases are done in mapping based on the community, rather than on the individual property. And given all of that, you still want to stipulate that these price increases are accurate?

Mr. HOLTZ-EAKIN. I would hope that they would be accurate. As I mentioned in my written testimony, I am in favor of credit for mitigation, and down to the individual household level. That is an important part of managing risk. There is no reason to be opposed to that.

What I do know is that this program, as with many Federal risk programs, has run an economic lawsuit since inception, and that suggests a systematic problem with having actuarially fair rates. We need to avoid that going forward.

Ms. WATERS. Of course, we have no control over natural disasters. We have no control over what has happened in Katrina and Rita and Isaac and Sandy and on and on and on. And are you saying that—and the question I really raised was—the cost to government and the taxpayers, if we did not have the Federal flood control—the flood program?

Mr. HOLTZ-EAKIN. If it were the case that the losses in any natural disaster, which we do not control, were the same, regardless of how we got the money, I would agree with you, but I don't. By having a correctly-priced insurance program, it sends the incentive not to build in those areas most prone to flooding, most prone to losses. In that way, we lower the overall losses in a way that we wouldn't if we simply wrote checks and picked up the pieces after the fact.

Ms. WATERS. Let me just say in the last few seconds that I have here that we had from Mrs. Capito an example of someone who lived high above in a condominium that had flood insurance that the price was increasing on dramatically. And the question was, how was this determined? And, of course, the answer was, "Well, it was the community overall."

I cannot agree that the pricing is accurate. I think there are a lot of questions. Do you think an affordability study might help with us having to have more accurate pricing?

Mr. HOLTZ-EAKIN. I think a transition, which included a clear needs-based supplement for those who face large increases is sensible. But I think to avoid the transition, in my experience, having watched this for a long time—

Ms. WATERS. The affordability study is the transition.

Mr. HOLTZ-EAKIN. —is that there will never be a good time for reforms to get rid of subsidies. And if we put it off for 4 years—

Ms. WATERS. I yield back the balance of my time.

Chairman NEUGEBAUER. I thank the gentlewoman.

And now, the gentleman from California, Mr. Sherman, is recognized for 5 minutes.

Mr. SHERMAN. Yes, you thought you were all done, and then Sherman sneaks in another 5 minutes of questioning.

Mr. Veissi, can you give us an update based on your expertise of what impact these new rates are having on real estate markets right now?

Mr. VEISSI. It is still early, but the newest information that we are getting is that it is not just impactful. It is extraordinary across the board that the rates will have an impact bar none. We know it is not just a coastal issue. It happens to be an issue that attacks not just Florida and the Carolinas and Mississippi and Alabama, North Dakota, Nashville, Tennessee, and some of the others.

So, we are seeing for-sale signs today that say, no insurance impact on this property. That tells us very quickly that folks are making determinations at the point of sale on a property that they would normally have bought or normally have become invested in. It is going to get more critical as time goes on and these insurance rates are applied.

Mr. SHERMAN. Is there anyone on the panel who can help quantify the difference between being in an impacted home and then being in the same metropolitan area, same square footage, without that impact? Mr. Hecht?

Mr. HECHT. Congressman, we can say empirically in one of our counties, St. Charles, homes that have never flooded and subdivisions that have never flooded have been devalued 30 percent already. So there is empirical basis for that type of comment.

Mr. SHERMAN. Now is that because the economy in St. Charles is bad? There are a lot of places that have had 30 percent declines in home values. Can you identify that as a flood insurance issue?

Mr. HECHT. Yes. That calculation is based on the decreased value of the homes because of the increased carrying cost due to the insurance. We actually have one of the fastest growing economies in the country right now, so it is not a general phenomenon. It is very specific to Biggert-Waters.

Mr. SHERMAN. Okay. Mr. Veissi, given the confusion that exists about rates, what can REALTORS® and homeowners provide a prospective purchaser who asks about flood insurance rates? What information do you give me when I am there at the open house?

Mr. VEISSI. There are a couple of things we can do. We can advise our clients about the opportunity to get a current flood certificate.

Also, I wanted to add that the Rand Institute in California did a study and showed us that for every $500 in increase on an insurance policy, the value of that single-family home was decreased by $10,000.

So an insurance policy that went from $1,000 to $3,000 or $4,000 could impact the value of a single-family home by as much as $30,000, $40,000 or $50,000 in equity.

Mr. SHERMAN. Is that consistent with the information of others on the panel? Mr. Rutenberg first, then—

Mr. BERGINNIS. One thing I would like to add is what we have seen after Sandy is a different effect though as well. And so I think to have this discussion well-rounded, properties that are properly elevated and properly mitigated are increasing in value relative to those that aren't in that area. And so—

Mr. SHERMAN. Relative to what they would be absent the change in the flood insurance?

Mr. BERGINNIS. Right. And we are seeing some of those increases as well. I am concerned. Hopefully, that Rand study—my homeowner's policy just went up about $500, so I am—

Mr. SHERMAN. You didn't realize you lost $10,000 when that happened, did you?

Mr. BERGINNIS. Yes.

Mr. SHERMAN. Mr. Rutenberg?

Mr. RUTENBERG. I am concerned in this discussion that we are assuming that the quotes are accurate. And I think someone else mentioned that earlier.

I would expect that if you had a repetitive quote year after year from the same agent, it is probably accurate, because it is coming from the same database and the same insurance company. At least, the delta would be accurate. But if you are buying a house and you are out shopping, I am concerned that some people are getting estimates that are not valid. And I have seen more—

Mr. SHERMAN. Too high or too low?

Mr. RUTENBERG. Just scattered, sometimes by a factor of 10, from personal experience. And I would suspect that there is some opportunity in—before the affordability test, before everything else is done to work on trying to get better quotes to customers. And I am not so sure how to do it. That is another part of the industry. But I have seen it from personal experience to be a variable that is not tied to what it should be.

Chairman NEUGEBAUER. The gentleman's time has expired.

Mr. SHERMAN. Thank you.

Chairman NEUGEBAUER. Before we adjourn, I want to thank Dustin Parks. Dustin, stand up. Dustin was a detailee from HUD working with Mr. Capuano. His assignment concludes today and we want to thank him for his service to the committee.

[applause]

I would like to thank each of our witnesses again for their testimony today.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

And without objection, we are adjourned.

[Whereupon, at 4:52 p.m., the hearing was adjourned.]

A P P E N D I X

November 19, 2013

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TESTIMONY

Implementation of the National Flood Insurance Program Reform Act (Biggert-Waters)

Before the

House Financial Services Committee

Housing and Insurance Subcommittee

By

Chad Berginnis, Executive Director

Association of State Floodplain Managers

November 19, 2013

Introduction

Mr. Chairman, Ranking Member Carson and Members of the Subcommittee,

Thank you for inviting the Association of State Floodplain Managers (ASFPM) here today to discuss our observations and suggestions related to implementation of the Biggert-Waters Flood Insurance Reform Act signed into law on July 6, 2012.

ASFPM Members are well positioned to comment on implementation at the state and local levels because our members are the state and local officials who are FEMA's partners in implementation of the National Flood Insurance Program (NFIP). We have also conducted workshops for state and local officials in a number of states and have produced webinars to assist in the important training and education components of implementation.

ASFPM has 15,000 members nationwide and 35 state chapters, two of which include three states each. Most of our chapters are very active and have their own conferences and training activities. The Association conducts the training and certification program for Certified Floodplain Managers. The common mission of all of our members is to reduce losses of life and property due to flooding, our nation's most frequent and costly kind of natural hazard.

Summary of Recommendations

ASFPM has developed twenty recommendations for the Committee to consider as it contemplates additional changes to the NFIP to address flood insurance affordability and floodplain mapping issues.

1. **Phase in movement of most Pre-FIRM structures to actuarial rates more slowly, between 5%-10% annually (versus immediate, 20%, or 25%).**
2. **Eliminate triggers for movement to immediate full risk rates for new flood insurance policies, lapsed policies or upon sale of a home. Preserve triggers for full risk rates for those refusing offers of mitigation or for substantially improved/substantially damaged properties.**
3. **For any new, lapsed policy, or existing policy that is being phased in to full risk rates (not including those that trigger immediate movement to full risk rates), <u>the basis</u> for movement to actuarial rates would remain July 6, 2012, provided items #1 and #2 above are implemented and in place.**
4. **Take immediate action on new and innovative affordability concepts. Authorize pilots to test concepts such as:**
    a. **A group or community based flood insurance**
    b. **Means tested vouchers to assist with premium costs**
    c. **Low interest loans for mitigation to result in lower premiums**
5. **Provide (again) for a study of community or group based options (HR 1035 was passed by the House but not by the Senate) and should be included in any new legislation.**
6. **Mandate that every flood insurance policy sold under the NFIP clearly show the estimated full risk rate and state that flood risk changes over time and today's flood insurance rates may increase or decrease as future flood risk is known.**
7. **Forgive the current debt of $24 billion.**
8. **Consider additional reforms to ICC so it can be more effectively used to address flood insurance affordability issue.**

9. **Urge FEMA to immediately and fully implement the 2004 Changes to ICC triggering it upon any FEMA offer of mitigation. Also, urge FEMA to explore innovative ways to utilize the trigger that has been built into ICC since 1994 – when properties that have sustained flood damage on multiple occasions, if the Director determines that it is cost-effective and in the best interests of the National Flood Insurance Fund to require compliance with land use and control measures.**
10. **Provide for a flood insurance advocate within FEMA.**
11. **Allow for higher deductibles for residential policies, up to $10,000.**
12. **Request that FEMA release any draft reports or documents related to its "Rethinking the NFIP" initiative.**
13. **Direct FEMA to aggressively continue development of refinements to rating policies within the SFHA to provide credit to partial mitigation as well as recognize differing risks within the SFHA.**
14. **Require FEMA to conduct a study to evaluate the resources necessary to administer the Community Rating System so that communities can expeditiously join and ongoing evaluations are conducted in a timely and efficient manner.**
15. **Conduct a study to determine the extent to which raising premiums leads to greater mitigation—for example, by encouraging policyholders to elevate their properties or move to less risky locations (suggested by CBO in 2009).**
16. **Conduct a study to determine to what extent raising premiums would increase or decrease federal costs for disaster assistance (suggested by CBO in 2009).**
17. **Authorize options for FEMA to increase the flood mapping budget through means other than appropriated funds. Such options may include increasing the Federal Policy Fee or a transaction fee on mortgages.**
18. **Congress should clarify the desired outcomes for the National Flood Mapping Program so that appropriate metrics can be developed.**
19. **Increase the authorization for the Flood Mitigation Assistance Program to reflect high demand, partially driven by Biggert-Waters reforms.**
20. **In committee report language, express strong support for FEMA's Pre-Disaster Mitigation Program and its role in helping transition the NFIP into a more actuarially sound program.**

The Purpose of the NFIP and its Transformation under Biggert-Waters

With as much attention as is being focused on the NFIP and what it should or should not do, it is useful to begin this testimony by examining the purpose of the NFIP. The 1968 National Flood Insurance Act was initially passed because there was a general unavailability of flood insurance in the nation since the nation's insurers were unwilling to underwrite the very high risk associated with flood hazard areas. Also, it was seen as a way for occupants of flood prone areas to share the burden of the costs associated with these areas (by way of insurance versus disaster assistance which is paid by the nation's taxpayers).

As members of this Committee are well aware, the process of developing the legislation that became known as Biggert-Waters took place over several years. The overriding concern was the huge debt owed by the National Flood Insurance Program (NFIP) to the U.S. Treasury after the major hurricanes of 2004 and 2005. Previously, designers of the program knew there would be years when claims would exceed the available funds and so allowed the NFIP to borrow from the Treasury up to a specified amount, which would be repaid with interest. Until 2004 and 2005, this system had mostly worked. Some amount of debt was forgiven by Congressional action in the early 1980s. Since 1986, the program had been entirely self-supporting – always repaying Treasury borrowing with interest. Then, after Superstorm Sandy in 2012, the debt grew again and now sits at $24 billion.

It is easy to see why Members of Congress focused on steps to help restore the program to fiscal soundness. A major focus was on subsidies within the NFIP. Initially, a substantial subsidy (often called discounts, as they are cross-subsidies within the program) was built into the NFIP – for what were originally seen as reasons of fairness and equity. The idea was that a property owner should receive a discount on their flood insurance premiums if their property was built before the builder or current owner could have known of their flood risk. The NFIP was established in 1968 and floodplain maps were not generally available until about 1974, so properties built prior to that time were considered pre-Flood Insurance Rate Map or pre-FIRM and qualified for a discount. Because there are provisions in local flood ordinances that require new development and reconstruction of existing development to local flood codes, it was assumed that, over time, there would be fewer and fewer structures built in floodplains or structures not sufficiently elevated to reduce flood risk. More of those older structures have remained "on the books" than had been expected, so that today about 20 percent of the 5.5 million NFIP policies are Pre-FIRM and receive the Pre-FIRM discount.

The other discount that has grown significantly in the last 15 years (at the same time we were undertaking a massive Map Modernization effort) was that of administrative grandfathering. The concept of administrative grandfathering is that once a structure was built based on a specific map and a specific code in effect at the time, that the property owner could enjoy a discounted rate on their flood insurance into the future even if the flood risk on that site increased over time, as long as they obtained and maintained a flood insurance policy. A significant number of properties were administratively grandfathered in the program in the 2000s as many new flood maps were produced and FEMA broadened this policy.

The Elimination of Subsidies or Discounts

Both of these discounts were substantially reformed in Biggert-Waters and Congress chose to take a very aggressive approach to phase out both discounts while trying to shield primary residences. Generally, ASFPM was supportive of moving in this direction because:

- The existing (prior to Biggert-Waters) program and rate structure did not reduce flood losses; they have been steadily increasing over the past four decades and taxpayer costs for flood disasters have grown too,
- The discounts had actually been shielding property owners from knowing their own risk and the full risk rate of the property. Flood risk changes (and often increases) over time yet the nation's flood insurance program ran as if those risk changes did not occur,
- Awareness of full risk rates and payment of those rates drives better decision making for building and mitigation which leads to more resilient communities,
- The debt to the NFIP was large at the time of passage and has only grown with Superstorm Sandy. ASFPM is gravely concerned about the future impact of the debt to the program and the very survivability of the NFIP if something is not done, and
- As long as flood insurance affordability was addressed simultaneously with the rate increases, there would be a viable mechanism to assist those that cannot afford the increases transition to safer structures and lower premiums.

It is important to note that as it relates to the premium discounts, the NFIP, prior to Biggert-Waters, was unlike any private hazards insurance that a homeowner would buy (we are not comparing this to state run hazard insurance programs as nearly all of those are shown to be fiscally unsustainable). If the risk changes due to increased thunderstorms, tornadoes, hailstorms, wildfire risk, etc., premiums go up. If a home, built to the appropriate code in the past (i.e., knob and tube or aluminum wiring for electricity in homes) but later those codes changed because earlier approaches were discovered to be hazardous – the insurance rates go up unless the risk is mitigated. Until Biggert-Waters, this has not been the case with the NFIP. *ASFPM strongly believes in the nationwide value of the NFIP and its role in managing flood risk, but believes that the program needed reformed to result in better risk reduction decisions and ensure long term program viability. The fundamental questions about the scope of reform as it applies to the insurance rates becomes how much and how fast?*

Flood Map Accuracy and Completing Mapping for the Nation

The Biggert-Waters legislation was also responsive to the calls for new flood mapping, more accurate flood maps and addressing emerging mapping issues. At the time of passage, only a third of the nation's stream miles had any flood mapping at all. In its 2012 Risk MAP report to Congress, FEMA indicated that The Map Modernization Program republished flood maps for 65 percent of the land area of the United States, covering 92 percent of the Nation's population. However, one should not get the impression from those statistics that the job was even close to being complete since most of these maps simply digitized old data because money was not available for new flood map engineering studies. An additional concern was the way that levees were mapped - and the treatment of insurance zones behind levees. The age and accuracy of coastal mapping studies was another major concern. Also it was recognized that the absence of complete, updated, and accurate flood maps was a source of actuarial weakness in the program. As a result, Biggert-Waters authorized, for the first time, a full and robust mapping program to become the nation's default flood hazard identification and risk assessment data set, correctly establishing a program scope that was commensurate with the nation's overall needs and demands for flood mapping.

Implementation Thus Far – Problems and Successes

Outreach Needs and FEMA Participation

Outreach and education for policy holders, realtors, lenders, insurance agents and other stakeholders has been a challenge. FEMA has worked to provide information and interpretive materials, but has been hampered by restrictions on the ability of FEMA personnel to get "out in the field." This has resulted in varied interpretations of the new law and uncertainty in the housing market. One example is confusion over the need for elevation certificates to properly rate structures without appropriate outreach to surveyors, lenders or insurance agents.

ASFPM members have been the leaders nationwide in implementing and providing outreach and information on Biggert-Waters. In fact, if not for the capacity that has been built over the years in our floodplain management capability at the state, local and private sector levels, there would be even more confusion and issues with the implementation of this complex and wide ranging set of reforms. The nation's floodplain managers are actively educating property owners and other stakeholder groups – including realtors and insurance agents – on the provisions of the law. At the same time community officials are examining how to keep flood insurance premiums affordable, by advising property owners on mitigation measures they can take. Floodplain managers are also advising elected officials on measures a community may wish to take to reduce flood losses and reduce premiums for their residents, such as participating in the Community Rating System. State and local floodplain managers have been conducting workshops and ASFPM's webinars have been oversubscribed, requiring scheduling more such opportunities.

From the standpoint of outreach and education, ASFPM is disappointed in FEMA's inability to mobilize in the field and assist in this effort. While we are aware of the constraints caused by the sequester and government shutdown (especially since the larger rate increases went into effect October 1, 2013), nationwide outreach has been insufficient. FEMA has developed some outstanding materials and webinars which, while appreciated, can only do so much. Numerous times this fall, FEMA Region personnel have canceled attending ASFPM Chapter meetings at the last minute. ASFPM Chapter meetings draw local floodplain managers who are in the front line of explaining floodplain and flood insurance issues to residents and businesses. FEMA's attendance was requested to explain Biggert-Waters changes and the cancellation led to instances where there wasn't a knowledgeable federal presence at the meeting to explain the changes. There must be a prioritization by the agency to conduct extensive outreach to all partners and stakeholders, including getting out into the field and working with their partners.

Affordability

The biggest missing element from the BW-12 legislation – authorization to do something about flood insurance affordability - has been made painfully clear over the past several months:

- The projected significant amounts of some premium increases have caused alarm. In many cases, the increases far exceed the ability of the property owner to pay.
- There are concerns about adverse effects on home values and on property sales.
- Reports of real estate transactions not being completed due to the requirement that a full risk rate flood insurance policy for a Pre-FIRM structure was needed to complete the deal, and the buyer couldn't afford the policy or no longer qualified for the mortgage loan due to the increase in debt to income ratio.
- Situations where properties were supposed to move to actuarial rates immediately consistent with 42USC§4014(g) based on the date of passage of BW-12 due to home sales or lapsed policies when there was no information on this aspect of the law nor rates, so people completed real estate transactions or purchased flood insurance policies with no knowledge of the law's effects on future premiums – only to be hit with those higher premiums after the fact.

Early Successes

ASFPM has seen some early Biggert-Waters successes. In fact, Superstorm Sandy has proven to be a study in the potential of some of the basic principles of Biggert-Waters insurance reforms – that once people are aware of and accurately price risk they will take mitigation action. They can compare the true risk premium costs to the cost of mitigation to determine the return on investment in mitigation. ASFPM has had reports of significantly increased interest in mitigation up and down the Sandy affected coastline, not necessarily due to the storm itself, but rather, due to the potential for future flood insurance rate increases. From the perspective of a large, national flood event, we are seeing more mitigation occurring after Sandy than after any other large storm event in recent memory. Also communities in the Sandy affected areas are considering higher building standards such as an enhanced freeboard (some communities as much as three feet) which results in new construction with lower flood insurance rates and most importantly more resilience to future floods. Such decisions also help to maintain property values. Other successes include:

- ASFPM is hearing of increased interest in FEMA's Community Rating System. This is a voluntary program where a community goes beyond FEMA minimum standards to reduce flood risk and in exchange, premium discounts up to 45 percent are provided, which greatly assists affordability.

- Lenders are being much more careful in reviewing the flood risk on properties for which they are considering loans. Prior to Biggert-Waters, while no study was conclusive, it was estimated that up to 40 percent of properties that were subject to the mandatory purchase of flood insurance did not have flood insurance policies. ASFPM believes that the combination of increased lender penalties and concern about flood insurance premiums on the ability of the borrower to pay have resulted in this increased scrutiny.
- Establishment of Scientific Resolution Panels to arbitrate flood mapping disputes for new maps. A community, tribe or political entity that has the authority to adopt and enforce floodplain ordinances for the area under its jurisdiction can request FEMA use the SRP when conflicting data are presented. The SRP process is managed by the National Institute of Building Sciences, a non-profit organization independent from FEMA. ASFPM has heard positive reviews of this process.
- The number of communities participating in the NFIP has exceeded 22,000 for the first time.

Addressing the Problems

For the balance of the testimony, ASFPM will provide suggestions for further reforms. Primarily these suggestions are intended to address fiscal solvency, flood insurance affordability, and flood mapping issues. Current issues, commentary on proposed legislation, and specific ASFPM recommendations are presented and grouped based on the four primary facets of the NFIP: Flood Insurance, Floodplain Mapping, Flood Mitigation, and Floodplain Management Regulations.

Flood Insurance -- Addressing Flood Insurance Affordability and Maintaining Program Solvency

Biggert-Waters has begun to set the NFIP on a path to long-term fiscal solvency through several major reforms addressing actuarial weaknesses. However, Biggert-Waters takes a much too aggressive timeframe for implementing flood insurance premium reforms and does too little to address affordability concerns. Even the affordability study, while valuable in exploring the options such as means tested voucher, included no mechanism for implementation. Currently, the biggest area of concern being heard by floodplain managers is the triggering of full risk rates due to the purchase of a new flood insurance policy or as a result of a home sale. The full risk rate triggers run counter to the stated concern and intent of Congress to protect primary households from excessive rate increases. Unfortunately, current suggested legislative remedies for flood insurance increases do little or nothing to address underlying issues of addressing flood risk and increasing the program's solvency.

Since 2011 ASFPM has cautioned numerous times in testimony that the cumulative impact of all of the needed flood insurance reforms would result in significant affordability issues and that affordability must be a component of any NFIP reform. Policyholders need to have an accurate assessment of their risk, but we also need stronger programs to help them mitigate flood risk and to assist those who truly cannot afford risk based premiums. We must also be mindful that at the direction of Congress, for 45 years the program operated under a certain set of assumptions and subsidies. Policy holders were never informed of the amount of discount they were receiving. The increases resulting from the shift to full risk rates have been a shock. It is becoming apparent that the abrupt impact of causing real pain for policy holders individually but also for real estate transactions as well as possibly for the recovering housing market in general. Congress should not be lulled into thinking that actions such as delaying premium rate increases or longer phase-in of rates alone will address overall affordability issues. Even the routine annual rate increases, approved by Biggert Waters to address issues of establishing a reserve fund and calculating extreme loss years as part of the average risk are resulting in rapidly increasing policy rates. In the current premium year, flood insurance rates have increased 10% across the board, with an average of 17% increase in A and V Zones. This is not addressed in the current Congressional proposals. More constructive ways to deal with affordability while decreasing flood risk are needed

There are steps that can be taken to address affordability through existing mechanisms that could be used to reduce risk and flood insurance premiums, while decreasing the liability of the flood insurance fund. Built into NFIP insurance policies is an underutilized mechanism that can assist with flood insurance affordability through mitigating the at-risk structure. It is called Increased Cost of Compliance. ICC, which is funded through an added premium on the basic NFIP policy (the added premium is capped at $75/policy; however, the per-policy average is approximately $14 when divided over the entire policy base). Since 1997, ICC has paid more than $515 million in claims to mitigate nearly 25,000 structures. These claims would have been focused on Pre-FIRM structures in A or V Zones – the same ones that are being most affected by the Pre-FIRM subsidy removal. Over time, ASFPM has worked with Congress to tweak and reform the ICC program so that in 2004 an additional trigger was added – to trigger an ICC claim upon a FEMA offer of mitigation. Subsequent to that change, FEMA had conducted a pilot with the Severe Repetitive Loss Program. Presently, that effort has not been expanded beyond the pilot. The point is that ICC is mechanism that already exists in law, that is underutilized, and that could be one solution to help address flood insurance affordability – either as-is or with some modifications. Unfortunately as now administered, the average ICC claim amount is typically less than the cost of mitigation that is being done, and is less than the maximum ICC claim cap of $30,000. For example, the average cost to elevate a building is usually more than $30,000 but the average ICC claim is $25,100 due to exclusions in what elements are covered. Similarly, the cost to acquire and demolish a building is significantly more than $30,000 but the average ICC claim for this type of mitigation is $13,600 because FEMA has interpreted that the compliance in this case is simply the demolition of the building.

One measure that FEMA and ASFPM are promoting to help with flood insurance affordability is for communities to join the Community Rating System (CRS). The CRS is a voluntary program where communities join, undertake additional activities to reduce flood risk and are evaluated based on the completion of those activities. The completed activities are translated to points which are used to attain tiers of flood insurance premium discounts (5 percent discount per tier). Communities can be rated from a class 10 (zero discount) to a class 1 (45 percent discount). We anticipate significant interest in the CRS due to communities trying to find ways to keep flood insurance rates low. However, ASFPM is concerned that the CRS program is currently constrained in the resources it has for program administration it often can take one year or more for a community to complete the application process.

The NFIP Debt

The largest ongoing threat to the financial solvency of the NFIP is the accumulated debt of the program, now sitting at $24 billion. Since 2005, NFIP has paid $2.65 billion in interest payments, and $1.82 billion in principle payments. Luckily, FEMA has taken advantage of record low interest rates and the debt is financed at just below .5 percent in short term loans (two to three year terms). If interest rates return to a more average 3 percent annual rate (and rates can only go up from here), interest payments alone would exceed $720 million/year. That is more than the sum of fully funding the NFIP and the Flood Mitigation Assistance Program. For a program that is currently taking in a little more than $3 billion annually in premiums, which covers claims, payments to insurance companies, agents, flood mapping and floodplain management, and overall program administration, it is simply not feasible for the program to repay the debt, nor is it consistent with the Federal government's overall disaster policy.

As previously designed and until Biggert-Waters reforms have had time to work, the NFIP will continue to need federal support for catastrophic loss years (note that all $24 billion of the current debt occurred before any significant Biggert-Waters reforms were in place). Prior to Biggert-Waters, this was due to the rates being set at levels calculated to generate enough funds to enable the program to pay claims in an "average historical loss year," but not enough for a catastrophic year. The legislated limits on rate setting did not allowed NFIP to charge high-enough premiums to build a reserve for the inevitable years in which catastrophic flooding occurs. This meant that there was a need for federal support to fulfill NFIP's contractual obligations to pay claims in some years. Before Hurricane Katrina, NFIP actuaries estimated this average annual premium shortfall was $800 million per year. Congress has reacted quickly by increasing the borrowing authority of NFIP after Katrina and Sandy, yet has been slow to recognize that catastrophic loss years cannot be repaid by reliance on the insurance mechanism alone. Lack of understanding of this issue and dealing with the debt will continue to put pressure on the NFIP and could put the whole program at risk.

Commentary on Proposed Legislation

The action most commonly suggested in several proposed bills is to either exempt certain classes of structures from increased rates or delay rate increases for some period of time. Both approaches are problematic. The delay triggers programmed into HR 3370 will likely be dragged out indefinitely, due especially to the requirement for mapping all areas of the nation before the delay can be lifted. ASFPM believes that a much better approach that addresses fairness, equity, affordability as well as beginning to fix underlying problems of program solvency is to decrease the per-year premium increases for Pre-FIRM properties transitioning to full risk rates resulting in a longer phase-in of full risk rates and to eliminate most of the full risk rate triggers altogether except for structures that are substantially damaged or improved (which has always been a trigger for full risk rates) or those that refuse offers of mitigation. The longer phase-in could be extended further to reduce the effects on primary households. This gives FEMA time to complete the affordability study, communities time to take actions like joining the CRS and/or establishing other mitigation mechanisms, and property owners time to evaluate mitigation options, obtain financing, and take action to reduce both rates and risk. ASFPM's suggested approach will still achieve the ultimate goal of Biggert-Waters in reforming the underlying actuarial weaknesses in the program as it does not affect the reserve fund, the new considerations that FEMA must use to calculate annual flood insurance rates (such as including catastrophic events), or the increased annual cap of 20%. ASFPM's approach will also lead to the faster transition of most properties to actuarial rates than what was occurring under the NFIP previously – but more slowly than required under Biggert-Waters.

The provision in HR 3370 that addresses floodproofed basements appears to stipulate that the lowest floodproofed opening in a home to be used for determining flood insurance rates. ASFPM's concern is that any attempt to dictate how flood insurance rates should be calculated for individual structures can result in a new subsidy within the NFIP. Instead concrete loss experience (data) should be used to determine rates, even if the basement exception is preserved for communities that have them. It is important that even if there are exceptions for land use and development standards, such as the basement exception, that they may lead to more risky development and that development should be actuarially rated on the risk itself, not an arbitrary level.

ASFPM Recommendations for Committee Consideration. ASFPM suggests that further legislation is necessary to address the affordability issues that have become increasingly clear since passage of Biggert-Waters. We caution that legislation delaying implementation will not address the underlying issues, will retain the current uncertainty for financial planning and will likely lose the incentives in BW12 to mitigate for future loss reduction. We suggest that the Committee consider the following:

- ✓ **Phase in movement of most Pre-FIRM structures to actuarial rates more slowly, between 5%-10% annually (versus immediate, 20%, or 25%).** The lower end could be a consideration for primary households or if Congress chooses not to provide other options to address affordability.
- ✓ **Eliminate triggers for movement to immediate full risk rates for new flood insurance policies, lapsed policies or upon sale of a home. Preserve triggers for full risk rates for those refusing offers of mitigation or for substantially improved/substantially damaged properties.**
- ✓ **For any new, lapsed policy, or existing policy that is being phased in to full risk rates (not including those that trigger immediate movement to full risk rates), <u>the basis</u> for movement to actuarial rates would remain July 6, 2012, provided the two recommendations above are implemented and in place.** This ensures that <u>all</u> Pre-FIRM policies continue moving toward full risk rates but in combination with a longer phase-in, gives property owners time to mitigate before selling or before reaching full risk premiums.
- ✓ **Take immediate action on new and innovative affordability concepts. Authorize pilot programs to test concepts such as:**
  - **A group or community based flood insurance**
  - **Means tested vouchers to assist with premium costs**
  - **Low interest loans for mitigation to result in lower premiums**
- ✓ **Provide (again) for a study of community or group based options (HR 1035 was passed by the House but not by the Senate) and should be included in any new legislation.**
- ✓ **Mandate that every flood insurance policy sold under the NFIP clearly show the estimated full risk rate and state that flood risk changes over time and today's flood insurance rates may increase or decrease as future flood risk is known.**
- ✓ **Forgive the current debt of $24 billion.** Biggert-Waters reforms have put the program on a much more solid footing going forward, however, it will take a few years to build up the reserve fund to help protect against large losses, and to fully implement all of the other reforms under Biggert-Waters.
- ✓ **Consider additional reforms to ICC so it can be more effectively used to address flood insurance affordability issue.** Such reforms would include expanding eligible elements for the mitigation options allowed under ICC, increasing the maximum ICC claim cap from $30,000 to $50,000, and changing the way flood insurance policies are assessed the ICC surcharge (since the average surcharge is well under the $75 cap) so more funds can be utilized for mitigating at risk structures.
- ✓ **Urge FEMA to immediately and fully implement the 2004 Changes to ICC triggering it upon <u>any</u> FEMA offer of mitigation. Also, urge FEMA to explore innovative ways to utilize the trigger that has been built into ICC since 1994 – when properties that have sustained flood damage on multiple occasions, if the Director determines that it is cost-effective and in the best interests of the National Flood Insurance Fund to require compliance with land use and control measures.**
- ✓ **Provide for a flood insurance advocate within FEMA.**
- ✓ **Allow for higher deductibles for residential policies, up to $10,000.** Even though non-residential policies have options for deductibles for up to $50,000, the maximum deductible for residential policies is

$5,000. While this may not help low income individuals with affordability, it may help those with more resources with premiums. It could also help those who are convinced they will not flood, even if they are in a mapped Special Flood Hazard Area.

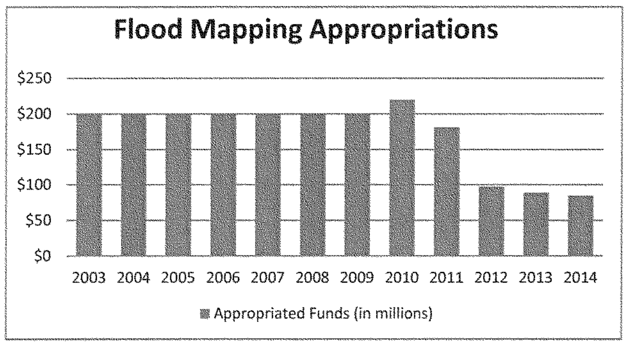
- ✓ **Request that FEMA release any draft reports or documents related to its "Rethinking the NFIP" initiative.** ASFPM believes that this report contains important research and information that has already been undertaken by FEMA in relationship to flood insurance affordability and could inform the flood insurance affordability study that is just getting underway.
- ✓ **Direct FEMA to aggressively continue development of refinements to rating policies within the SFHA to provide credit to partial mitigation as well as recognize differing risks within the SFHA.**
- ✓ **Require FEMA to conduct a study to evaluate the resources necessary to administer the Community Rating System so that communities can expeditiously join and ongoing evaluations are conducted in a timely and efficient manner.** This is critically important in light of anticipated interest in the program due to Biggert-Waters.
- ✓ **Conduct a study to determine the extent to which raising premiums leads to greater mitigation—for example, by encouraging policyholders to elevate their properties or move to less risky locations (suggested by CBO in 2009).**
- ✓ **Conduct a study to determine to what extent raising premiums would increase or decrease federal costs for disaster assistance (suggested by CBO in 2009).**

Floodplain Mapping – Addressing Adequacy and Accuracy

Another of the important reforms in Biggert-Waters was the establishment of the National Flood Mapping Program (NFMP). One aspect of the NFMP is that all populated areas and areas of future population growth have flood maps. Our nation's current flood mapping inventory is 1.1 million miles of stream with mapped floodplains, while we have 3.5 million miles of streams nationwide. Today, innumerable locations exist with small populations and no flood maps or floodplains identified; this is especially true in western states. Mapping these areas before the development occurs is important. Also, some of these areas can be mapped using automated methods quickly and cheaply. In other areas, due to the Map Modernization program, there may be a newer floodplain map. However, the underlying flood studies may still be 30 years old or older, and mapping methods at that time were much different than today. The result of incomplete and inaccurate maps is that many people do not purchase flood insurance when they need it, and others pay too much because their risk is not accurately shown.

Earlier this year, largely in response to continual questions from Congress as to the overall scope and magnitude needed for the flood mapping effort, ASFPM developed a cost model and released a report called *Flood Mapping for the Nation.* The model resulted in cost estimates to provide floodplain mapping for all communities in the nation based on the parameters specified under the NFMP. The nation has invested $4.3 billion in flood mapping to date, and has enjoyed multiple benefits from that investment, including providing the basis for guiding development that saves over $1 billion/year in flood damages. <u>ASFPM's report estimated the cost to complete flood mapping for the nation ranges from $4.5 billion to $7.5 billion. The steady-state cost to then maintain the data that is the basis for the nation's flood mapping inventory ranges from $116 million to $275 million annually.</u> This national investment in a comprehensive, updated flood map inventory for every community in the nation will drive down costs and suffering of flooding on our nation and its citizens, provides the best tool for managing flood risk and building sustainable communities, and even help address the fiscal solvency of the NFIP by remedying a known actuarial weakness in the program (Congressional Budget Office 2009 report). Ultimately, our report found that Congress' authorization for the NFMP was established at an appropriate level. If we were to, for example, fully fund a flood mapping program for 10-15 years, we would achieve flood mapping for every community in the nation and get the job completed.

FEMA has many flood mapping activities occurring today, despite reduced resources. RiskMAP is continuing to be deployed and it includes a significant outreach component. There are pilots going on related to mapping of levees consistent with FEMA's newly updated levee mapping approach. Declining map funding is resulting in fewer flood studies being initiated. This will result in delays in future flood maps and replicating the problem we have right now. The Cooperating Technical Partner program continues to leverage federal flood mapping funds with state and local resources. The Technical Mapping Advisory Committee (TMAC) is in process of being activated – ASFPM is pleased to see this.



ASFPM has two primary concerns related to the flood mapping program. The first is ongoing low appropriations. With the over 50% reduction in the amount of appropriations that have been provided over the past three years, flood mapping activities have slowed significantly. While Congress has authorized an appropriate amount of flood mapping funds, and ASFPM has helped to define how much total funding is needed, the administration continues to reduce its budget requests for flood mapping. Although the Congress, in recognition of the importance of flood mapping, has consistently provided more than the budget requests, appropriations for mapping have, nevertheless, been significantly reduced.

Depending on the priority of flood mapping by the Administration and Congress, some consideration may need to be given to other methods to supplement the needed flood mapping budget. One approach, such as increasing the Federal Policy Fee would result in only those who have flood insurance policies paying for new flood maps. Perhaps a fairer approach is a transaction fee attached to either flood zone determinations or mortgage transactions. Such a fee would be spread to all users of flood maps since even those not in a floodplain utilize flood mapping data to verify their status.

The second concern is related to program direction and metrics. ASFPM is concerned that RiskMAP has begun to focus too significantly on communities taking mitigation actions as a measurement of overall program success and that has, in turn, driven program priorities. While ASFPM believes that such a metric is appropriate for the NFIP overall and even FEMA's Unified Hazard Mitigation Assistance Program, it is not appropriate for the nation's flood mapping program as people taking mitigation actions is clearly out of the span of influence of the program itself. Rather, the program should focus on developing and providing quality flood mapping and flood risk data and ensuring that there is a robust and successful outreach effort.

Finally, the NFMP establishes, and ASFPM supports, the notion that developing and providing flood risk data (including mapping) coupled with robust public outreach is the primary focus of the program. One of the lessons learned during the Map Modernization program is that outreach is an essential component of producing new flood maps. ASFPM is seeing a much more robust outreach effort under FEMA's RiskMAP program. However, one concern that ASFPM has expressed to FEMA is that it is critical that the outreach as part of mapping projects must be led and/or significantly include mapping contractors and not be done primarily by independent outreach contractors that are not integrated into the map development or update process. Such an approach will erode credibility in the flood maps and mapping process by the public. ASFPM hopes that FEMA is mindful of this concern as it rebids its mapping production contracts.

Commentary on Proposed Legislation

Many complaints have emerged about accuracy of the flood risk maps. As a result, HR 3370 calls for a halt to premium rate increases until all of the Nation's flood maps are complete and accurate. FEMA has made significant progress toward improving flood maps beginning with the 5 year Map Modernization project that led to digitization of the maps. As noted earlier, this largely was not able to include the development of updated flood risk data. It is important to note that:

- Mapping is never complete because circumstances and development change the risks.
- Maps are only as accurate as the data that goes into producing them.
- Accuracy is not the same as level of uncertainty. Less uncertainty can be purchased through investment in more granular data.
- Investment in data costs money. Appropriated funds for flood mapping have dramatically decreased since 2010.

HR 3370 also proposes to allow FEMA to utilize National Flood Insurance Funds to reimburse policyholders who successfully appeal a map determination. ASFPM's position is that after flood mapping is updated, costs for map appeals driven for flood insurance reasons, new development in the community and other man-made changes in the floodplain should not be borne by the Federal government. Many times, map adjustments are sought to "refine" the map or to simply delay the map. It doesn't mean that the map is inherently wrong because the map was prepared with a certain precision based on costs. Rather, it is usually about fine tuning the mapping boundaries with more granular data. There simply aren't enough resources in the NFIP and the mapping program to pay for all of these refinements. Such costs must be borne by those disputing the maps.

ASFPM Recommendations for Committee Consideration:

- ✓ **Authorize options for FEMA to increase the flood mapping budget through means other than appropriated funds. Such options may include increasing the Federal Policy Fee or a transaction fee on mortgages.**
- ✓ **Congress should clarify the desired outcomes for the National Flood Mapping Program so that appropriate metrics can be developed.**

Flood Mitigation – Other Options for Addressing Flood Insurance Affordability for Existing At-Risk Structures

ASFPM has long said that flood insurance rating reforms must also be accompanied by measures that allow individuals to mitigate their risk and at least give options to contain or reduce the increases in flood insurance premiums. ASFPM fundamentally believes that a mitigation approach to affordability can significantly ease the painful transition of the NFIP to a more actuarially sound program.

Biggert-Waters took an important first step in this direction by making the flood mitigation grant programs available under the NFIP more efficient by combining three programs into the Flood Mitigation Assistance (FMA) program as well as retaining the $90 million authorization which was a combination of the three legacy programs. The new, combined FMA program allows for a wide array of non-structural mitigation options and allows for flood mitigation planning. ASFPM applauds FEMA for already producing new guidance that is being used for the current FMA grant funding cycle. Incidentally, demand for flood mitigation under FMA grant program remains strong. In the most recent round of funding, project applications exceeded $300 million.

While not under the purview of the NFIP, FEMA administers two other all hazard mitigation grant program that can be used to reduce risk to floodprone structures and directly address flood insurance affordability. The Hazard Mitigation Grant Program (HMGP) is made available after a federal disaster declaration. The Pre-Disaster Mitigation (PDM) grant program is available on an annual basis and is especially important in states that are infrequently affected by large disasters. ASFPM continues to be concerned that FEMA has proposed to eliminate the PDM program the past two years. Finally, a program made available through HUD, the Community Development Block Grant - Disaster Recovery is a flexible source of funds that can be used to provide mitigation grants for multiple purposes after a federal disaster declaration.

But these programs, at current funding levels are not enough to address the flood insurance affordability issues. In our recently re-released *Flood Insurance Affordability* paper, ASFPM makes several suggestions to use mitigation to help with flood insurance affordability including:

- Creation of a means-tested voucher program that exists outside of the framework of the NFIP for those that cannot afford the flood insurance increases. Such an approach is more focused than a discount based on the age of a structure. However, this would only provide premium relief and does nothing to mitigate the risk itself.
- Creation of a means tested voucher program linked with a mitigation loan. This concept has been developed by the Wharton School at the University of Pennsylvania and can result in a triple win – lower premiums for the property owner, mitigated risk to the structure, and lower costs to taxpayers.
- Authorization of flood mitigation activities under existing federal loan programs. Some states, under the Community Development Block Grant program have developed state revolving loan programs to undertake home repairs, weatherization improvements and promote affordability, where the loan is paid back when the home is later sold. Such programs could be adapted to include flood mitigation as eligible activities. Under the Small Business Administration, a pilot pre-disaster mitigation loan program in the mid 2000s was unsuccessful in attracting interest; however, such a program may be quite popular if it were authorized today. Finally, the Federal Housing Administration's 203k loan program is for repairing and rehabilitating homes that are deemed to not meet habitation standards and a mortgage through this program allows for the cost of the home improvement to be rolled into the primary mortgage. The advantage of the 203k program is that it is already accessible nationwide with loan officers already

familiar with writing such loans. These loans have been used after Sandy where property owners with damaged homes used the program to repair and mitigate the damaged home.

- Create tax code changes to encourage mitigation. Current tax code provisions provide tax breaks for uninsured losses, and there are considerations to provide credits for flood insurance premium increases. Both of these send precisely the wrong message and take away the motivation for individuals to take responsibility for their actions. A much better use of the tax code would be to provide tax credits or other incentives for actually mitigating at risk structures. Such a program could be modeled after those used for energy efficiency and/or special provisions made to write off the cost of mitigation measures for disaster affected property owners.

While many of these ideas are beyond the purview if this committee; it shows the importance and interrelationship of other programs and how they can reduce impacts caused by the NFIP transitioning to a more actuarially sound basis.

ASFPM Recommendations for Committee Consideration:

- ✓ **Increase the authorization for the Flood Mitigation Assistance Program to reflect high demand, partially driven by Biggert-Waters reforms.**
- ✓ **In committee report language, express strong support for FEMA's Pre-Disaster Mitigation Program and its role in helping transition the NFIP into a more actuarially sound program.**

Floodplain Management Regulations

As directed by the 1968 Act, future flood losses were to be mitigated through two avenues: guiding new development away from the flood hazard areas and ensuring that any new development that did take place in the floodplain was constructed in such a way as to minimize damage to each structure. The NFIP was designed so that these two missions would be carried out at the state and local levels, where land use authority resides. In this way, over the years, the potential for flood damage was to be gradually diminished. It was anticipated that state and local governments would develop a commitment to and expertise in managing flood hazards within their jurisdictions that would yield ongoing wise use of the nation's floodplains into the future. To receive the advantages of the NFIP, and help accomplish these two objectives, participating communities enact and enforce floodplain management provisions on new development in the mapped floodplains.

Local management of floodplains and building construction goes hand-in-hand under the NFIP to achieve the program's goals. Buildings that comply with community floodplain management regulations not only face lower risk of flooding but also pay premiums based on flood insurance rates that are in most cases significantly lower than the rates charged to the older, pre-FIRM buildings. However, buildings constructed in violation of the community's floodplain management ordinance face much higher premiums, which can be up to thousands of dollars a year.

While it is estimated that nationwide, buildings constructed in compliance with NFIP minimum standards avoid over $1.5 billion in damages every year, the program has been far less successful in steering development away from flood hazard areas. In its Final Report as part of its comprehensive evaluation of the NFIP, the American Institutes of Research (2006) concluded "*Most floodprone areas are still subject to being developed, in part because the NFIP has no strong provisions to guide development away from floodplains, even those with extreme flood hazards or valuable natural resources.*" The report goes on to say that "*Most natural and beneficial* *floodplain functions in the United States are still subject to degradation by development, in part because the NFIP has not emphasized the protection of those functions and has few tools to help restore them, once impaired."*

ASFPM believes that the NFIP should be enhanced to include common sense, proven higher standards that can not only reduce flood losses but also steer development out of flood hazard areas. We hope that FEMA prioritizes rulemaking to re-examine the aging minimum standards of the program.

Commentary on Proposed Legislation

The land use provisions of the NFIP have proven, over decades, to work in communities throughout the country. Land use authority is primarily at the state and local level and the NFIP is set up to define minimum standards (FEMA develops these by rule) that are carried out by states and communities. Floodplain regulations adopted by communities based on NFIP minimum standards have variance provisions to accommodate unique or unusual situations although there should be no need to issue variances frequently. This is in keeping with other land use codes (subdivision regulations, zoning, etc.).

ASFPM is puzzled by HR 3315 that would seem to establish, at the Federal level, variance criteria for agricultural structures, usurping state and local control, especially when the NFIP under 42USC 4022(a) already provides relief, at the discretion of the appropriate state or local authority, from building restrictions for agricultural structures that have been damaged or are repetitive losses. For new agricultural structures, FEMA has a Technical Bulletin (TB-7) that describes how some agricultural structures can be wet floodproofed and not elevated. Also, it appears that HR 3315 would seek to allow structures that would get these variances, and are therefore at much higher risk of flooding to actually get subsidized flood insurance rates as if the flood zone did not exist on the property at all.

ASFPM believes the proposed legislation is overly broad as it could apply to any facility supporting the agricultural industry (and therefore include Confined Animal Feeding Operations, or agribusinesses with very large and expensive inventories of equipment), it usurps state and local land use authority, and establishes a new type of flood insurance subsidy just when the program is striving to be more financially stable. Also, Biggert-Waters included a study, currently being performed by GAO, that examines the impact of Federal Floodplain regulations and insurance mandates on agricultural areas and rural communities. This study should be completed sometime in 2014. Finally, we must remember the lessons of Hurricane Floyd and the massive agricultural losses. Specifically livestock losses were nearly unimaginable – over 30,000 hogs, 700,000 turkeys and 2.4 million chickens. These facilities which were flooded, nearly resulted in a public health catastrophe.

Conclusion

There will continue to be a need for federal support because the NFIP was designed to be an inclusive government program that would help reduce both costs and consequences of flooding, shift the costs of flooding "from the taxpayer to those who bear the risk," and prevent future losses. The NFIP benefits the nation in more ways than simply providing insurance. Mapping of flood hazard areas, promoting wise floodplain use and management, and operating programs to mitigate specific flood problems have significant benefits to all levels of government, businesses, and the public at large, not just the NFIP's policyholders.

The NFIP was established recognizing equity, partnership, and joint responsibility of managing the nation's floodplains. Equity or fairness between those that live in floodplains versus those that do not in bearing costs and impacts of at-risk development, joint responsibilities and partnerships of all levels of government – that states and communities also have a duty to undertake activities that reduce flood damages and losses, and partnership with the private sector in providing insurance. Managing flood risk is not just about FEMA and the Federal Government, yet we still have far too many policies and programs, such as disaster assistance, that reinforce the notion that it is somehow a Federal responsibility.

The NFIP has matured in 45 years and has resulted in many successes – one of the world's largest inventories of flood maps, 22,000 participating communities, and many new structures that are safer than would otherwise be if no standards for development existed. As we work to guarantee the future of the NFIP it is critical that crucial reforms of Biggert-Waters remain in place, even if they need to be modified to address affordability and fairness issues. We must consider the full costs of flood disasters to the nation and communities. The NFIP can not and should not be looked at in isolation.

To review ASFPM's *Flood Mapping for the Nation Report* or ASFPM's Recommendations on Flood Insurance Affordability paper, go to ASFPM's website at www.floods.org and click the quick link titled "Information Page for Biggert-Waters 2012 NFIP Reform Act Implementation." For any further questions on this testimony contact Chad Berginnis, ASFPM Executive Director at cberginnis@floods.org (608) 828-6338 or Meredith Inderfurth, ASFPM Washington Liaison at (703) 448-0245

STATEMENT

OF

CRAIG FUGATE
ADMINISTRATOR
FEDERAL EMERGENCY MANAGEMENT AGENCY
U.S. DEPARTMENT OF HOMELAND SECURITY

BEFORE
THE

COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND INSURANCE
U.S. HOUSE OF REPRESENATIVES
WASHINGTON, D.C.

"IMPLEMENTATION OF THE BIGGERT-WATERS FLOOD INSURANCE REFORM ACT OF 2012: PROTECTING TAXPAYERS AND HOMEOWNERS"

Submitted
By

Federal Emergency Management Agency
500 C Street, S.W.
Washington, D.C. 20472

NOVEMBER19, 2013

Introduction

Good afternoon Chairman Neugebauer, Ranking Member Capuano and distinguished Members of the Subcommittee. My name is Craig Fugate, and I am the Administrator at the U.S. Department of Homeland Security's (DHS) Federal Emergency Management Agency (FEMA). It is an honor to appear before you today on behalf of FEMA to discuss the National Flood Insurance Program (NFIP) and our efforts to implement the Biggert-Waters Flood Insurance Reform Act of 2012.

In my testimony today, I will discuss the NFIP; the changes FEMA is making as a result of the Act; the role of flood maps and levees; and steps property owners can take to mitigate against flood damage.

Flooding and the Need for a National Program

Flooding has been, and continues to be, a serious risk in the United States. Most insurance companies have historically excluded flood damage from homeowners insurance because of adverse selection – only those most susceptible to flooding will purchase coverage. To address this need, Congress established the NFIP in 1968 to make flood insurance available, identify flood risks and encourage sound local flood risk management. The NFIP is administered by FEMA.

The NFIP was broadened and modified with the passage of the Flood Disaster Protection Act of 1973 and other legislative measures. It was further modified by the National Flood Insurance Reform Act of 1994 and the Flood Insurance Reform Act of 2004. The most recent reforms have come after numerous short-term reauthorizations and lapses in Program authority over the past several years.

About 40 percent of the U.S. population lives in counties that border the ocean or Great Lakes and are directly or indirectly affected by flood risk, and most U.S. counties contain rivers and streams that present flood hazards. Moreover 5.6 percent of the U.S. population lives in the highest risk coastal and riverine flood hazard areas, making flooding the most costly and prevalent natural risk in the United States. Additionally, sea level rise, climate change, urbanization and other factors may lead to even more Americans living in high flood risk areas in coming years.

The NFIP serves as the foundation for national efforts to reduce the loss of life and property from flood disasters that may occur. The Program is designed to insure against, as well as minimize or mitigate, the long-term risks to people and property from the effects of flooding, and to reduce the escalating cost of flooding to taxpayers. The NFIP works closely in partnership with Write Your Own (WYO) insurance companies to market, sell, administer and adjust claims for policyholders. By encouraging and supporting mitigation and floodplain management efforts, the NFIP is estimated to save the nation $1.6 billion annually in avoided flood losses.

Today, almost 22,000 communities in all states and territories participate in the NFIP, with 5.6 million NFIP policies providing over $1.2 trillion in coverage.

The NFIP was, by statute and design, not actuarially sound. Specifically, 20 percent of policyholders, including many of the NFIP's highest risk structures, paid premiums that were less than actuarially sound and the government was subsidizing on average 60 percent of the loss. The debt resulting from Hurricanes Katrina and Sandy, the two costliest storms in NFIP history, illustrate the financial challenges for the NFIP that the Biggert-Waters Flood Insurance Reform Act of 2012 aimed to address. Significant concentrated losses in high policy coverage areas could set the program up for future losses beyond the authorized borrowing authority. In addition, the financial challenges are heightened due to subsidies and grandfathering that were established to encourage older structures to participate in the Program and make premiums affordable for these policyholders in high risk areas.

Pursuant to the statute before the Biggert-Waters Flood Insurance Reform Act of 2012, FEMA established subsidies for owners of existing homes and businesses built prior to the initial Flood Insurance Rate Map (FIRM) and made them eligible to purchase insurance at subsidized rates. In other words, a building built before flood risk was known, and at an elevation below the one-percent annual chance flood, could be insured at a rate substantially less than their real risk rate.

The NFIP collects more than $3.5 billion in annual premium revenue, and FEMA estimates that an additional $1.5 billion annually is needed from subsidized policyholders.

FEMA also established grandfathered rates to address rates for structures built in compliance with existing FIRMs that experienced subsequent increases in flood risk. FEMA allowed those structures to grandfather according to the risk identified on the earlier FIRM, and did not adjust premiums to reflect the current risk. Grandfathered properties are not subsidized by the Program, and FEMA establishes cross subsidies within classes of structures to maintain the actuarial integrity of the rate structure.

This annual premium shortfall during catastrophic flooding events, such as Hurricanes Katrina and Sandy, required FEMA to use its statutory authority to borrow funds from the U.S. Department of Treasury. These funds were used to pay covered flood damage claims to policyholders. Although payments have been made to reduce this obligation, $24 billion in debt remains.

Biggert-Waters Flood Insurance Reform Act of 2012

Congress determined that further reforms were needed to make sure the NFIP was financially sustainable.

To execute these reforms, Congress passed the Biggert-Waters Act. The law required changes to all of the major components of the program, including flood insurance, flood hazard mapping, grants and the management of floodplains. Many of the changes are designed to strengthen the fiscal soundness of the NFIP by ensuring that flood insurance rates more accurately reflect the real risk of flooding. The changes are being phased in over time, beginning this year. Biggert-Waters also reauthorized the NFIP for five years, which injected confidence and stability into the real estate and mortgage markets.

Removal of Subsidies and Grandfathered Rates

Biggert-Waters ushered in changes that will lead to premium rate increases for some – but not all – policyholders over time.

Today, I would like to focus on the sections of the Act that remove subsidies and grandfathered rates. Currently, approximately 20 percent of policyholders, representing approximately 1.1 million of the 5.6 million NFIP policies, now pay subsidized rates. As FEMA implements the changes stipulated in the Biggert-Waters legislation, these policyholders will eventually pay rates that reflect actual risk to their properties. The remaining 80 percent of policyholders will not see increases as a result of this change, although it is possible that their rates will increase if, in the future, new maps reveal higher risk under the phase-out of grandfathered rates required by the legislation.

Specifically, the following changes for subsidized policyholders will be or have already been implemented due to the legislation:

- Beginning January 1, 2013, owners of properties previously eligible for subsidized rates on non-primary/secondary residences in a Special Flood Hazard Area (SFHA), saw a 25 percent increase annually in their rates, as required by the law, which will continue until rates reflect true risk.
- We anticipate that under a final rulemaking, owners of substantially damaged or improved properties previously eligible for subsidized rates will see a 25 percent rate increase annually, as required by the law, until rates reflect true risk.
- On October 1, 2013, owners of subsidized policies on business/non-residential properties and severe or repetitive loss properties in a Special Flood Hazard Area began to see 25 percent rate increase annually, as required by the law, until rates reflect true flood risk.

All subsidized properties, including primary residences, will move immediately to actuarial rates if:

- The policy lapses;
- The property suffers severe, repeated, flood losses; or
- The property is purchased.

Each property's risk is different. Some policyholders may reach their true risk rate after less than five years of increases, while other policyholder increases may go beyond five years to get to the full risk rate required by the new law.

With regard to grandfathered rates, additional changes to premium rates may also occur upon remapping. We are evaluating when it is administratively feasible to implement these rate changes.

When a map is revised or updated, grandfathering will no longer be available. Grandfathering is applied in two situations: to allow policyholders in a Special Flood Hazard Area built in accordance with flood maps to keep rates that reflected that compliance even if a later map would increase their premium; and to enable structures built outside of the Special Flood Hazard Area and later remapped into the Area to purchase insurance based on an average cross-subsidized rate. The Act replaces the policy of offering grandfathered rates with a five year phase-in to rates that reflect the current risk when a FIRM is revised or updated.

The Role of Flood Maps and Levees

Mapping and identifying flood hazards enables informed, smart development and encourages communities to adopt and enforce minimum floodplain management regulations. These efforts minimize the financial impact of flooding on individuals and businesses, and mitigate the effects of flooding on new and improved structures.

FEMA consistently releases new flood maps and data, giving communities across America access to helpful, authoritative data that they can use to make decisions about flood risk, enabling safer development and rebuilding following disasters.

These maps, called Flood Insurance Rate Maps (FIRMs), are critical not just because they give communities the information they need to help avoid future risk, but because they also help set actuarially sound insurance rates. Thus, FEMA is committed to ensuring that FIRMs are both accurate and reflect current risk.

To develop FIRMs, FEMA contracts with trusted, credible, credentialed and experienced engineering firms to map communities. To ensure that the maps incorporate the most current and accurate supporting data, FEMA engages State and local governments, the public broadly, professional engineers and licensed surveyors in all phases of map production, from data acquisition through flood hazard analyses, and ultimately to floodplain delineations. During the process of community input, FEMA encourages individuals and communities to provide their own data for FEMA's consideration. Finally, FEMA vets and publishes each individual map, and then each community follows its own established process to gather additional community input and formally adopt the maps at the local government level.

To ensure further transparency, FEMA also publishes a Flood Insurance Study (FIS) that supports the information on the FIRM. These FISs outline exactly how the map was produced, what data and standards were used to support it, who collected that data and when, and how specifically the hazards along each flooding source were analyzed.

In 2013, as part of the National Academy of Sciences (NAS) review of Levees and National Flood Insurance Program, the NAS determined that FEMA's new Levee Analysis and Mapping Procedure is founded on sound algorithms with sound science and engineering behind them and follows established approaches to hydrology and hydraulics.

FEMA is continually working to improve its mapping standards and map production process and is required to review community flood maps every five years and assess whether to revise or update them based on current conditions. Flood hazard conditions are more accurately captured now as a result of FEMA's Risk Mapping, Assessment, and Planning (Risk MAP) program.

FEMA began implementing the Risk MAP program at the start of Fiscal Year (FY) 2009. Risk MAP not only addresses gaps in flood hazard data, but uses that updated data to form a solid foundation for risk assessment and floodplain management, and to provide local, state and tribal governments with information needed to mitigate flood-related risks. Risk MAP is introducing new products and services extending beyond the traditional digital flood maps produced in Flood Map Modernization, including visual illustration of flood risk, analysis of the probability of flooding, economic consequences of flooding and greater public engagement tools. FEMA is increasing its work with officials to help use flood risk data and tools to effectively communicate risk to citizens, and enable communities to enhance their mitigation plans.

FEMA has initiated 600 Risk MAP projects affecting 3,800 communities and addressed their highest priority engineering data needs, including coastal and levee areas.

Regarding levees, FEMA has also reviewed its approach to mapping flood hazards with respect to non-accredited levees. FEMA recognizes that levee systems that do not fully meet the requirements for accreditation may still provide some measure of flood risk reduction.

As a result, FEMA is introducing a new approach of targeted modeling procedures to replace the previous "without levee" approach, that did not recognize a non-accredited levee as providing any level of protection to communities behind the levees during the base (1-percent-annual-chance) flood. These procedures better characterize actual conditions that a community may encounter when addressing non-accredited levees or levee systems.

FEMA devised this new approach by leading a multidisciplinary project team comprised of representatives from FEMA, the U.S. Army Corps of Engineers, and experts from the academic and engineering communities to evaluate technical options for non-accredited levees. The FEMA-led team explored a broad spectrum of levee analysis and mapping procedures. Based on the results of the development, testing, review and public comment efforts, FEMA created and is implementing a levee analysis and mapping approach that is flexible and will produce more precise flood hazard maps and supporting data where levee systems are involved.

FEMA will use these new procedures to produce FIRMs, Flood Insurance Study reports, and related products for communities and Tribes impacted by non-accredited levee systems. A core goal of the new procedures includes identifying more precisely the flood hazard associated with levee systems and reflecting the results in the mapping. An important outcome of the effort is also increasing the credibility of FIRMs where non-accredited levee systems exist.

The new approach, accompanied by operating guidance, will be applied to a limited number of projects during FY 2013, and other future mapping projects will be prioritized as additional funding is available.

FEMA Regional Offices will be in contact with communities to identify participants for a discussion about their local levee system and to facilitate a Local Levee Partnership Team as needed. This team will be comprised of FEMA and community representatives to provide input and guide the implementation of the approach.

Educating Stakeholders and Implementing the Provisions of Biggert-Waters

FEMA has undertaken significant steps to inform its policyholders and stakeholders about these changes to the NFIP, including educating:

- Insurance agents selling flood insurance;
- Realtors, the banking community, floodplain managers, insurance executives and others;
- Political leadership at local, state, tribal and federal levels;
- Disaster survivors so they can be informed should they choose to rebuild; and
- Affected policyholders, who will receive notification from their insurance company in their bills explaining changes.

The Act has also necessitated programmatic changes to the NFIP itself, including its processes and regulations. Areas specifically impacted by Biggert-Waters include actuarial sciences, insurance underwriting, floodplain management and floodplain mapping.

FEMA is actively meeting with affected communities throughout the country to discuss these changes. This summer, Associate Administrator for Federal Insurance and Mitigation David Miller traveled to Louisiana and Mississippi to see and hear first-hand the potential impacts of the law on policyholders. Additionally, many FEMA staff participated in outreach meetings with national and regional associations and communities to provide information on the new law. While in the Gulf Coast region, it was very clear that there are challenges to implementing the law when premiums may exceed $10,000 or in more high risk areas where homes are not easily elevated or bought out. In the Gulf Coast, many policyholders are required to have insurance and live near the industry jobs that support our national economy. In states with recent disasters like

New Jersey and New York, communities are going through the process of adopting new maps as a result of increased risks found in mapping completed both pre-and post-disaster.

The Role of Mitigation in Affordability

As the NFIP transitions toward full risk rates, there will be significant increases in premiums for some subsidized and grandfathered structures. Individuals whose properties are at risk of flooding may lack the resources to make prudent risk management and mitigation decisions, including the decision to relocate, mitigate or purchase adequate insurance.

Pursuant to the provisions in Biggert-Waters, FEMA is charged with completing a study with the National Academy of Sciences to explore ways to: encourage/maintain participation in the NFIP, methods to educate consumers about the NFIP and flood risk, and methods for establishing an affordability framework for the NFIP, including implications of affordability programs for the NFIP and the Federal budget. The Academy estimates that it will likely take at least two years to complete the study due to the need to obtain data on policy-holders and their incomes.

There are steps the public can take to minimize their risk of damage should a flood occur, as well as to reduce premiums. FEMA's Hazard Mitigation Assistance (HMA) programs provide funds for projects that reduce the risk to individuals and property from natural hazards. These programs enable mitigation measures to be implemented before, during and after disaster recovery. Local jurisdictions develop projects that reduce property damage from future disasters and submit grant applications to the state. The states submit applications to FEMA based on state criteria and available funding. The HMA programs include:

- Hazard Mitigation Grant Program (HMGP) - The Hazard Mitigation Grant Program provides grants to implement long-term hazard mitigation measures after a major disaster declaration. The purpose of HMGP is to reduce the loss of life and property due to natural disasters and to enable mitigation measures to be implemented during recovery from a disaster.
- Mitigation Assistance Grants - The Mitigation Assistance Grants program provides funds from the National Flood Insurance Fund on an annual basis so that measures can be taken to reduce or eliminate risk of flood damage to buildings insured under the NFIP.

FEMA encourages property and business owners concerned about potential rate increases as a result of Biggert-Waters to contact their local community planning, emergency management or State Hazard Mitigation Officer to learn more about implementing these mitigation efforts.

Conclusion

FEMA administers the NFIP to help communities increase their resilience to disaster through risk analysis, risk reduction and risk insurance. The NFIP helps individual citizens recover from the economic impacts of flood events, while providing a mechanism to reduce exposure to flooding through compliance with building standards and encouraging sound land-use decisions.

FEMA looks forward to working with the Congress as Biggert-Waters is implemented.

Thank you again for the opportunity to appear before you today. I am happy to answer any questions you may have.

Testimony of Michael Hecht
President and CEO of Greater New Orleans, Inc.
Before
The House Financial Services Committee Subcommittee on Housing and Insurance
November 19, 2013

Good Afternoon Chairman Neugebauer, Ranking Member Capuano, and Members of the Subcommittee. It is an honor to speak to you today on the effects of rising flood insurance costs across the country. My name is Michael Hecht, and I am the President and CEO of Greater New Orleans, Inc., the 10-parish economic development organization for Southeast Louisiana. Since May 2013, GNO, Inc. has been leading the Coalition for Sustainable Flood Insurance, a national alliance formed to ensure that flood insurance will be both affordable and financially sustainable.

The Coalition for Sustainable Flood Insurance now represents nearly 200 business and trade associations and local governments in 27 states across America. We understand and appreciate the tremendous effort the Subcommittee and the Full Financial Services Committee put into a long overdue reauthorization of the National Flood Insurance Program (NFIP). We know it was a well-intentioned balancing of the interests of various regions of the country and budgetary constraints our government faces in revising this essential program. Our testimony today is not meant to criticize, but rather to highlight some serious inequities that even the co-author of the Act, Ranking Member Waters, has acknowledged.

GNO, Inc. and the Coalition for Sustainable Flood Insurance support a fiscally sound, actuarially responsible NFIP that communicates true risk to our citizens. None of us want perverse incentives for building in harm's way, nor do we advocate for the continued subsidization of severe repetitive loss properties. However, we have a moral and economic duty to protect property owners who have played by the rules and built as their government told them to, and in accordance with the government guidelines in effect at the time of construction. They should not lose their homes and businesses.

The goal of our Coalition is dual: first, to find an immediate solution to the challenges of the Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters Act); and second, to develop a long-term solution that works for America – an America in which all 50 states participate in the NFIP.

We are dealing with a problem of profound unintended consequences. A three-way confluence of the Biggert-Waters Act; incomplete FEMA maps that artificially inflate risk; and, questionable actuarial calculations, has led to premium increases of up to 3,000% and more – including massive rate increases for policyholders who have built as the government told them and have no history of flooding. These clearly unaffordable premium increases are not limited to properties with severe repetitive loss and wealthy beachfront homes: primary residences of all income levels that have never flooded are being negatively impacted. There are several examples in your packets that highlight these extreme increases. For example, a primary home real estate transaction fell through in South Louisiana because the flood insurance quote skyrocketed from just over $1,372 per year to $8,340 per year. In another example, a sergeant in the U.S. Army, stationed at MacDill Air Force Base in Tampa, Florida, purchased a home in Oldsmar, Florida worth $158,000. He was quoted a premium for $4307, a 431% increase from what the previous owner paid. This home has never flooded.

Due to the Biggert-Waters Act, dramatic premium increases are already being assessed on pre-FIRM properties (i.e., those built before flood maps were issued), and what may be even more troubling are the coming increases for grandfathered properties, which are set to increase beginning late next year. As new flood maps are rolled out across the country, premiums will begin to increase, in some cases dramatically, for properties that built to code at the time of construction. These increases are triggered with the adoption of new maps, which are including more and more properties in special flood hazard areas that previously had not been required to carry flood insurance. And while we know the number could be large – possibly over a million properties - it is impossible to truly know how many grandfathered properties will be impacted until FEMA flood maps across the country are adopted.

NFIP rates suddenly jumping as much as 3,000% in the middle of a mortgage – when the owner had no reason to anticipate this unaffordable increase when the original contract was signed - utterly contradicts typical insurance practice and reasonable expectation. And businesses and individuals do not have a choice - flood insurance along our coasts and rivers (areas that are critical to our economy) is often government-mandated.

Furthermore, the flood insurance rate maps that are being rolled out across the country are artificially inflating risk by excluding local flood protection features, like levees, from the maps. Not only does this falsely inflate risk for policyholders who are protected by local levees, it produces disincentives for local and state governments to invest in flood protection. FEMA is attempting to give partial credit to locally built levees by rolling out a pilot of the Levee Analysis and Mapping Procedure (LAMP) program, and I urge the Committee to work with FEMA and local governments to ensure that LAMP is developed in a way that allows maps to reflect true risk and that it is rolled out efficiently and effectively across the country as soon as possible.

Finally, the calculations we are seeing simply don't make actuarial sense. For example, a homeowner in St. Petersburg, Florida is trying to sell her primary home, which is valued at $250,000, but cannot because the flood insurance premium will escalate from $1,074 to $10,872 per year. This home has never flooded. The question is – if the FEMA Base Flood Elevation is indexed to a 100-year storm, then why is this family being charged a premium that would pay for full replacement every 23 years? The actuarial calculation doesn't make sense.

If dramatically rising flood insurance premium increases are left unchecked, the consequences are clear and devastating. Owners will lose their homes, values of scores of unsellable properties will plummet, bank portfolios will go bust, real estate markets will freeze, local tax bases will erode, and economies will be eviscerated. Ironically, this will ultimately destroy NFIP itself, as policyholders will be forced into foreclosure and leave the program in droves, sending it into a death spiral.

The good news is that there is a bi-partisan solution emerging in the House and Senate to address these unintended consequences. H.R. 3370, the Homeowner Flood Insurance Affordability Act, delays premium increases for four years, until FEMA has an opportunity to complete the affordability study mandated in the Biggert-Waters Act and Congress has an opportunity to consider the recommendations put forth in the study. The legislation was introduced just three weeks ago and already has over 100 co-sponsors from across the country. This is common sense legislation – we should understand the potential impact of the Biggert-Waters Act before we implement it - and I urge you to bring it up for consideration as soon as possible.

I encourage this Committee to act immediately to protect the American economy and the investments of taxpaying citizens by bringing up for consideration H.R. 3370, the Homeowner Flood Insurance Affordability Act. If we do not, the National Flood Insurance Program will grievously harm the very Americans it was designed to protect.

In conclusion, to implement the Biggert-Waters Act as it currently stands would be economically unwise and morally unjust. We must do better.

Thank you.

FARM BUREAU INSURANCE

SFB INSURANCE PROGRAMS
PO BOX 912519
DENVER, CO 80291-2519

Date	Type	Tracking Number	EffectiveDate	Expiration Date	Waiting Period
10/24/2013	New	0020018229	10/25/2013	10/25/2014	Loan Closing

WARNING: In order to hold the closing date as the effective date, this quote must be converted to an application prior to the time of closing.

PropertyAddress	Insured Name(s)	Mailing Address and Phone	Agency Name, Address, and Phone
HIGHWAY 55 MONTEGUT, LA 70377-2221		HIGHWAY 55 MONTEGUT, LA 70377-2221	LOUISIANA FARM BUREAU CASUALTY INS CO PO Box 1592 RIDGELAND, MS 39157

Property Description

Home Phone:
Work Phone:
Cell Phone:
Email:

Phone Number: 800-647-8052
Producer Code: LAFB
Email: CLEDET@SFBCIC.COM

Flood Zone and Community Information

CommunityName: TERREBONNE PARISH*
Current Flood Zone: A15
Community Number: 225206
Map Panel Suffix: C
Map Panel: 0130

FIRM Date: 11/20/1970
Program Status: Active and participating
Current Base Flood Elevation (BFE): 9.0
Grandfathered Base Flood Elevation N/A
County: TERREBONNE

Occupancy Information

Occupancy Type: Single Family

Foundation Information

Foundation: Slab on Grade

Risk Rating Method: *Submit for Rate*

Post-FIRM: Yes
Pre-FIRM, Rated As Post-FIRM: No

Coverage/Rate Information

	Coverage	Deductible	Basic Coverage	Basic Rate	Add'l Coverage	Add'l Rate
Building	$183,000	$2,000	$60,000	9.62	$123,000	1.11
Contents	$20,000	$2,000	$20,000	6.84	$0	0.74

Premium Information

** Quote Only, Not An Application * Quote Only, Not An Application **

Deductible	Premium
$1000 / 1000	$9010
$2000 / 1000	$8564
$2000 / 2000	**$8340**
$3000 / 1000	$8116
$3000 / 2000	$7894

** Quote Only, Not An Application * Quote Only, Not An Application **

NFIP Direct Servicing Agent
7701 College Blvd, Overland Park, KS 66210-1866

FLOOD INSURANCE QUOTE

Quoted with an effective date of: **11/04/2013**

Insurance Agent/Producer Agency ID: 0593244708

Lizette Cochran Insurance Agency Inc
3031 E Lake Rd
Palm Harbor, FL 34685-2417

TEL: 727-786-1882 Email: lizette.cochran.a8mq@statefarm.com

Name and Mailing Address of Insured

South
Oldsmar, FL 34677-2721

Subject Property

Hibiscus Circle South
Oldsmar, FL 34677-2721

Product Type

[X] Standard Flood [ ] Mortgage Portfolio Protection Program (MPPP)
[ ] Residential Condo Bldg Assoc Policy (RCBAP) [ ] Scheduled Building

Rating Description

Building occupancy:
[X] Single Family
[ ] 2-4 Family
[ ] Other Residential
[ ] Non-Residential (including Hotel/Motel)

Basement, enclosure, or crawlspace below an elevated building?
[X] None
[ ] Finished Basement/Enclosure
[ ] Unfinished Basement/Enclosure
[ ] Crawlspace
[ ] Subgrade Crawlspace

Number of floors in entire building (include basement or enclosed area, if any), or building type:
[X] 1 Floor [ ] 2 Floors
[ ] 3 or more [ ] Split Level
[ ] Townhouse/Rowhouse (RCBAP Lowrise Only)
[ ] Manufactured (Mobile) Home on Foundation

Condominium Form of Ownership?
[ ] Yes [X] No

Condo coverage is for:
[ ] Unit [ ] Entire Building

Number of Units:
[ ] High-Rise [ ] Low-Rise

Contents Location:
[ ] Basement/enclosure only
[ ] Basement/enclosure and above
[X] Lowest floor only above ground level
[ ] Lowest floor only above ground level and higher
[ ] Above ground level more than one full floor
[ ] Manufactured (Mobile) Home

Construction, Placement or Substantial Improvement Date: **07/01/1974**
[ ] Building Permit Date [X] Date of Construction [ ] Substantial Improvement Date
[ ] Manufactured (mobile) home located in a mobile home park/subdivision, construction date of park or subdivision facilities
[ ] Manufactured (mobile) home outside a mobile home park/subdivision, date of permanent placement

Location Information

Community Name: **OLDSMAR, CITY OF** Community No.: **120250**

Status: **Participating** CRS Discount Pct.: **20** Firm Zone: **AE** Elevation Difference: **-2**

Flood Zone Certificate ID:

Coverage and Rating Information

Coverage Type	Coverage Limit	Deductible	Rate	Deductible Discount	Premium
Building	188,000	$2,000	5.02/.94	-316	3,899
Contents	94,000	$2,000	3.20/.63	-93	1,142

Rate Type:
[ ] Manual [X] Submit for Rating [ ] FEMA Rates
[ ] Alternative [ ] V-Zone Rating Form [ ] SRL Rates
[ ] MPPP Rating [ ] Optional Post 1981 V Zone Rating
[ ] Provisional Rating [ ] Tentative Rating
[ ] Underinsured Condominium Master Policy

Coverage D Premium (ICC)	34
Annual Subtotal	5,075
CRS Discount	-1015
Reserve Fund 5 %	203
Probation Surcharge	0
Expense Constant	0
Federal Policy Fee	44
Total Premium	$ 4,307

Deductible Options

This table reflects optional premiums for this Quote if a different deductible were selected.

Deductible	Premium
1000/1000	SFR
3000/3000	SFR
4000/4000	SFR
5000/5000	SFR

THIS QUOTE FORM IS NOT TO BE USED AS AN APPLICATION FOR FLOOD INSURANCE
This quoted premium is subject to verification or adjustment by the company.
No coverage is provided or implied by this document.

Quote ID: **11861504** Create Date: **10/23/2013** Created By : **Kathy Holland** PDA (11/03)

Standard Flood Non-Binding Quote

FIRST COMMUNITY INSURANCE COMPANY

Quote Detail

Effective - Expiration Date	Quote Number
[illegible]	[illegible]

Agency Detail

Agency	COMMONWEALTH INSURANCE INC ([illegible])
Address	4175 WOODLANDS PKWY PALM HARBOR, FL 34685-[illegible]
Phone Number/Email	([illegible])707-8151 [illegible]@yahoo.com

Community Detail

Community	125149 ST. PETE BEACH, CITY OF
Flood Zone	AE

Property Detail

Property Address	[illegible] ST PETE BEACH, FL 33706-[illegible]
Date of Construction	01/01/[illegible]
Building Replacement Cost	$ 145,[illegible]
Occupancy Type	Single Family
Building Type	One Floor
Elevation Certificate	Yes
Building Flood Proofed	No
Basement / Enclosure or Crawl Space	None
Building Elevated	No
Lowest Floor Elevation	4.2 feet
Elevation Difference	-8 feet
Location of Contents	Lowest Floor Only - Above Ground Level
Condominium Coverage	None

Coverage & Premium Detail

Coverage	Basic Limits: Amount of Insurance	Basic Limits: Rate	Basic Limits: Annual Premium	Additional Limits: Amount of Insurance	Additional Limits: Rate	Additional Limits: Annual Premium	Deductible: Premium Adjustment	Deductible	Total Amount of Insurance	Total Premium
Building	60,000	14.[illegible]	8,[illegible]	8[illegible],000	2.[illegible]	2,4[illegible]	1,000	0	14[illegible],000	11,[illegible]
Contents	5,000	12.[illegible]	6[illegible]	0	1.18	0	1,000	0	5,000	6[illegible]

Annual Subtotal	11,[illegible]
ICC Premium	[illegible]
CRS Premium Discount 15 %	-1,[illegible]
Reserve Fund 5.0000 %	[illegible]
Probation Surcharge	0
Federal Policy Fee	4[illegible]
Total Premium Due	[illegible]

Special Notes

** Policy includes increased cost of compliance (ICC) coverage
15% Community Discount Applied

THIS IS NOT AN OFFER FOR INSURANCE.
THIS QUOTE IS SUBJECT TO CHANGE WITH VERIFICATION BY THE COMPANY.

The online application process must be completed.
Please do not submit this form with your payment.

Flood Non-Binding Quote

FIRST COMMUNITY INSURANCE COMPANY

Quote Detail

Insured	Effective - Expiration Date	Quote Number
WENDY LOCKHART	10/2[illegible]/2013 - 10/2[illegible]/2014	[illegible]

Coverage Rejection

I hereby certify that my agent offered primary flood insurance through FIRST COMMUNITY INSURANCE COMPANY. I understand that because I declined to purchase this coverage, my agent will be held harmless and not liable in the event of a loss.

I understand my rejection of this coverage will apply to all future renewals, continuations and changes unless I notify you otherwise in writing.

☐ I decline building coverage

☐ I decline contents coverage

Print Name of Insured

Signature of Insured

Testimony on:

Implementation of the Biggert-Waters Flood Insurance Act of 2012: Protecting Taxpayers and Homeowners

Douglas Holtz-Eakin, President*
American Action Forum

Committee on Financial Services
Subcommittee on Housing and Insurance
U.S. House of Representatives
November 19, 2013

*The views expressed here are my own and not those of the American Action Forum. I thank Satya Thallam for his assistance in preparing this testimony.

Chairman Neugebauer, Ranking Member Capuano and members of the Subcommittee thank you for the privilege of appearing before you. In this testimony, I hope to make three main points:

- The National Flood Insurance Program (NFIP) has a history of underpricing that has produced chronic program financial deficits and poor economic incentives;

- The Bigger-Waters Insurance Reform Act of 2012 undertook the desirable reforms of updating and making more accurate the flood maps used in assessing risk and adjusting premiums to more accurately reflect risk. The basic character of these reforms should be preserved; and

- There are policy options regarding the transition to accurate insurance rates or complements to improved insurance pricing that Congress may wish to consider.

In what follows, I will elaborate.

Introduction

In an attempt to create a robust national market in flood insurance in 1968 Congress created the National Flood Insurance Program (NFIP). Over time, this program would experience significant growth to the point where it is now "one of the longest standing government-run disaster insurance programs in the world."[1]

The creation of the NFIP followed a previous attempt by Congress – the Federal Flood Insurance Act of 1956 – to facilitate a primarily private flood insurance market. This Act met with little interest owing to the peculiarities of this type of insurance, in particular the fact that policyholders' losses occur at the same time. The result is that losses "are low or nonexistent in some years and then sky-high in other years."[2]

The average amount of coverage per policy, the population in coastal and other high risk areas, and insurance take up rates have all increased over the life of the program, resulting in significant growth overall in the size and scope of the NFIP.

The Nature of Flood Insurance

The cost, or expected payout, for a flood insurance program is driven by two components:

- Flood risk. The likelihood of major weather and geological events that cause flooding is controlled by nature. However, the way these risks are reflected in

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[1] Erwann O. Michel-Kerjan, "Catastrophe Economics: The National Flood Insurance Program," *Journal of Economic Perspectives*, Vol. 24, Iss. 4, pp. 165-86, Fall 2010.
[2] *Ibid.*

insurance pricing is dependent on the accuracy of Flood Insurance Rate Maps (FIRMs), weather modeling, and other predictive measures. Outdated assessments lead to underpricing, program financial shortfalls, and growing long-term program debt.

- Behavioral choices. People ultimately choose where build and how much value to put at risk. The location of new construction, the size and value of buildings constructed, the steps taken to mitigate risk, and so forth are all economic decisions influenced by the risk borne by private sector decision makers. While no one chooses when and where a storm will hit, someone *does* decide if they will build or live in a particular area. This nonrandom portion of risk is affected by public actions (public infrastructure such as levees), private actions (building enhancements mitigate impact), and hybrid actions (local zoning ordinances). The issue is not whether a person ought or ought not live in a particular area, but the cost of doing so. As one economist recently put:

> *Subsidized premiums encourage the over-population of flood-prone regions, as well as discourage residents of those areas from taking appropriate care to protect their properties from flood damage...Allowing these premiums to rise to unsubsidized levels would – by encouraging people to make more prudent decisions regarding where to live and about how to protect their properties – reduce both the property damage and the number of fatalities caused in the future by storms, heavy rains, and swelling rivers.*[3]

Proper pricing of flood insurance risk means that construction decisions are fully informed by the likely costs. If so, the location and scale of construction will put at risk value equal to the cost of insurance. Accordingly, premiums will on average cover the losses due to disaster. A consistent pattern of shortfalls suggests that premiums are too low and excess value is being put at risk.

The Financial Condition of the NFIP

There are essentially three phases to the financial history of the National Flood Insurance Program. From the program's inception to 1986, its operations were supplemented by Congressional appropriation. From 1986 until 2005, the program was self-sustaining through policy premiums and fees. However, "in 2005, the NFIP incurred approximately $17 billion in flood claims caused by Hurricanes Katrina, Rita, and Wilma."[4] In 2005 alone, losses exceeded premiums by $15.5 billion.[5] Under the conditions of the program interest

[3] Donald Boudreaux, "Premium Politics," Open Letter to Sen. Robert Menendez, *Café Hayek*, blog post, October 31, 2013, http://cafehayek.com/2013/10/premium-politics.html.
[4] Rawle O. King, "National Flood Insurance Program: Background, Challenges, and Financial Status," Report 7-5700, Congressional Research Service, July 1, 2011, http://www.fas.org/sgp/crs/misc/R40650.pdf.
[5] NFIP statistics, calculated by author.

is owed on funds borrowed to cover program deficits, which further deepens the financial hole.

As a recent Government Accountability Office (GAO) report put it:

> *The potential losses generated by NFIP have created substantial exposure for the federal government and U.S. taxpayers. While Congress and Federal Emergency Management Agency (FEMA) intended that NFIP be funded with premiums collected from policyholders and not with tax dollars, the program was, by design, not actuarially sound. As of November 2012, FEMA owes the Treasury approximately $20 billion—up from $17.8 billion pre-Sandy—and had not repaid any principal on the loan since 2010.*[6]

In January of this year, Congress increased the program's borrowing authority to $30.4 billion in order to meet immediate and ongoing needs related to Superstorm Sandy. This represented an increase of $9.7 billion, or nearly 47 percent.[7]

The GAO report goes on to say this underfunding and heavy borrowing need was predictable given "structural weaknesses" in the program.[8] In fact, by at least one measure of the financial health of the program - cumulative "total operating result"[9] - the NFIP has never been in the black. Since the program is not run as a profit-making enterprise, this shouldn't be too much of a surprise. However, this cumulative total operating result has been growing more negative over time.[10] An appropriately operated program should have a total operating condition that hovers around zero. In inflation-adjusted terms, the NFIP "has continuously been running a deficit since its inception in 1968."[11] That cumulative deficit was $1.5 billion in 2004, which may have been manageable, before the major events of 2005 hit.

As the figures in the appendix illustrate, the NFIP has grown inexorably larger on almost all margins over time: total coverage amount, number and total losses paid out, number of policies, losses per policy, and coverage per policy have all increased substantially since 1978, and continued to increase since 2005. Between 1978 and 2012 there was a $1.24 trillion increase in total coverage and $194,791 increase in coverage per policy. More

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[6] U.S. Government Accountability Office, "High Risk Series: An Update," Report to Congressional Committees, GAO-13-283, February 2013, http://www.gao.gov/assets/660/652133.pdf.
[7] *Ibid.*
[8] *Ibid.*
[9] Total operating resultThis is calculated as: (premiums + other earnings) – (claims + operating expenses).
[10] *Supra* note 1, at figure 3.
[11] *Supra* note 1.

recently, from 2006 to 2012 there was a $239 billion increase in total coverage and $38,573 increase in coverage per policy.[12]

It can be tempting to look at 2005 and 2012 as relatively freak events, unlikely to repeat in the near future. Unfortunately, similar events are bound to occur in the future. Another Hurricane Katrina or Superstorm Sandy, whenever it occurs, may take with it any hope that the National Flood Insurance Program can be saved. That is, unless necessary reforms can be implemented without delay.

The Biggert-Waters Insurance Reform Act of 2012

Congress undertook reforms in the Bigger-Waters Insurance Reform Act of 2012. The Act has been interpreted as the source of higher costs – a news story last month highlighted various homeowners facing rising flood insurance premiums.[13] It is typical of many stories that single out the impact of rising premiums, especially for those in high-risk coastal areas. These stories miss the key point: the costs are not new; they are simply beginning to be reflected in the price of insurance. Ultimately, the costs of the NFIP are paid – either by spreading them among policyholders, or by taxpayers who will end up footing a larger and larger bill over time.

The recent reforms simply reduce the cross-subsidization of risk and more closely align risk and price for policyholders. The main thrusts of the recent NFIP reform is primarily two-fold:

- Update and make more accurate the flood maps used in assessing risk; and
- Adjust premiums to more accurately reflect risk

These objectives should be wholeheartedly applauded. By eliminating subsidized rates on new policies and loss repeating properties, reform goes a long way toward a more sustainable flood insurance program. However, as the GAO notes, even if the program's current debt obligations were completely forgiven, rate increases for subsidized policies would necessitate 150 to 325 percent increases to generate sufficient reserves.[14]

Policy Options

From an economic perspective, the preferred policy is a program that accurately assesses risks and aligns program premiums with expected costs. While the recent reform

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[12] NFIP data, calculated by author.

[13] Les Christie, "Flood insurance costs soaring for thousands of homeowners," CNNMoney.com, October 21, 2013, http://money.cnn.com/2013/10/21/real_estate/flood-insurance/.

[14] *Supra* note 6.

legislation moves towards that goal, in recent months there has been significant pushback on implementation of the reform.[15] There are, however, options that may improve the financial condition of the NFIP, move toward the preferred policy, but generate less near-term disruption.

Grandfather existing policies. Although this has the disadvantage of accepting underfunding of existing policies, it avoids rate shock. For new buyers of existing properties and new construction, the reformed actuarial rate would be fully applicable. Notice that because buyers will recognize their higher flood insurance premiums, bids for risky property will be reduced. This eases the net financial burden on the buyer and sends the market signal that less value should be exposed to flood risk.

Existing policyholders could still be subject to rate increases, but these increases could be capped at a maximum, say 10 or 20 percent, per annum. Taken together, the policy of unsubsidized rates for new buyers and builders and a gradual phase-in for existing policies will arrest the growth in underfunding of the overall program, properly align incentives for future development and population location, and gradually bring the program into operational solvency.

Give more discretion to states. Participation in the flood insurance program is subject to community adherence to building standards and certain disaster readiness concerns. As mentioned above, the damage done by flooding is determined by nature, as well as private and public decisions. Portions of the program could be devolved to the states, such as gathering necessary data for updating of the flood maps, verification of coverage, etc.

Additionally, actual flood risk is affected by levees, dams, and other infrastructure that may more appropriately provided by state and local authorities. Under the NFIP, federal taxpayers pick up the bill, leaving states with insufficient incentive to provide this infrastructure.

In order to provide the proper incentives, the state-by-state difference between NFIP premiums actually paid and the appropriate premium amount could be calculated over a fixed, rolling time frame (for example, 10 years). This amount could then be offset (in whole or part) with reduced funding in the FEMA emergency grant formula. This effectively uses reduced subsidies in one kind of insurance – FEMA post-event disaster relief is a *de facto* insurance – to offset subsidies in another.[16]

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[15] For example, the group "Stop FEMA Now" and legislation introduced by Sen. Mary Landrieu (http://www.landrieu.senate.gov/?p=press_release&id=3751).

[16] Robert Litan, Sharing and Reducing the Financial Risks of Future 'Mega-Catastrophes,'" Issues in Economic Policy No. 4, Brookings Institution, March 2006, http://www.brookings.edu/~/media/research/files/papers/2006/3/business%20litan02/200603_iiep_litan.pdf.

Means-test premium increases. Popular opposition to the reform stems from the saliency of rate increase shock. Although the reform allows for a gradual phase-in, even modest percentage increases in rates may be especially difficult for low-income or liquidity-constrained policyholders to afford. A more income-based phase-in could mollify much of the pushback. If income verification proves impractical, property value (if an owner-occupied first home) could be a useful proxy, with full rate increases for second or vacation homes.

Mitigation credits. Expected program costs are affected when policyholders take steps toward risk mitigation. If premiums do not reflect the lower risks, homeowners may not undertake desired mitigation. NFIP could provide credits on rates or deductibles with proof of having taken some of these steps (the program already provides premium reduction credits for community-based activities).[17] These credits could also be income-scaled.

Thank you and I look forward to answering your questions.

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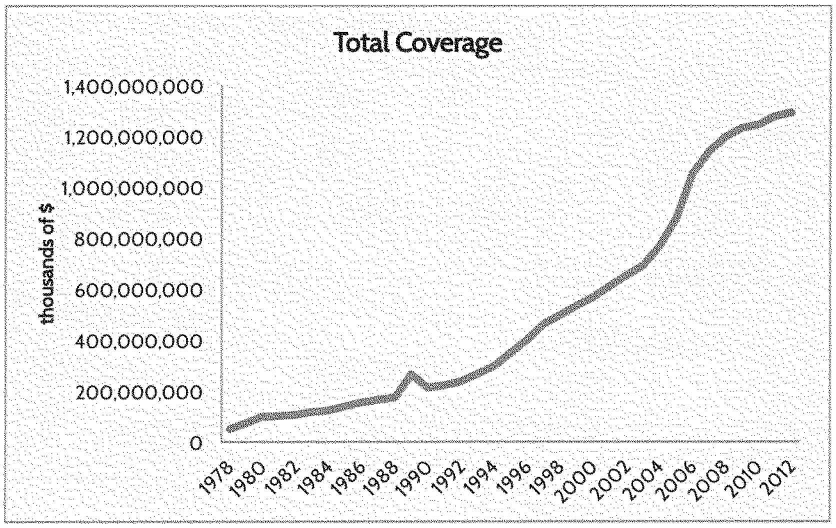
[17] "National Flood Insurance Program Community Rating System," Federal Emergency Management Agency, updated 11/05/2013, http://www.fema.gov/national-flood-insurance-program-community-rating-system.

Appendix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1,200,000,000
1,000,000,000
800,000,000
600,000,000
400,000,000
200,000,000
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thousands of $
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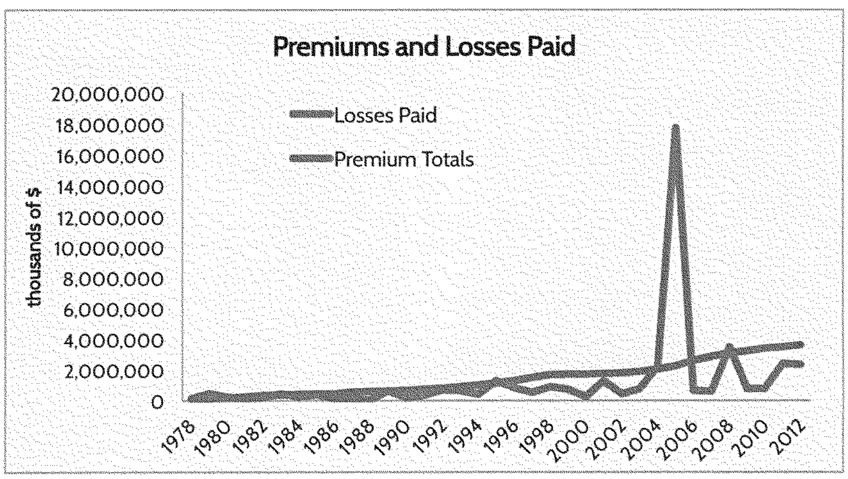
2010
2012


Premiums and Losses Paid
Losses Paid
Premium Totals
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18,000,000
16,000,000
14,000,000
12,000,000
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8,000,000
6,000,000
4,000,000
2,000,000
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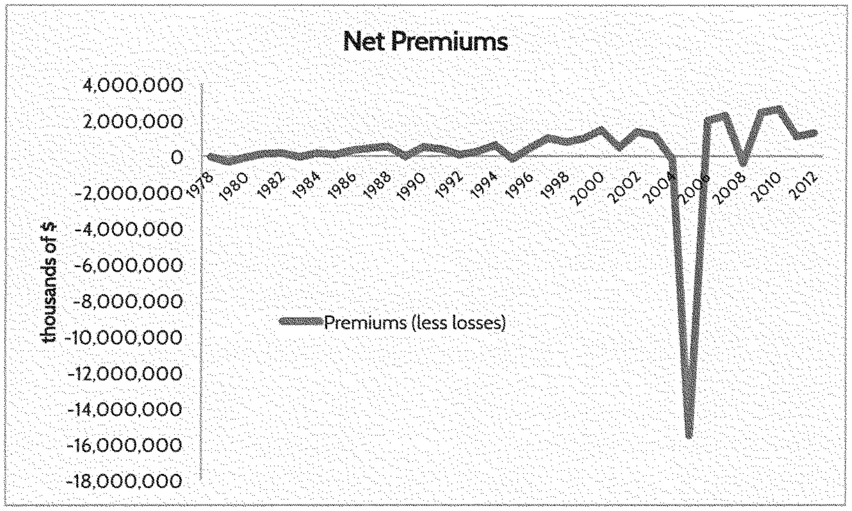
2004
2006
2008
2010
2012


Net Premiums
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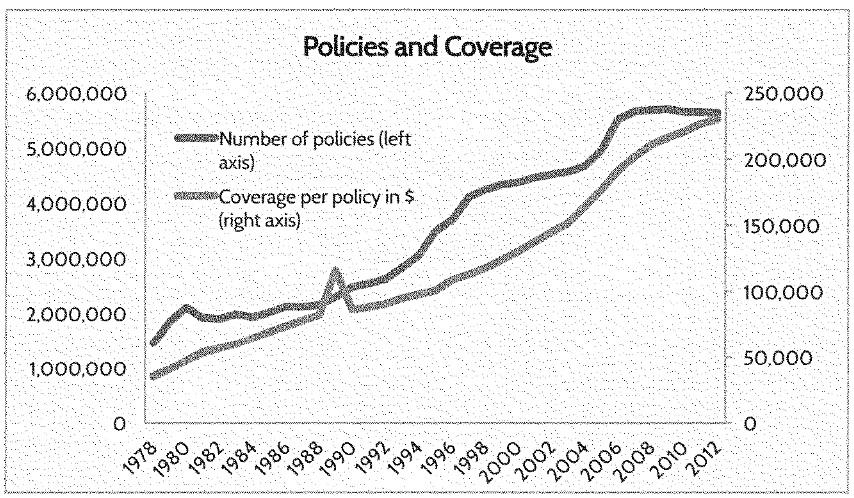
2,000,000
0
-2,000,000
-4,000,000
-6,000,000
-8,000,000
-10,000,000
-12,000,000
-14,000,000
-16,000,000
-18,000,000
thousands of $
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
Premiums (less losses)


Policies and Coverage
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5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
0
250,000
200,000
150,000
100,000
50,000
0
Number of policies (left axis)
Coverage per policy in $ (right axis)
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1982
1984
1986
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1992
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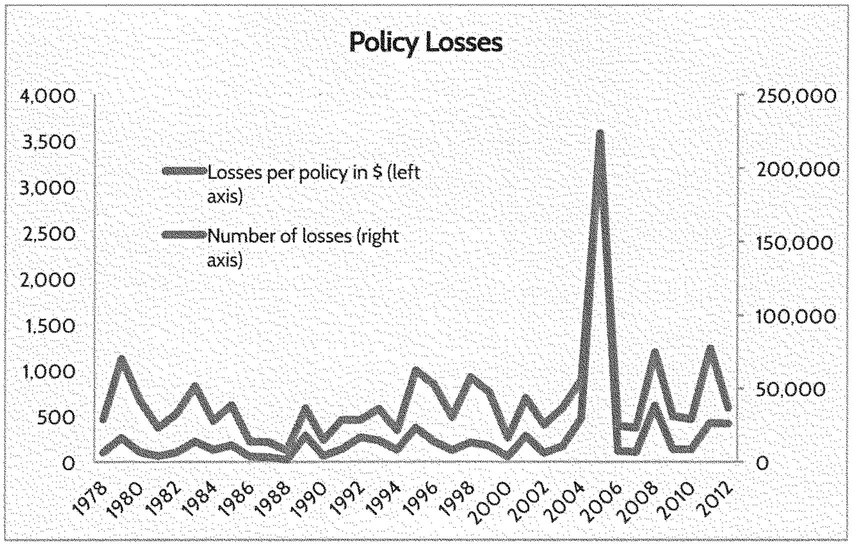
2002
2004
2006
2008
2010
2012


Policy Losses
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3,500
3,000
2,500
2,000
1,500
1,000
500
0
250,000
200,000
150,000
100,000
50,000
0
Losses per policy in $ (left axis)
Number of losses (right axis)
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012

National Association of Home Builders

Testimony of Barry Rutenberg
On Behalf of the
National Association of Home Builders

Before the
House Financial Services Subcommittee on
Insurance and Housing

Hearing on

"Implementation of the Biggert-Waters Flood Insurance Act of 2012: Protecting Taxpayers and Homeowners"

November 19, 2013

Chairman Neugebauer, Ranking Member Capuano, Members of the Subcommittee on Housing and Insurance, I am pleased to appear before you today on behalf of the National Association of Home Builders (NAHB) to share our concerns with the implementation of the Biggert-Waters Flood Insurance Reform Act (Biggert-Waters Act). NAHB appreciates the opportunity to offer some solutions and comment on several legislative proposals. My name is Barry Rutenberg and I am a home builder from Florida and NAHB's Immediate Past Chairman of the Board.

NAHB represents over 140,000 members who are involved in building single family and multifamily housing, remodeling, and other aspects of residential and light commercial construction. Collectively, NAHB's members employ over 1.26 million people and construct approximately 80 percent of all new housing in America each year. As a leading advocate for the residential construction industry, NAHB promotes policies that maintain housing as a national priority.

Since 1968, the Federal Emergency Management Agency's (FEMA) National Flood Insurance Program (NFIP) has played a critical role in directing the use and development of flood-prone areas and managing the risk of flooding for residential properties. NAHB members depend upon the NFIP to be annually predictable, universally available, and fiscally viable. A strong national flood insurance program helps ensure that the housing industry can continue to provide safe, decent, and affordable housing to consumers.

While NAHB supported the passage of the Biggert-Waters Act to ensure the continuation of the NFIP program, NAHB's members from across the country are extremely concerned about the dramatic flood insurance premium rate increases that are now occurring as well as the negative impact these increases are having on the sale, construction, and remodeling of homes in affected communities.

BACKGROUND:

The NFIP provides flood insurance to over 5.6 million policyholders nationwide, enabling homeowners to protect their properties and investments against flood losses. The NFIP also creates a strong partnership between state and local governments by requiring them to enact and enforce floodplain management measures, including building requirements that are designed to ensure occupant safety and reduce future flood damage. This partnership, which depends upon the availability of comprehensive, up-to-date Flood Insurance Rate Maps (FIRMs) and a fiscally solvent federal program, allows local communities to direct development where it best suits the needs of their constituents and consumers.

This arrangement has, in large part, worked well. Unfortunately, the losses suffered in the 2004 and 2005 hurricane seasons, including the devastation brought about by Hurricanes Katrina, Rita and Wilma, and most recently, Superstorm Sandy, have severely threatened the solvency of the NFIP, now $24 billion in debt to the U.S. Treasury.

The Biggert-Waters Act was enacted last year to provide a five-year reauthorization of the NFIP and ensure the long-term fiscal stability and soundness of the program. While NAHB supported many of the reforms as necessary for the viability of the overall flood insurance program, we expressed concerns about the impact the changes could have on insurance availability and affordability.

Unfortunately, now that the Biggert-Waters Act is being implemented, NAHB's concerns about the unintended economic consequences that could occur in specific housing markets are proving to be true.

BIGGERT-WATERS ACT FLOOD INSURANCE RATES:

As part of the effort to ensure the fiscal soundness of the NFIP, the Biggert-Waters Act mandates that all policyholders will eventually pay the full actuarial risk rate for their properties. While most properties insured by the NFIP already pay full-risk rates, just over 20% of policyholders receive subsidized rates, generally paying between 40-45% of the actuarial premium. Those rates tend to belong to structures (known as pre-FIRM) that were built pre-1974, or before the first FIRMs were established for a respective community. FEMA has also allowed "grandfathered" properties to pay less than the actuarial rate. Grandfathered policyholders are those who are allowed to continue paying lower-risk premium rates because their home was built to meet previous flood risks, even if a more recent flood map has located them in a higher-risk zone.

Under the Biggert-Waters Act:

- Any pre-FIRM or grandfathered property that is sold will immediately shift to a full-risk rate.
- All pre-FIRM business and severe repetitive loss (SRL) policyholders will see a phase-in to the full-risk rate over four years (with premiums increasing 25% of the full-risk rate on the annual renewal date (effective October 1, 2013)). Similar rate increases for policies on second homes began on January 1, 2013.
- All pre-FIRM and grandfathered policyholders will see a phase-in to the full-risk rate over five years (with premiums increasing by 20% of the full-risk rate each year), after FEMA redraws all flood maps using scientifically based data to show the true risk of flooding, and provide a clearer picture of where actuarial rates should be set.
- Any pre-FIRM or grandfathered properties that undergo renovation resulting in "substantial improvement" of 30% or more of the market value of the structure will see a phase-in of the full-risk rate over four years (with premiums increasing 25% of the full-risk rate a year).

As these changes are put into effect, NAHB is hearing from members across the country who are distraught over the dramatic rate increases their customers are facing. In fact, some members are already seeing rates increased by more than ten times what they were previously paying.

For example, a builder in Louisiana bought a home and due to inaccurate mapping the flood insurance rates on his home have increased from $412 to the full-risk rate of over $13,000. Another New Orleans couple had to cancel the purchase on their first home due to flood insurance rates increasing from $2000 to $6550. The combination of inaccurate mapping into higher risk zones and the immediate shift to full-risk rates at the time of sale have resulted in increases that have priced prospective buyers out of their developments and forced the cancellation of sales negatively impacting the local economy. (See Appendix A)

Rate Increases on Sales of Homes

NAHB believes a financially stable NFIP is in the nation's best interest, yet we are alarmed by the impact these extreme rate increases are having on the housing industry and the overall economy. The immediate adjustment of flood insurance premium rates to actuarial rates at the time of purchase is already deterring prospective homebuyers from purchasing pre-FIRM properties. Further, the prospect of higher flood insurance rates may decrease property values in floodplains, as prospective buyers will factor the immediate increase into the price of the property. We have already heard of cases in Pennsylvania, Florida, Louisiana, Massachusetts, North Carolina, and South Carolina where pending sales were canceled at the last minute because of sticker shock over the marked increase in flood insurance rates. (See Appendix B)

Because NFIP's mandatory purchase requirement stipulates that all federally backed mortgages located within Special Flood Hazard Areas (SFHAs) be covered by flood insurance, NAHB is concerned that many prospective homebuyers could be prevented from qualifying for a mortgage under normal mortgage underwriting standards. Using NAHB's Household Priced-Out Model, we estimate that nearly two million households could be priced out of the market because they can no longer qualify for a traditional residential mortgage under the slated rate increase for pre-FIRM properties.

Concerns about affordability also stem from the fact that over 17 million Americans live in the 100-year SFHA. According to a recent U.S. Department of Housing and Urban Development (HUD) study, over 40% of these households were categorized as being Low to Median Income (LMI). These households are going to find any increase in NFIP rates unaffordable, effectively pricing them out of the NFIP and possibly their homes.

Given the current state of tight credit conditions, which are preventing many prospective homebuyers from even qualifying for a mortgage, it is clear that requiring full-risk rates to be paid upon sale or transfer for historically subsidized and previously grandfathered properties will have a negative impact on many local housing markets at a time when the U.S. housing recovery remains fragile and uneven.

Moreover, those effects will not be limited to the sale of existing homes; it will also impede the sale of new homes in communities with pre-FIRM and grandfathered properties. Homeowners may be unable to sell their current homes, and may be removed from becoming "move-up buyers" of newly constructed homes.

Although the brunt of the effects will be experienced by those who hope to purchase older properties, the trickle-down effects will harm states, municipalities, developers, builders, remodelers, real estate agents, neighbors and ultimately, property owners.

Phase-in for Non-Primary Residences

Non-primary residences (second homes) play an important role in the economy. NAHB estimates that the dollar value of the stock of vacation homes in the U.S. is more than $1.4 trillion. Further, those homes generate on average more than $14 billion in annual property tax revenue.

Unfortunately, the rate changes being implemented under the Biggert-Waters Act are leaving many second homes unaffordable for their owners. For example, a house in Top Sail Beach, North Carolina, had an annual premium of $3,300 since 2011 that has increased to over

$15,000 in 2013. Over the next four years, it is anticipated that this property's annual premium will increase to over $59,000. Such drastic increases have left many families around the country reeling. (See Appendix C)

While many believe that second homes are all expensive beach properties, the reality (according to the 2011 Consumer Expenditure Survey) is that the median income of families with a second home is a modest $71,344. Middle class families who own a place to get away for the weekend, like a fishing or hunting cabin, are the ones facing significantly higher rates. Additionally, there are many instances where families may have no choice about having a second property that needs flood insurance. For example, in this fragile economy it is not unheard of for a family to relocate for a job to a new home in a different town while not being able to sell their other home, and both properties would require flood insurance.

Making matters worse for many families, FEMA has also changed the definition of second homes to "a building that will not be lived in by the insured or the insured's spouse for at least 80% of the 365 days following the policy effective date."

Under their new definition, a resident must spend 80% of the year (or 292 days) in one residence to qualify it as their primary home. That means that if they spend more than seventy-three days living somewhere else during a given year they might end up with both homes designated as non-primary residences for flood insurance rates. This is extremely troubling for my home state of Florida which is a haven for the so-called "snowbirds"; many of whom have two homes in flood-zones; and as a result will face the new premium increases on both homes.

This will also affect our men and women in uniform – who may own a home, but rent it out while they are deployed – and anyone who splits their time between two residences during the week for work (as many who live outside major metropolitan areas do to avoid a long commute during the workweek).

FEMA'S Affordability Study

Recognizing that the changes to NFIP premium rates could have a big impact on consumers, the Biggert-Waters Act requires FEMA to contract with the National Academy of Sciences (NAS) to conduct an economic analysis of the costs and benefits of a flood insurance program with full-risk based premiums. The Affordability Study was to be completed by April 6, 2013, but that deadline was not met. FEMA has proceeded with the implementation of the higher premium rates called for by the Biggert-Waters Act citing the "strict" deadlines that it must adhere to, while blatantly ignoring the deadline for the cost-benefit study on those changes.

NAHB is concerned that many of the future rate increases depend on the costs and analysis that will be included in the Affordability Study and the breadth of areas added by the remapping process. As this information is not yet available, it is impossible for NAHB or Congress to have a true understanding of the economic impact the Biggert-Waters Act will have on homeowners and how many people will be affected.

Recommendation

NAHB recommends that Congress delay all flood insurance rate increases until FEMA completes the Affordability Study as required by the Biggert-Waters Act. After completion of the study, FEMA will have a better understanding of how rate increases will affect policyholders and be better equipped to provide Congress suggestions on how the NFIP can address affordability issues. Further, NAHB recommends that Congress urge FEMA to adopt a definition of primary residences (and by application non-primary residences) to reflect that in the federal income tax regulations.

While NAHB understands that a delay in rate increases may not be the most ideal solution for the long term fiscal stability of the NFIP, FEMA's lack of concern for affordability is undercutting the effectiveness of the program and causing unnecessary economic distress on homeowners and their communities.

REMAPPING UNDER THE BIGGERT-WATERS ACT:

NAHB strongly supports the requirement in the Biggert-Waters Act for FEMA to redraw flood maps using scientifically based data to show the true risk of flooding and provide a clearer picture of where actuarial rates should be set. However, NAHB remains concerned with how FEMA is implementing the remapping process.

For flood maps to be fair and accurate, they have to take into account all flood control efforts, like levees and dams. In many cases, FEMA has neglected to factor in privately funded flood control structures, or any flood control structures that were not built by the U.S. Army Corps of Engineers. Consequently, many properties are being mapped into higher rate-zones, which results in homeowners being forced to purchase unneeded flood insurance or pay higher than necessary premiums because their homes have been inaccurately mapped as being below the Base Flood Elevation (BFE).

These problems are being compounded by FEMA's long history of inaccurate flood mapping. There have been reported cases of FEMA drawing in rivers or streams where none exist or even mistakenly using data from one community for another. Inaccurate mapping has resulted in homes unnecessarily being drawn into flood maps or placed into higher rate-zones. It typically takes years for those mistakes to be fixed, often requiring a lengthy and costly appeal process for the community and homeowner, as well as forcing the payment of escalated premiums until the problem is resolved.

As FEMA completes the maps, rates on grandfathered properties will likely increase. As a result, many property owners, builders and communities will be punished with these higher rates despite their efforts to mitigate against their flood risks. For some, it may force them from their homes, causing property values to drop and thus even erode neighborhoods and communities.

Recommendation

NAHB recommends that Congress require that FEMA take into account all flood control structures when mapping. Further, Congress should ensure that FEMA allow for sufficient time before finalizing its maps for public review and independent vetting. Finally, NAHB recommends that Congress prohibit rate increases based on incomplete or inaccurate maps, and require FEMA to reimburse homeowners for their appeal costs.

REMODELING CONCERNS:

NAHB remains troubled by the effect of the Biggert-Waters Act on the remodeling industry. The law lowers the threshold for what is considered a substantial improvement to a structure from the historic 50% to 30% of the structure's fair market value. Even the simplest of remodeling jobs, like installing new appliances, or updating bathrooms or kitchens, could result in many homes reaching the new threshold.

While the substantial improvement clause has long been a part of the NFIP, the threshold has historically been set at 50% of fair market value of the property. This was established by FEMA in recognition of a wide range of conditions, including recognized zoning and building code standards. NAHB believes that the lowering of this threshold in the Biggert-Waters Act was done arbitrarily, without taking those conditions into consideration.

The impact of this change is two-fold. First, any renovation that breaches the new, lower, substantial improvement threshold will trigger a phase-in of the full-risk rate over four years (with premiums increasing 25% of the full-risk rate per year). Second, based on FEMA's regulations, if a building is "substantially improved," it must immediately be brought into compliance with the current local flood damage prevention requirements such as elevating the building above the Base Flood Elevation (BFE), relocating electrical systems, and/or using more resistant construction materials or methods.

The implementation of this provision will adversely impact homeowners by forcing them to either forgo necessary and appropriate improvements or shoulder extensive and expensive renovations and sharply increased flood insurance rates. NAHB estimates that the new substantial improvement threshold will place up to $8.5 billion in annual remodeling economic activity at risk. In addition, if disincentives (or costs) are such that homeowners are unable or unwilling to maintain or repair homes, property values will decrease and that will impact communities, lenders, and neighborhoods.

Recommendation

While FEMA has yet to determine how the new threshold will be implemented, the potential impact on homeowners and the remodeling industry has not been sufficiently justified. NAHB strongly recommends that Congress reinstate the threshold to the 50% level to ensure that necessary renovations can continue without penalizing homeowners with exorbitant rate hikes and forced mitigation.

REGIONAL FLEXIBILITY:

NAHB believes that one of the strengths of the NFIP is that FEMA, through its regulation of the program, has traditionally given local governments the flexibility they need to make land use policy decisions that make sense for their communities.

A good example of this flexibility is the residential basement exception. Under that exception, FEMA recognizes that, in certain communities, basements (which would normally violate NFIP's rule against construction below the BFE) are a necessary safety measure. The basement exception is currently allowed in 53 communities, many of which are in North Dakota, where local building codes require basements because of the need for the stability and safety provided by building below the frost line. (See Appendix D)

Unfortunately, FEMA has found that the Biggert-Waters Act does not allow for the consideration of regional flexibilities like the residential basement exception. The lack of this exception will result in increases to flood insurance premiums by up to $10,000 per home in those communities and effectively prevent homes from being built with the protection a basement provides for homeowners in places like North Dakota, Minnesota, Kansas, and Nebraska.

Recommendation

Basements are a necessity for both stability of the structure and the protection of its occupants. As such, NAHB recommends that Congress pass legislation that would allow FEMA to continue to allow for flexibility for regional issues, such as basements.

POTENTIAL NEGATIVE REFORMS:

As Congress continues to look at the NFIP and the implementation of the Biggert-Waters Act, NAHB cautions against any solutions that would create additional unintended consequences or further erode housing affordability.

First, NAHB would discourage any provisions that would weaken or shift local oversight of floodplain management. The NFIP's strength comes from its reliance on state and local governments, not the federal government, to shape local land use policies and make decisions on how private property may be used. While officials at all levels of government must work together so that lives, homes, schools, businesses and public infrastructure are protected from the damages and costs incurred by flooding, the local communities must provide the first line of defense in terms of land use policies and practices.

Similarly, any efforts to federally-dictate how structures within floodplains should be designed or built must dismissed. While NAHB supports allowing FEMA to investigate the costs and benefits of state and local governments using nationally-recognized building codes as one way to prevent or reduce flood damage, those analyses should be limited to only those building codes that have been developed using an open, consensus process, such as the International Building Code or the International Residential Code. This process ensures that no one interest is overrepresented.

Along these lines, Congress and FEMA must reject the "guidelines" that have been created and forwarded by specific industry groups or manufacturers that claim to mitigate against natural disasters. These programs have not received the same level of scrutiny, been exposed to broad public vetting, or undergone any consideration of costs or benefits that comes with an open consensus process. Further, compliance with them would require builders to take unnecessary steps that would add needless costs to the construction of homes.

Finally, if Congress chooses to consider the adoption of nationally-recognized building codes, it must include codified safeguards to preserve the rights of state and local governments to amend the model building codes to meet specific local needs. Flooding does not occur consistently across the country. State and local governments need to be able to pick and choose those building code requirements that are appropriate for their regions and flooding risks and consistent with the most prevalent building types and techniques. For this reason and others, Congress must also prohibit FEMA from developing, implementing, or enforcing its own national model code.

LEGISLATIVE PROPOSALS:

Many in Congress share our concerns with the unintended consequences of the Biggert-Waters Act. More than a dozen pieces of legislation have already been introduced that would delay all or some of the flood insurance rate increases and fix various mapping concerns. NAHB appreciates the wide range of legislative proposals and we are committed to working with the subcommittee to find pragmatic solutions that will prevent undue hardship on the recovering housing market, prevent home values from decreasing, and make the NFIP stronger and more effective for years to come.

I would like to highlight three of these bills today, which we believe would begin to address our members' concerns while still moving to meet the underlying goals of the Biggert-Waters Act. These are in no way the only possible solutions, but they represent steps we can take to balance the availability and viability of the NFIP with the impact on homeowners and home builders.

H.R. 2199, the Insurance Implementation Reform Act

This bi-partisan piece of legislation introduced by Rep. Cedric Richmond (D-LA) and Rep. Steve Scalise (R-LA) ties the rate increases from the new flood maps to completion of the Affordability Study; delays rate increases on the sale of homes; and requires that FEMA account for local flood control structures, and non-structural flood mitigation efforts.

H.R. 3013, the Home Protection Act

H.R. 3013, introduced by Rep. Bill Cassidy (R-LA) calls for FEMA to consider local flood control structures and complete the Levee Analysis and Map Procedure (LAMP) before finalizing new maps. This bill also delays rate increases on newly constructed or newly purchased properties until new maps are approved. Further, H.R. 3013 restores the substantial improvement threshold to the 50% level allowing homeowners to remodel their homes without fear of triggering a higher insurance rate. Finally, the bill creates a task-force to help determine alternative approaches for assessing and pricing flood risk as a way of making flood insurance more accessible and affordable for homeowners.

H.R. 3370, the Homeowner Flood Insurance Affordability Act

Introduced on October 29, 2013, by Rep. Michael Grimm (R-NY) and Ranking Member Maxine Waters (D-CA), the *Homeowner Flood Insurance Affordability Act* currently has over 95 bipartisan co-sponsors. An identical bill has been introduced in the Senate with 15 bi-partisan co-sponsors. H.R. 3370 seeks to delay rate increases for four years by making FEMA complete the Affordability Study, complete a regulatory package, and allow for Congressional review. Further, this bill would stop the automatic increases upon the sale of homes; allow for the remapping process to take into account local flood control structures; allow for homeowner reimbursement for successful map appeals; protect the basement exception in the current 53 communities; and create a consumer advocate within FEMA to help homeowners with flood insurance and mapping concerns.

CONCLUSION:

I would like to thank the subcommittee for the opportunity to share NAHB's views. NAHB has a long history of supporting the NFIP and we are committed to ensuring that it remains a viable and affordable program to its policyholders while being mindful of the costs to the American taxpayer. As we have serious concerns with the implementation of the Biggert-Waters Act especially the exorbitant rate hikes and inaccurate remapping, NAHB would like to urge Congress to enact legislation to provide solutions to these unintended consequences. We appreciate your leadership on this important issue and stand ready to work with you.

APPENDIX A

APPENDIX A: Example 1

This home was under a sales contract and scheduled to close on October 31, 2013. The purchasers had to cancel the contract due to the flood insurance rates increasing from $2000 to $6550.

ILBERT, KELLY & COUTURIÉ
urveying and Engineering
121 N. Causeway Blvd.
uite 121
etairie, LA 70001
hone (504) 836-2121
ax (504) 832-1158

INVOICE

Date	Invoice#
10/21/2013	113785

Bill To:
CRESCENT TITLE, L.L.C./
MAPLE ST. OFFICE
7820 MAPLE ST.

NEW ORLEANS, LA 70118

Owner Name: [redacted]
Client File#: [redacted]
Ordered by: [redacted]
Phone: [redacted]
Alt. Phone:
Fax: [redacted]
Email:

Service Description	Price
Elevation Address:2304 NASHVILLE AVE, Subdivision:HURSTVILLE District:SIXTH Square:105-B Lot:9-A Parish:ORLEANS	$250.00
TOTAL INVOICE	$250.00
PAYMENTS	$0.00
BALANCE DUE	$250.00

Please return copy of Invoice with payment!

/22/2013/TUE 07:35 AM GKC Survey FAX No. 504 832 1158 P. 001/005

U.S. DEPARTMENT OF HOMELAND SECURITY
FEDERAL EMERGENCY MANAGEMENT AGENCY
National Flood Insurance Program

ELEVATION CERTIFICATE

IMPORTANT: Follow the instructions on pages 1–9.

OMB No. 1660-0008
Expiration Date: July 31, 2015

SECTION A - PROPERTY INFORMATION

FOR INSURANCE COMPANY USE
Policy Number:
Company NAIC Number:

A1. Building Owner's Name [redacted]

A2. Building Street Address (including Apt., Unit, Suite, and/or Bldg. No.) or P.O. Route and Box No.
3304 NASHVILLE AVE.

City NEW ORLEANS | State LA | ZIP Code 70125

A3. Property Description (Lot and Block Numbers, Tax Parcel Number, Legal Description, etc.)
Subdivision HURSTVILLE District SIXTH Lot 9-A Square 105-B

A4. Building Use (e.g., Residential, Non-Residential, Addition, Accessory, etc.) Residential

A5. Latitude/Longitude: Lat. 29.94593 Long. -90.11106 Horizontal Datum: [ ] NAD 1927 [x] NAD 1983

A6. Attach at least 2 photographs of the building if the Certificate is being used to obtain flood insurance.

A7. Building Diagram Number 8

A8. For a building with a crawl space or enclosure(s):
a) Square footage of crawl space or enclosure(s) 591 sq ft
b) No. of permanent flood openings in the crawl space or enclosure(s) walls within 1.0 foot above adjacent grade 8
c) Total net area of flood openings in A8.b 7039 sq in
d) Engineered Flood Openings? [ ] Yes [x] No

A9. For a building with an attached garage:
a) Square footage of attached garage N/A sq ft
b) No. of permanent flood openings in the attached garage walls within 1.0 foot above adjacent grade N/A
c) Total net area of flood openings in A9.b N/A sq in
d) Engineered Flood Openings? [ ] Yes [ ] No

SECTION B - FLOOD INSURANCE RATE MAP (FIRM) INFORMATION

B1. NFIP Community Name & Community Number	B2. County Name	B3. State
CITY OF NEW ORLEANS 225203	ORLEANS	LA

B4. Map/Panel Number	B5. Suffix	B6. FIRM Index Date	B7. FIRM Panel Effective/Revised Date	B8. Flood Zone(s)	B9. Base Flood Elevation(s) (Zone AO, use base flood depth)
0160	E	3/1/1984	3/1/1984	A-8	1.50

B10. Indicate the source of the Base Flood Elevation (BFE) data or base flood depth entered in Item B9.
[ ] FIS Profile [x] FIRM [ ] Community Determined [ ] Other/ Source

B11. Indicate elevation datum used for BFE in Item B9: [x] NGVD 1929 [ ] NAVD 1988 [ ] Other/ Source

B12. Is the building located in a Coastal Barrier Resources System (CBRS) area or Otherwise Protected Area (OPA)? [ ] Yes [x] No
Designation Date [ ] CBRS [ ] OPA

SECTION C - BUILDING ELEVATION INFORMATION (SURVEY REQUIRED)

C1. Building elevations are based on: [ ] Construction Drawings* [ ] Building Under Construction* [x] Finished Construction
*A new Elevation Certificate will be required when construction of the building is complete.

C2. Elevations – Zones A1-A30, AE, AH, A (with BFE), VE, V1-V30, V (with BFE), AR, AR/A, AR/AE, AR/A1-A30, AR/AH, AR/AO. Complete Items C2.a-h below according to the building diagram specified in Item A7. In Puerto Rico only, enter meters.
Benchmark Utilized ALCO Vertical Datum NAVD '88
Indicate elevation datum used for the elevations in items a) through h) below. [ ] NGVD 1929 [x] NAVD 1988 [ ] Other/Source:
Datum used for building elevations must be the same as that used for the BFE.
Check the measurement used.

a)	Top of bottom floor (including basement, crawl space, or enclosure floor)	-3.93	[x] feet	[ ] meters
b)	Top of the next higher floor	-3.68	[x] feet	[ ] meters
c)	Bottom of the lowest horizontal structural member (V Zones only)	N/A	[x] feet	[ ] meters
d)	Attached garage (top of slab)	N/A	[x] feet	[ ] meters
e)	Lowest elevation of machinery or equipment servicing the building (Describe type of equipment in Comments)	-2.10	[x] feet	[ ] meters
f)	Lowest adjacent (finished) grade (LAG)	-4.14	[x] feet	[ ] meters
g)	Highest adjacent (finished) grade (HAG)	-3.93	[x] feet	[ ] meters
h)	Lowest adjacent grade at lowest elevation of deck or stairs, including structural support	N/A	[x] feet	[ ] meters

SECTION D - SURVEYOR, ENGINEER, OR ARCHITECT CERTIFICATION

This certification is to be signed and sealed by a land surveyor, engineer, or architect authorized by law to certify elevation information. *I certify that the information on this Certificate represents my best efforts to interpret the data available. I understand that any false statement may be punishable by fine or imprisonment under 18 U.S. Code, Section 1001.*

[x] Check here if comments are provided on back of form.
[ ] Check here if attachments.

Were latitude and longitude in Section A provided by a licensed land surveyor? [x] Yes [ ] No

Certifier's Name Louis C. Hartmann | License Number 4995

Title Professional Land Surveyor | Company Name Gilbert, Kelly & Couturie, Inc.

Address 2121 N. CAUSEWAY BLVD., SUITE 121 | City METAIRIE | State LA | ZIP Code 70001

Signature | Date 10/17/2013 | Telephone (504) 836-2121

STATE OF LOUISIANA
LOUIS C. HARTMANN
LIC. NO. 4995
LICENSED
PROFESSIONAL
SURVEYOR

ELEVATION CERTIFICATE, page 2

IMPORTANT: In these spaces, copy the corresponding information from Section A.			For Insurance Company Use:
Building Street Address (including Apt., Unit, Suite, and/or Bldg. No.) or P.O. Route and Box No. 3304 NASHVILLE AVE.			Policy Number
City NEW ORLEANS	State LA	ZIP Code 70125	Company NAIC Number

SECTION D - SURVEYOR, ENGINEER, OR ARCHITECT CERTIFICATION (CONTINUED)

Copy both sides of this Elevation Certificate for (1) community official, (2) insurance agent/company, and (3) building owner.

Comments

SECTION C2A IS CRAWL SPACE, SECTION C2B IS SLAB, THE RAISED PART OF THE HOUSE IS -1.39 NAVD., SECTION C2E IS A/C COMPRESSOR, WATER HEATER IS -.60 NAVD., THE SECOND FLOOR IS 4.82 NAVD., THE TOP OF THE CURB IS -4.55 NAVD., TO CONVERT TO NGVD ADJUST UP .21 (NOT APPLIED)

Signature Date 10/17/2013

SECTION E - BUILDING ELEVATION INFORMATION (SURVEY NOT REQUIRED) FOR ZONE AO AND ZONE A (WITHOUT BFE)

For Zones AO and A (without BFE), complete Items E1-E5. If the Certificate is intended to support a LOMA or LOMR-F request, complete Sections A, B, and C. For Items E1-E4, use natural grade, if available. Check the measurement used. In Puerto Rico only, enter meters.

E1. Provide elevation information for the following and check the appropriate boxes to show whether the elevation is above or below the highest adjacent grade (HAG) and the lowest adjacent grade (LAG).

a) Top of bottom floor (including basement, crawl space, or enclosure) is ______.______ ☐ feet ☐ meters ☐ above or ☐ below the HAG.

b) Top of bottom floor (including basement, crawl space, or enclosure) is ______.______ ☐ feet ☐ meters ☐ above or ☐ below the LAG.

E2. For Building Diagrams 6-8 with permanent flood openings provided in Section A Items 8 and/or 9 (see page 8 of Instructions), the next higher floor (elevation C2.b in the diagrams) of the building is ______.______ ☐ feet ☐ meters ☐ above or ☐ below the HAG.

E3. Attached garage (top of slab) is ______.______ ☐ feet ☐ meters ☐ above or ☐ below the HAG.

E4. Top of platform of machinery and/or equipment servicing the building is ______.______ ☐ feet ☐ meters ☐ above or ☐ below the HAG.

E5. Zone AO only: If no flood depth number is available, is the top of the bottom floor elevated in accordance with the community's floodplain management ordinance? ☐ Yes ☐ No ☐ Unknown. The local official must certify this information in Section G.

SECTION F - PROPERTY OWNER (OR OWNER'S REPRESENTATIVE) CERTIFICATION

The property owner or owner's authorized representative who completes Sections A, B, and E for Zone A (without a FEMA-issued or community-issued BFE) or Zone AO must sign here. *The statements in Sections A, B, and E are correct to the best of my knowledge.*

Property Owner's or Owner's Authorized Representative's Name

Address City State ZIP Code

Signature Date Telephone

Comments

☐ Check here if attachments

SECTION G - COMMUNITY INFORMATION (OPTIONAL)

The local official who is authorized by law or ordinance to administer the community's floodplain management ordinance can complete Sections A, B, C (or E), and G of this Elevation Certificate. Complete the applicable item(s) and sign below. Check the measurement used in Items G8. and G9.

G1. ☐ The information in Section C was taken from other documentation that has been signed and sealed by a licensed surveyor, engineer, or architect who is authorized by law to certify elevation information. (Indicate the source and date of the elevation data in the Comments area below.)

G2. ☐ A community official completed Section E for a building located in Zone A (without a FEMA-issued or community-issued BFE) or Zone AO.

G3. ☐ The following information (Items G4.-G9.) is provided for community floodplain management purposes.

G4. Permit Number	G5. Date Permit Issued	G6. Date Certificate Of Compliance/Occupancy Issued

G7. This permit has been issued for: ☐ New Construction ☐ Substantial Improvement

G8. Elevation of as-built lowest floor (including basement) of the building: ______.______ ☐ feet ☐ meters Datum______

G9. BFE or (in Zone AO) depth of flooding at the building site: ______.______ ☐ feet ☐ meters Datum______

G10. Community's design flood elevation ______.______ ☐ feet ☐ meters Datum______

Local Official's Name Title

Community Name Telephone

Signature Date

Comments

☐ Check here if attachments

FEMA Form 086-0-33 (2/4) Replaces all previous editions.

OCT/22/2013/TUE 07:35 AM CKC Survey FAX No. 504 832 1158 P. 003/005

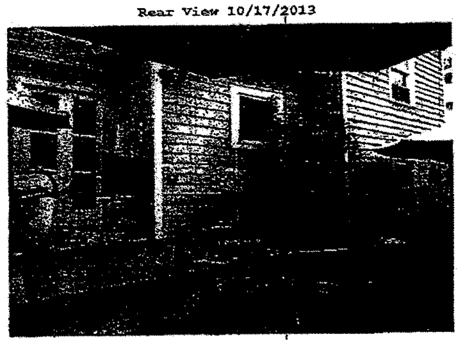
ELEVATION CERTIFICATE, page 3 **BUILDING PHOTOGRAPHS**
See Instructions for Item A6.

IMPORTANT: In these spaces, copy the corresponding information from Section A.			For Insurance Company Use:
Building Street Address (including Apt., Unit, Suite, and/or Bldg. No.) or P.O. Route and Box No. 3304 NASHVILLE AVE.			Policy Number
City NEW ORLEANS	State LA	ZIP Code 70125	Company NAIC Number

If using the Elevation Certificate to obtain NFIP flood insurance, affix at least two building photographs below according to the instructions for Item A6. Identify all photographs with: date taken; "Front View" and "Rear View"; and, if required, "Right Side View" and "Left Side View." If submitting more photographs than will fit on this page, use the Continuation Page, following.

Front View 10/17/2013

Rear View 10/17/2013



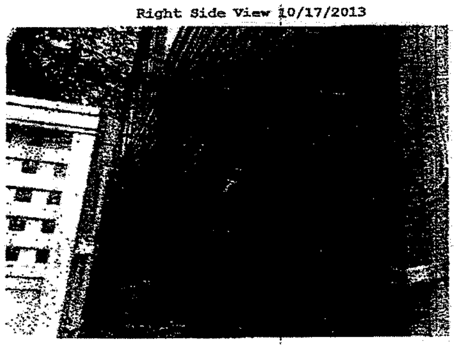
ELEVATION CERTIFICATE, page 4

BUILDING PHOTOGRAPHS
Continuation Page

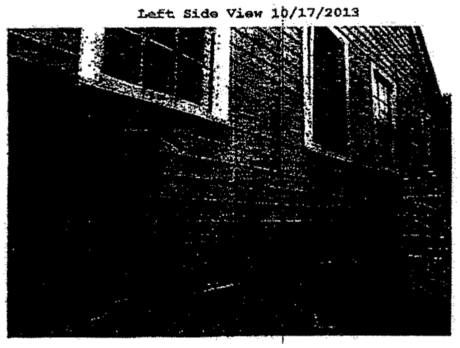
IMPORTANT: In these spaces, copy the corresponding information from Section A.			For Insurance Company Use:
Building Street Address (including Apt., Unit, Suite, and/or Bldg. No.) or P.O. Route and Box No. 3304 NASHVILLE AVE.			Policy Number:
City NEW ORLEANS	State LA	ZIP Code 70125	Company NAIC Number

If submitting more photographs than will fit on the preceding page, affix the additional photographs below. Identify all photographs with: date taken; "Front View" and "Rear View"; and, if required, "Right Side View" and "Left Side View."

Right Side View 10/17/2013



Left Side View 10/17/2013



ational Interstate Insurance Company
:815 Colby Avenue, Suite 200, Everett, WA 98201

FLOOD INSURANCE QUOTE

Quoted with an effective date of: **10/25/2013**

Insurance Agent/Producer Agency ID: 700059

Riverlands Insurance Services, Inc
13919 River Road, Suite 110
Luling, LA 70070

TEL.: 985-331-2766 Email:

Name and Mailing Address of Insured

[redacted]
3304 Nashville Ave
New Orleans, LA 70125-4726

Subject Property

3304 Nashville Ave
New Orleans, LA 70125-4726

Product Type

☒ Standard Flood ☐ Mortgage Portfolio Protection Program (MPPP)
☐ Residential Condo Bldg Assoc Policy (RCBAP) ☐ Scheduled Building

Rating Description

Building occupancy:
☒ Single Family
☐ 2-4 Family
☐ Other Residential
☐ Non-Residential (including Hotel/Motel)

Number of floors in entire building (include basement or enclosed area, if any), or building type:
☐ 1 Floor ☐ 2 Floors
☐ 3 or more ☒ Split Level
☐ Townhouse/Rowhouse (RCBAP Lowrise Only)
☐ Manufactured (Mobile) Home on Foundation

Condominium Form of Ownership?
☐ Yes ☒ No

Condo coverage is for:
☐ Unit ☐ Entire Building

Number of Units:
☐ High-Rise ☐ Low-Rise

Contents Location:
☐ Basement/enclosure only
☐ Basement/enclosure and above
☐ Lowest floor only above ground level
☐ Lowest floor only above ground level and higher
☐ Above ground level more than one full floor
☐ Manufactured (Mobile) Home

Basement, enclosure, or crawlspace below an elevated building?
☒ None
☐ Finished Basement/Enclosure
☐ Unfinished Basement/Enclosure
☐ Crawlspace
☐ Subgrade Crawlspace

Construction, Placement or Substantial Improvement Date: **01/01/1940**
☐ Building Permit Date ☒ Date of Construction ☐ Substantial Improvement Date
☐ Manufactured (mobile) home located in a mobile home park/subdivision, construction date of park or subdivision facilities
☐ Manufactured (mobile) home outside a mobile home park/subdivision, date of permanent placement

Location Information

Community Name: **NEW ORLEANS/ORLEANS PARISH*** Community No.: **225203**

Status: **Participating** CRS Discount Pct.: **10** Firm Zone: **A08** Elevation Difference: **-5**

Flood Zone Certificate ID:

Coverage and Rating Information

Coverage Type	Coverage Limit	Deductible	Rate	Deductible Discount	Premium
Building	238,000	$5,000	9.67/.93	-1603	5,854
Contents					

Rate Type:
☐ Manual ☒ Submit for Rating ☐ FEMA Rates
☐ Alternative ☐ V-Zone Rating Form
☐ MPPP Rating ☐ Optional Post 1981 V Zone Rating
☐ Provisional Rating ☐ Tentative Rating
☐ Underinsured Condominium Master Policy

Coverage D Premium (ICC)	24
Annual Subtotal	5,878
CRS Discount	-588
Reserve Fund 5 %	265
Probation Surcharge	0
Expense Constant	0
Federal Policy Fee	44
Total Premium	$ 5,599

Deductible Options

This table reflects optional premiums for this Quote if a different deductible were selected.

Deductible	Premium
1000	SFR
2000	SFR
3000	SFR
4000	SFR

THIS QUOTE FORM IS NOT TO BE USED AS AN APPLICATION FOR FLOOD INSURANCE
This quoted premium is subject to verification or adjustment by the company.
No coverage is provided or implied by this document.

Quote ID: **44613** Create Date: **10/22/2013** Created By: **William deBruler** PDA (11/03)

lational Interstate Insurance Company
2815 Colby Avenue, Suite 200, Everett, WA 98201

FLOOD INSURANCE QUOTE

Quoted with an effective date of: **10/25/2013**

Insurance Agent/Producer Agency ID: 700059

Riverlands Insurance Services, Inc
13919 River Road, Suite 110
Luling, LA 70070

TEL: 985-331-2766 Email:

Name and Mailing Address of Insured

[redacted]
3304 Nashville Ave
New Orleans, LA 70125-4726

Subject Property

3304 Nashville Ave
New Orleans, LA 70125-4726

Product Type

- ☒ Standard Flood
- ☐ Mortgage Portfolio Protection Program (MPPP)
- ☐ Residential Condo Bldg Assoc Policy (RCBAP)
- ☐ Scheduled Building

Rating Description

Building occupancy:
- ☒ Single Family
- ☐ 2-4 Family
- ☐ Other Residential
- ☐ Non-Residential (Including Hotel/Motel)

Number of floors in entire building (include basement or enclosed area, if any), or building type:
- ☐ 1 Floor
- ☐ 2 Floors
- ☐ 3 or more
- ☒ Split Level
- ☐ Townhouse/Rowhouse (RCBAP Lowrise Only)
- ☐ Manufactured (Mobile) Home on Foundation

Condominium Form of Ownership?
- ☐ Yes
- ☒ No

Condo coverage is for:
- ☐ Unit
- ☐ Entire Building

Number of Units:
- ☐ High-Rise
- ☐ Low-Rise

Contents Location:
- ☐ Basement/enclosure only
- ☐ Basement/enclosure and above
- ☐ Lowest floor only above ground level
- ☒ Lowest floor only above ground level and higher
- ☐ Above ground level more than one full floor
- ☐ Manufactured (Mobile) Home

Basement, enclosure, or crawlspace below an elevated building?
- ☒ None
- ☐ Finished Basement/Enclosure
- ☐ Unfinished Basement/Enclosure
- ☐ Crawlspace
- ☐ Subgrade Crawlspace

Construction, Placement or Substantial Improvement Date: **01/01/1940**
- ☐ Building Permit Date
- ☒ Date of Construction
- ☐ Substantial Improvement Date
- ☐ Manufactured (mobile) home located in a mobile home park/subdivision, construction date of park or subdivision facilities
- ☐ Manufactured (mobile) home outside a mobile home park/subdivision, date of permanent placement

Location Information

Community Name: **NEW ORLEANS/ORLEANS PARISH***
Community No.: **225203**
Status: **Participating**
CRS Discount Pct.: **10** Firm Zone: **A08** Elevation Difference: **-5**
Flood Zone Certificate ID:

Coverage and Rating Information

Coverage Type	Coverage Limit	Deductible	Rate	Deductible Discount	Premium
Building	238,000	$5,000	9.67/.93	-1864	5,593
Contents	50,000	$5,000	6.25/.51	-423	1,268

Coverage D Premium (ICC)		24
Annual Subtotal		6,885
CRS Discount		-689
Reserve Fund	5 %	310
Probation Surcharge		0
Expense Constant		0
Federal Policy Fee		44
Total Premium	$	6,550

Rate Type:
- ☐ Manual
- ☐ Alternative
- ☐ MPPP Rating
- ☐ Provisional Rating
- ☐ Underinsured Condominium Master Policy
- ☒ Submit for Rating
- ☐ V-Zone Rating Form
- ☐ Optional Post 1981 V Zone Rating
- ☐ Tentative Rating
- ☐ FEMA Rates

Deductible Options

This table reflects optional premiums for this Quote if a different deductible were selected.

Deductible	Premium
1000/1000	SFR
2000/2000	SFR
3000/3000	SFR
4000/4000	SFR

THIS QUOTE FORM IS NOT TO BE USED AS AN APPLICATION FOR FLOOD INSURANCE
This quoted premium is subject to verification or adjustment by the company.
No coverage is provided or implied by this document.

Quote ID: 44613 Create Date: 10/22/2013 Created By: William deBruler PDA (11/03)

Americas

O Box 3033
igfork, MT 59911

Riverlands Insurance Services, Inc
13919 River Road
Suite 110
Luling, LA 70070
(985) 331-2766

Insurance Quote

Insured
[redacted]

Property Location:
3304 NASHVILLE AVE
NEW ORLEANS, LA 70125-4726

Quote ID: 413279
Proposed Effective Date: 10/25/2013
Quotation Date: 10/21/2013
Time: 09:58:51

Form	HO3	Coverage A - Dwelling	$238,000
Type of Policy	Homeowners Special Form	Coverage B - Other Structures	$23,800
Territory	3941	Coverage C - Personal Property	$119,000
Protection Class	2	Coverage D - Loss of Use	$47,600
Construction Type	Frame	Coverage E - Liability	$300,000
Year of Construction	1940	Coverage F - Medical Payments	$5,000
Year Renovated	2005		
AOP Deductible	$5,000		
Wind/Hail or Hurricane Deductible	3% ($7,140)		

Total Amount Due: $3,204.00

POLICY FORMS AND ENDORSEMENTS

Number	Edition	Description	Limit/Pct	Premium
HO 04 16	10 00	Premises Alarm or Fire Protection System		$0
HO 03 42	01 05	Limited Fungi, Mold Wet or Dry Rot, or Bacteria	$10,000/$50,000	$0
HO 04 46	10 00	Inflation Guard		$59

Payment Options

$3,204.00	1-Pay - Full Payment
$1,992.00	2-Pay - 60% of the total premium plus any applicable fees and assessments printed on the attached declarations with the remaining premium due in 180 days.
$1,385.00	4-Pay - 40% of the total premium plus any applicable fees and assessments printed on the attached policy declarations with the remaining premium due in three equal installments at 90, 180, and 270 day intervals.

Note: Each installment, except the full payment plan, is subject to a $3 charge.

Payment of Premium does NOT automatically attach coverage. The terms of this quote do not in any way alter the terms and conditions of any policy delivered. Please closely examine the policy when received.

CANCELLATION OF AGREEMENT TO PURCHASE

EST. 1943 GARDNER REALTORS®

GBS Properties, L.L.C. dba GARDNER, REALTORS® CORPORATE OFFICE: 3332 N. Woodlawn Ave., Metairie, LA 70006

For exclusive use of GARDNER, REALTORS® & its Affiliated Licensees. GARDNER, REALTORS® assumes no responsibility for any unauthorized use of this form.

It is hereby agreed and understood that [redacted] as SELLERS(S), and [redacted] as PURCHASER(S) do mutually cancel and nullify the "Agreement to Purchase or Sell" dated 9-14-13 on the property located at 3304 Nashville (City) N.O. (State) LA

The undersigned parties do hereby authorize Keller Williams (listing broker) to return the PURCHASER'S deposit, in full, amounting to $ [redacted] cash and/or $ ______ demand note upon receipt of this instrument fully executed by all parties. Check to be made payable to: [redacted]

GARDNER, REALTORS®, and Keller Williams hereby waive any and all commissions due them under said "Agreement to Purchase and Sell" provided that, if said SELLER(S) and PURCHASER(S) negotiate a sale of said property between themselves at any price within a period of twelve (12) months after the date of this instrument, SELLER(S) shall pay to GARDNER, REALTORS®, and ______________ a commission of ______(% of the sale price).

The undersigned parties, including real estate broker(s), hereby release each other from any and all obligations and liability in connection with said "Agreement to Purchase or Sell," except as qualified above.

REASON FOR CANCELLATION *(Place an "X" on the best answer)*

- ☐ 1. Insufficient Down Payment
- ☐ 2. Negative Seller Proceeds
- ☐ 3. Buyer/Seller Defaults
- ☐ 4. Low Appraisal
- ☐ 5. Required repairs not completed
- ☐ 6. Not Acceptable After Inspections
- ☐ 7. Bad Title/Encroachment
- ☑ 8. Lender Rejected Loan (See Attached)
- ☐ 9. Failure of Buyer to Sell Home
- ☐ 10. Credit/ Bankruptcy
- ☐ 11. Not qualified Due to Insufficient Income
- ☑ 12. Other Flood Insurance too high / Not Disclo

[redacted]

Purchaser / Date	Seller Date
[redacted] Purchaser / Date	Seller Date
[redacted] Selling Agent Date	3 Listing Agent Date

SEND CHECK TO (BRANCH): ______________

For: GARDNER, REALTORS®
By: ______________
Manager Date

For: ______________ (other broker)
By: ______________
Manager Date

Leading Real Estate Services to Southeast Louisiana, Inc.

Bank of New Orleans, NMLS# [illegible] | Originator: C. Holly Calba, NMLS# [illegible]

Notice of Action Taken

Date Action Taken: 10/24/2013

Applicants: [redacted]
Address: [redacted]
New Orleans, LA [redacted]

Loan Amount: $ [redacted]
Interest Rate: [redacted]
Term: [redacted] months

File No. : [redacted]

Thank you for your application for: **Purchase of primary residence located at 3304 Nashville Avenue, New Orleans, LA 70125 (first mortgage).**

Based upon your Mortgage Application for a loan we must inform you that:

Notice of Credit Denial:

We are regrettably unable to approve your request. Our principal reasons for this decision are indicated below.

Borrowers are unable to satisfy requirements of loan approval.

Part I - Principal Reason(s) for Credit Denial, Termination, or Other Action Taken Concerning Credit.

In compliance with Regulation "B" (Equal Credit Opportunity Act), you are advised that your recent application for credit has been declined/terminated/changed. The decision to decline/terminate/change your application was based on the following reason(s):

A. CREDIT
- ☐ No Credit File
- ☐ Insufficient Credit Reference
- ☐ Insufficient Credit File
- ☐ Unable to Verify Credit References
- ☐ Garnishment, Attachment, Foreclosure, Repossession or Suit
- ☐ Excessive Obligations
  - ☐ Insufficient Income for Total Obligations
  - ☐ Unacceptable Payment Record on Previous Mortgage
  - ☐ Lack of Cash Reserves
- ☐ Delinquent Credit Obligations
- ☐ Bankruptcy
- ☐ Information From a Consumer Reporting Agency

B. EMPLOYMENT STATUS
- ☐ Unable to Verify Employment
- ☐ Length of Employment
- ☐ Temporary or Irregular Employment, Insufficient Stability of Income

C. INCOME
- ☐ Insufficient Income for Mortgage Payments
- ☐ Unable to Verify Income

D. RESIDENCY
- ☐ Temporary Residence
- ☐ Too Short a Period of Residence
- ☐ Unable to Verify Residence

E. INSURANCE, GUARANTY or PURCHASE DENIED BY:
- ☐ Department of Housing and Urban Development
- ☐ Department of Veterans Affairs
- ☐ Federal National Mortgage Association
- ☐ Federal Home Loan Mortgage Corporation
- ☐

F. OTHER
- ☐ Insufficient Funds to Close the Loan
- ☐ Credit Application Incomplete
- ☐ Inadequate Collateral
  - ☐ Unacceptable Property
  - ☐ Insufficient Data - Property
  - ☐ Unacceptable Appraisal
  - ☐ Unacceptable Leasehold Estate
- ☐ We do not grant credit to any applicant on the terms and conditions you have requested.
- ☐ Withdrawn by Applicant
- ☑ borrowers are unable to satisfy
- ☑ requirements of loan approval

Part II - Disclosure of use of information obtained from an outside source.

This section should be completed if the credit decision was based in whole or in part on information that has been obtained from an outside source.

☐ Our credit decision was based in whole or in part on information obtained in a report from the consumer reporting agency listed below.

You have a right under the Fair Credit Reporting Act to know the information contained in your credit file at the consumer reporting agency. The reporting agency played no part in our decision and is unable to supply specific reasons why we have denied credit to you. You also have a right to a free copy of your report from the reporting agency, if you request it no later than 60 days after you receive this notice. In addition, if you find that any information contained in the report you receive is inaccurate or incomplete, you have the right to dispute the matter with the reporting agency.

Applicant: [redacted] File No. : [redacted]

Name: ____________________

Address: ____________________

____

[Toll-free] Telephone number: ____________________

We also obtained your credit score from this consumer reporting agency and used it in making our credit decision. Your credit score is a number that reflects the information in your consumer report. Your credit score can change, depending on how the information in your consumer report changes.

Your credit score: __________ Date: __________

Scores range from a low of __________ to a high of __________

Key factors that adversely affect your credit score:

Number of recent inquiries on Credit Report: __________

☐ Our credit decision was based in whole or in part on information obtained from an affiliate or from an outside source other than a consumer reporting agency.

Under the Fair Credit Reporting Act, you have the right to make a written request, no later than 60 days after you receive this notice, for disclosure of the nature of this information.

If you have any questions regarding this notice, you should contact:

Creditor's name: Bank of New Orleans

Creditor's address: 1600 Veterans Blvd, Metairie, LA 70005

Creditor's telephone number: 504-834-1190

☐ Our credit decision was based in whole or in part on:

Notice: The Federal Equal Credit Opportunity Act prohibits creditors from discrimination against credit applicants on the basis of race, color, religion, national origin, sex, marital status, or age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The Federal Agency that administers compliance with this law concerning this creditor is:

Comptroller of Currency
Customer Assistance Group
1301 McKinney Street, Suite 3450 Houston, Texas 77010 (800) 613-6743

This notification is given by us on behalf of: Bank of New Orleans
1600 Veterans Blvd, Metairie, LA 70005
504-834-1190

By: [redacted]
William D. Langston

Delivery Type: ☐ Mailed ☑ E-Mailed ☐ Hand Delivered

Delivery Date: 10/24/2013

Bank of New Orleans, NMLS# 129248 | Originator: C. Holly Callia, NMLS# 685991

Notice of Action Taken

Date Action Taken: 10/24/2013

Applicants: [redacted]
Address: [redacted]
New Orleans, LA [redacted]

Loan Amount: $ [redacted]
Interest Rate: [redacted] %
Term: [redacted] months

File No.: [redacted]

Thank you for your application for: **Purchase of primary residence located at 3304 Nashville Avenue, New Orleans, LA 70125 (second mortgage)**

Based upon your Mortgage Application for a loan we must inform you that:

Notice of Credit Denial:
We are regrettably unable to approve your request. Our principal reasons for this decision are indicated below.

Borrowers are unable to satisfy requirements of loan approval

Part I - Principal Reason(s) for Credit Denial, Termination, or Other Action Taken Concerning Credit.
In compliance with Regulation "B" (Equal Credit Opportunity Act), you are advised that your recent application for credit has been declined/terminated/changed. The decision to decline/terminate/change your application was based on the following reason(s):

A. CREDIT
- [ ] No Credit File
- [ ] Insufficient Credit Reference
- [ ] Insufficient Credit File
- [ ] Unable to Verify Credit References
- [ ] Garnishment, Attachment, Foreclosure, Repossession or Suit
- [ ] Excessive Obligations
  - [ ] Insufficient Income for Total Obligations
  - [ ] Unacceptable Payment Record on Previous Mortgage
  - [ ] Lack of Cash Reserves
- [ ] Delinquent Credit Obligations
- [ ] Bankruptcy
- [ ] Information From a Consumer Reporting Agency

B. EMPLOYMENT STATUS
- [ ] Unable to Verify Employment
- [ ] Length of Employment
- [ ] Temporary or Irregular Employment, Insufficient Stability of Income

C. INCOME
- [ ] Insufficient Income for Mortgage Payments
- [ ] Unable to Verify Income

D. RESIDENCY
- [ ] Temporary Residence
- [ ] Too Short a Period of Residence
- [ ] Unable to Verify Residence

E. INSURANCE, GUARANTY or PURCHASE DENIED BY:
- [ ] Department of Housing and Urban Development
- [ ] Department of Veterans Affairs
- [ ] Federal National Mortgage Association
- [ ] Federal Home Loan Mortgage Corporation
- [ ]

F. OTHER
- [ ] Insufficient Funds to Close the Loan
- [ ] Credit Application Incomplete
- [ ] Inadequate Collateral
  - [ ] Unacceptable Property
  - [ ] Insufficient Data - Property
  - [ ] Unacceptable Appraisal
  - [ ] Unacceptable Leasehold Estate
- [ ] We do not grant credit to any applicant on the terms and conditions you have requested.
- [ ] Withdrawn by Applicant
- [x] Borrowers are unable to satisfy
- [x] requirements of loan approval

Part II - Disclosure of use of information obtained from an outside source.
This section should be completed if the credit decision was based in whole or in part on information that has been obtained from an outside source.

- [ ] Our credit decision was based in whole or in part on information obtained in a report from the consumer reporting agency listed below.

You have a right under the Fair Credit Reporting Act to know the information contained in your credit file at the consumer reporting agency. The reporting agency played no part in our decision and is unable to supply specific reasons why we have denied credit to you. You also have a right to a free copy of your report from the reporting agency, if you request it no later than 60 days after you receive this notice. In addition, if you find that any information contained in the report you receive is inaccurate or incomplete, you have the right to dispute the matter with the reporting agency.

Bank of New Orleans, NMLS# 129248 | Originator: C. Holly Callia, NMLS# 686991

Applicant: [redacted] File No.: [redacted]

Name: ______________________________
Address: ______________________________
____

[Toll-free] Telephone number: ______________________________

We also obtained your credit score from this consumer reporting agency and used it in making our credit decision. Your credit score is a number that reflects the information in your consumer report. Your credit score can change, depending on how the information in your consumer report changes.

Your credit score: __________ Date: __________

Scores range from a low of __________ to a high of __________

Key factors that adversely affect your credit score:

Number of recent inquiries on Credit Report: __________

☐ Our credit decision was based in whole or in part on information obtained from an affiliate or from an outside source other than a consumer reporting agency.

Under the Fair Credit Reporting Act, you have the right to make a written request, no later than 60 days after you receive this notice, for disclosure of the nature of this information.

If you have any questions regarding this notice, you should contact:

Creditor's name: Bank of New Orleans
Creditor's address: 1600 Veterans Blvd, Metairie, LA 70005
Creditor's telephone number: 504-834-1190

☐ Our credit decision was based in whole or in part on:

Notice: The Federal Equal Credit Opportunity Act prohibits creditors from discrimination against credit applicants on the basis of race, color, religion, national origin, sex, marital status, or age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The Federal Agency that administers compliance with this law concerning this creditor is:

Comptroller of Currency
Customer Assistance Group
1301 McKinney Street, Suite 3450 Houston, Texas 77010. (800) 613-6743

This notification is given by us on behalf of: Bank of New Orleans
1600 Veterans Blvd, Metairie, LA 70006
504-834-1190

By: [redacted]
William D. Langston

Delivery Type: ☐ Mailed ☑ E-Mailed ☐ Hand Delivered

Delivery Date: 10/24/2013

Calyx Form - eocdc2brw.frm (11/11)

APPENDIX A: Example 2

This home was built in 1993. The current owner has lived there since 2011, but only purchased the property from his father-in law in January 2013. This home experienced only roof damage as a result of Hurricane Katrina. This home is behind two levees (8 and 12 feet) that FEMA has not counted in the remapping process.

Processed By:
e-Ins.net Flood Insurance Processing
P.O. Box 33018
St. Petersburg, FL 33733-8018
866-511-0793
FloodUnderwriting@e-Ins.net

ASI

Policy Declarations

Policy ID: [redacted]
Policy Type: Preferred Risk Policy (PRP)
New Business

Inception Date: 01/18/2013 **Expiration Date:** 01/18/2014
At 12:01 AM at the location of Described Property

Named Insured

[redacted]

Property Address:
13512 Highway 23
Belle Chasse, LA 70037-4110

Mailing Address
13512 HIGHWAY 23
BELLE CHASSE, LA 70037

Agent Information

417371 - KENNEDY, LEWIS, RENTON & ASSOCIATES INC
401 WHITNEY AVE, STE 411 GRETNA, LA 70056
(504) 362-7700

Payor: NETWORK FUNDING LP ISAOA ATIMA
Coverage limitations may apply. Refer to your Standard Flood Insurance policy for details.

Property And Building Information

Current Information:
Flood Zone: B
Community #: 220139 - 0135 - B
Name: PLAQUEMINES PARISH*
Program: Regular

Building Description:
Single Family
Built on Slab at Ground Level
Two Floors
Main House/Building
Principal Residence: Yes
Grandfathered: No
Replacement Cost: $300,000

Rating Information:
Flood Zone: B
Community #: 220139 - 0135 - B
Name: Plaquemines Parish*
Firm Type: POST

Elevation Certificate Information:
Base Flood Elevation:
Elevation Difference: 0999

Contents Information:
Lowest Floor Above Ground Level an

Coverage Information

	Limit	Deductible	Premium
Building	$250,000	$1,000	$387.00
Contents	$100,000	$1,000	

THIS IS NOT A BILL

MORTGAGEE:
The Reform Act of 1994 requires you to notify the WYO company for the policy within 60 days of any changes in the service of the loan.

ICC Premium:	$5.00
CRS Discount:	$0.00
Federal Policy Fee:	$20.00
Total Premium:	$412.00

Special Provisions

This policy covers only one building. If you have more than one building on your property, please make sure each is covered. See Section III Property Covered within your flood policy for the NFIP definition of 'building' or contact your agent, broker or insurance company.

Forms and Endorsements

ASI FLD IMPINF 08, ASI FLD SOC 08, DW 05 2009

This Declarations Page, in conjunction with the policy, constitutes your Flood Insurance Policy. IN WITNESS WHEREOF, we have signed this policy below and hereby enter into this Insurance Agreement.

American Strategic Insurance

Date: 02/08/2013

Mortgagee(s)

NETWORK FUNDING LP ISAOA ATIMA
9700 RICHMOND AVE
STE 320
HOUSTON, TX 77042

LOAN [redacted]
ESCROW: YES

STANDARD FLOOD NON-BINDING QUOTE

WRIGHT Flood

Wright National Flood Insurance Company
A Stock Company
PO Box 33003
St. Petersburg, FL, 33733
Office: 800.820.3242
Fax: 800.850.3299

AGENCY INFORMATION

Agency Number	73169
Agency	KENNEDY LEWIS RENTON AND ASSOCIATES INC
Address	401 WHITNEY AVE STE 411,
City, State, Zip	GRETNA, LA 70056-2503
Phone Number	(504) 362-7700

QUOTE INFORMATION

Quote Number	[redacted]
Applicant	[redacted]
Current Date	11/08/2013
Effective Date	11/08/2013

COMMUNITY INFORMATION

Program Type	Flood Regular Policies
Community	220139 - PLAQUEMINES PARISH*
Flood Risk/Rated Zone	AE

BUILDING INFORMATION

Property Address	13512 HIGHWAY 23	**Condominium Coverage**	None
City, State, Zip	BELLE CHASSE, LA 70037-4110	**Construction Date**	01/01/2006
Occupancy Type	Single Family	**Building Replacement Cost**	$250,000.00
Building Type	One Floor	**Building Elevated**	Building is not elevated
Elevation Certificate	Yes	**Elevation Difference**	-4 feet
Lowest Floor Elevation	4.9 feet	**Building Flood Proofed**	No
Location of Contents	Lowest Floor Only - Above Ground Level	**Enclosure**	None

COVERAGE/PREMIUM INFORMATION

Coverage	**Limits**	**Deductible**	**RPH Basic**	**RPH Additional**
Building	$250,000.00	$1,000.00	11.85	1.20
Contents	$100,000.00	$1,000.00	9.64	0.79
Discount/Surcharge				$0.00
1 Year Premium				$13,082.00

IMPORTANT NOTES

THIS IS NOT AN OFFER FOR INSURANCE. THIS QUOTE IS NON-FIRM AND NON-BINDING AND SUBJECT TO REVIEW AND ADJUSTMENT.

Please submit the required documentation listed on your application summary for review and approval. If additional information is required to actuarially rate the risk, you will be contacted.

FLOOD INSURANCE WAIVER OF AGENT'S RESPONSIBILITY

I understand that, if I decline this protection, my agent and/or his/her agency will be held harmless and not liable in the event I suffer a flood loss. I have been made aware of the following facts:

1. **Homeowners insurance does not cover flood damage.**
2. **Federal disaster assistance is most typically an interest-bearing loan.**
3. **Flooding can and does occur in low-risk zones nationwide.**

(Initial next to the following. Sign and date at the bottom.)

________ I reject building and contents coverage for flood protection.

Property Owner Signature: ______________________________ Date: ______________

This quote is issued by Wright National Flood Insurance Company 20131108154143

The online application process must be completed. ***Please do not submit this form with your payment.***

Statement of Variance

Date: __________ Policy Number: ____________________

Agency Name: ________________________
Agency Address: ________________________
Agency City & State: ________________________

Insured Name: ____________________________
Insured Address: ____________________________
Insured City & State: ____________________________

Property Address: ________________
Property City & State: ______________

The property referenced above has been identified as a "Submit-for Rate" meaning that no risk rate is published in the Flood Insurance Manual. Insurance coverage can be obtained only after the National Flood Insurance Program has approved the application and has established the risk premium rate.

In order to accomplish this, a copy of a variance is required. A variance is a grant of relief by a participating community from the terms of its floodplain management regulations. If no variance was granted, a statement to that effect signed by the applicant or the applicant's representative is required. Therefore, please be aware of the following:

______ Copy of variance is attached

______ No variance was granted

________________________ ________________
Signature of Insured Date

________________________ ________________
Signature of Insured's Representative Date

APPENDIX B

APPENDIX B: Example 1

This home was built in 1940. The current owner was attempting to sell the home and the contract for sale was cancelled due to the flood insurance rate increase from $1036 to $4483. This home is behind levees yet the rate increase made the home unaffordable.

WRIGHT
Flood

Wright National Flood Insurance Company
A Stock Company
PO Box 33003
St. Petersburg, FL, 33733
Office: 800.820.3242
Fax: 800.850.3299

Policy Number	17 1150942912 00	**Application Date**	05/29/2013
Policy Period	06/28/2013 to 06/28/2014	**Premium paid by**	Insured
Agency Number	80740	**Insured Name**	[redacted]
Agency	BENEFICIAL INS AGENCY INC	**Property Address**	2615 ORLEANS AVE
Agency Address	519 W SAINT BERNARD HWY		NEW ORLEANS, LA 70119-5031
	CHALMETTE, LA 70043-4820	**Insured's Phone**	[redacted]
Agent Phone	(504) 277-8000		

Flood Zone	A03	**Zone Determination**	Yes
Community Number	225203	**Certificate #**	51910139
Panel Number & Suffix	0095 E	**Determination #**	DRP00000000005654740

Building Description	Single Family	**Community Name**	NEW ORLEANS/ORLEANS PARISH*
Number of Floors	One Floor	**Grandfathered**	No
Basement/Enclosure	None		

Coverage	Limits	Deductible	Premium
Building	$140,000.00	$5,000.00	$933.00
Contents	$0.00	$0.00	$0.00

Payment Method	Credit Card	**Annual Subtotal**	$1,037.00
Name of Card Holder	2615 ORLEANS LLC	**Deductible Credit**	$197.00
Expiration Date	5/16	**ICC Premium**	$70.00
Card Holders Signature	[redacted]	**Community Discount**	$111.00
Credit Card Number	2658	**Federal Policy Service Fee**	$40.00
Amount	$ 1,036	**Total Premium**	$1,036.00

NO COVERAGE EXISTS UNTIL PAYMENT OF TOTAL PREMIUM IS RECEIVED AND THE WAITING PERIOD HAS EXPIRED.

This policy is not subject to cancellation for reasons other than those set forth by the National Flood Insurance Program rules and regulations. In matters involving billing disputes, cancellation is not available other than for billing processing, error or fraud.

• No items at this time. Documents may be requested later.

Submit this Application Summary with the documents indicated above by using the File Upload option on the website. Items may also be submitted by mailing to the address or faxing to the number indicated at the top of this letter. Faxed photographs are not acceptable per NFIP guidelines regarding photograph clarity. If the payment method is ACH, EFT or Credit Card and no documents are required, then this form and application that follows are for the agency's records.

17 1150942912 00 - 20130529144644 - 1,036.00

WRIGHT Flood

Wright National Flood Insurance Company
A Stock Company
PO Box 33003
St. Petersburg, FL, 33733
Office: 800.820.3242
Fax: 800.850.3299

Agency Number	80740	**Mailing**	[redacted]
Agency	BENEFICIAL INS AGENCY INC		
Address	519 W SAINT BERNARD HWY	**Property**	2615 ORLEANS AVE
City, State, Zip	CHALMETTE, LA 70043-4820		NEW ORLEANS, LA 70119-5031
Phone Number	(504) 277-8000	**Phone Number**	[redacted]

Applicant	2615 ORLEANS LLC	**Policy Number**	17 1150942912 00
Effective Date	06/28/2013	**Disaster Assist**	No
Term	12 months	**Waiting Period**	Standard 30 Day Wait
Bill To	Insured		

County or Parrish	ORLEANS	**Condominium Coverage**	No
Flood Zone	A03	**Condominium Ownership**	No
Community Name	NEW ORLEANS/ORLEANS PARISH*	**Property Owned by State Gov't**	No
Community Number	225203	**Building Usage**	Main House/Building
Panel Number & Suffix	0095 E	**Leased Federal Land**	No
Community Program Type	Regular	**Insured Principal Residence**	No
Building Occupancy	Single Family	**Course of Construction**	Yes
Building Type	One Floor	**Walled & Roofed**	Yes
Date of Construction	03/01/1930	**Building Elevated**	Building is not elevated
		Replacement Cost	$140,000.00
		Building Post-FIRM	No
		Grandfathering Type	No

17 1150942912 00 - 20130529144644 - 1,036.00

Wright National Flood Insurance Company
A Stock Company
PO Box 33003
St. Petersburg, FL, 33733
Office: 800.820.3242
Fax: 800.850.3299

WRIGHT Flood

Coverage	Basic Limits			Additional Limits			Ded%	Deductible Amount	Basic and additional	Premium Totals
	Basic Cov	Rate	Ann Prem	Additional Cov	Rate	Ann Prem	1,600.0%		Total amount of ins	
BLDG	$60,000.00	0.95	$570.00	$80,000.00	0.83	$664.00	$197.00	$5,000.00	$140,000.00	$1,037.00
CNTS	$0.00	1.20	$0.00	$0.00	1.46	$0.00	$0.00	$0.00	$0.00	$0.00

Annual subtotal		$1,037.00
ICC Premium		$70.00
Subtotal		$1,107.00
CRS%	1.000%	$111.00
Subtotal		$996.00
Rounded Subtotal		$996
Federal service fee		$40.00
Total amount due		$1,036.00

I Reject Contents Coverage. **Initials** JHS

The above statements are correct to the best of my knowledge. I understand that any false statements may be punishable by fine or imprisonment under applicable federal law.

This application is non-binding and subject to review and approval by the company. Full amount of premium must accompany this application for issuance. Please retain a signed copy in your files for audit purposes, and submit the item(s) indicated in the Required Documentation Checklist section of the Flood Application Summary.

[redacted] [redacted] [redacted]

Print Name of Insured — Signature of Insured — Date

[redacted] [redacted] [redacted]

Print Name of Agent/Broker — Signature of Agent/Broker — Date

Non-Discrimination

No person or organization shall be excluded from participation in, denied the benefits of, or subjected to discrimination under the Program authorized by the Act, on the grounds of race, color, creed, sex, age or national origin.

Privacy Act

The information requested is necessary to process your application for flood insurance. The authority to collect the information is Title 42, U.S. Code, Section 4001 to 4028. It is voluntary on your part to furnish the information. It will not be disclosed outside the Federal Emergency Management Agency except to the servicing office acting as the government's fiscal agent, to routine users, to your agent and any lender named on your policy.

17 1150942912.00 - 20130529144644 - 1,036.00

WRIGHT Flood

Wright National Flood Insurance Company
A Stock Company
PO Box 33003
St. Petersburg, FL, 33733
Office: 800.820.3242
Fax: 800.850.3299

Lowest Floor (Including Garage or Enclosure) Above or Below Grade	0.0 ft	Garage Attached To or Part of the Building	No

Square Feet	0

17 1150942912 00 - 20130529144644 - 1,036.00

GILBERT, KELLY & COUTURIÉ
Surveying and Engineering
2121 N. Causeway Blvd.
Suite 121
Metairie, LA 70001
Phone (504) 836-2121
Fax (504) 832-1158

INVOICE

Date	Invoice#
9/23/2013	113099

Bill To:
[redacted]

NEW ORLEANS, LA [redacted]

Owner Name: [redacted]
Client File#:
Ordered by: [redacted]
Phone:
Alt. Phone:
Fax:
Email: [redacted]

Service Description	Price
Elevation Address:2615 ORLEANS AVE. District:SECOND Square:339 Lot:19 Parish:ORLEANS	$250.00
TOTAL INVOICE	$250.00
PAYMENTS	$250.00
BALANCE DUE	$0.00

PAYMENT HISTORY

Date	Payment Method	Payment #	Payment Amount	Amount Applied
9/24/2013	Credit Card	173380	$250.00	$250.00

Please return copy of Invoice with payment!

U.S. DEPARTMENT OF HOMELAND SECURITY
FEDERAL EMERGENCY MANAGEMENT AGENCY
National Flood Insurance Program

ELEVATION CERTIFICATE

IMPORTANT: Follow the instructions on pages 1–9.

OMB No. 1660-0008
Expiration Date: July 31, 2015

SECTION A - PROPERTY INFORMATION

FOR INSURANCE COMPANY USE
Policy Number:
Company NAIC Number:

A1. Building Owner's Name [redacted]

A2. Building Street Address (including Apt., Unit, Suite, and/or Bldg. No.) or P.O. Route and Box No.
2615 ORLEANS AVE.

City NEW ORLEANS State LA ZIP Code 70119

A3. Property Description (Lot and Block Numbers, Tax Parcel Number, Legal Description, etc.)
District SECOND Lot 19 Square 339

A4. Building Use (e.g., Residential, Non-Residential, Addition, Accessory, etc.) Residential

A5. Latitude/Longitude: Lat. 29.97013 Long. -90.08168 Horizontal Datum: ☐ NAD 1927 ☒ NAD 1983

A6. Attach at least 2 photographs of the building if the Certificate is being used to obtain flood insurance.

A7. Building Diagram Number 5

A8. For a building with a crawl space or enclosure(s):
- a) Square footage of crawl space or enclosure(s) N/A sq ft
- b) No. of permanent flood openings in the crawl space or enclosure(s) walls within 1.0 foot above adjacent grade N/A
- c) Total net area of flood openings in A8.b N/A sq in
- d) Engineered Flood Openings? ☐ Yes ☐ No

A9. For a building with an attached garage:
- a) Square footage of attached garage N/A sq ft
- b) No. of permanent flood openings in the attached garage walls within 1.0 foot above adjacent grade N/A
- c) Total net area of flood openings in A9.b N/A sq in
- d) Engineered Flood Openings? ☐ Yes ☐ No

SECTION B - FLOOD INSURANCE RATE MAP (FIRM) INFORMATION

B1. NFIP Community Name & Community Number	B2. County Name	B3. State
CITY OF NEW ORLEANS 225203	ORLEANS	LA

B4. Map/Panel Number	B5. Suffix	B6. FIRM Index Date	B7. FIRM Panel Effective/Revised Date	B8. Flood Zone(s)	B9. Base Flood Elevation(s) (Zone AO, use base flood depth)
0095	E	3/1/1984	3/1/1984	A-3	1.50

B10. Indicate the source of the Base Flood Elevation (BFE) data or base flood depth entered in Item B9.
☐ FIS Profile ☒ FIRM ☐ Community Determined ☐ Other/ Source ______

B11. Indicate elevation datum used for BFE in Item B9: ☒ NGVD 1929 ☐ NAVD 1988 ☐ Other/ Source ______

B12. Is the building located in a Coastal Barrier Resources System (CBRS) area or Otherwise Protected Area (OPA)? ☐ Yes ☒ No
Designation Date ______ ☐ CBRS ☐ OPA

SECTION C - BUILDING ELEVATION INFORMATION (SURVEY REQUIRED)

C1. Building elevations are based on: ☐ Construction Drawings* ☐ Building Under Construction* ☒ Finished Construction
*A new Elevation Certificate will be required when construction of the building is complete.

C2. Elevations – Zones A1-A30, AE, AH, A (with BFE), VE, V1-V30, V (with BFE), AR, AR/A, AR/AE, AR/A1-A30, AR/AH, AR/AO. Complete Items C2.a-h below according to the building diagram specified in Item A7. In Puerto Rico only, enter meters.

Benchmark Utilized ALCO Vertical Datum NAVD '88

Indicate elevation datum used for the elevations in items a) through h) below. ☐ NGVD 1929 ☒ NAVD 1988 ☐ Other/Source: ______
Datum used for building elevations must be the same as that used for the BFE. Check the measurement used.

a)	Top of bottom floor (including basement, crawl space, or enclosure floor)	0.18	☒ feet	☐ meters
b)	Top of the next higher floor	N/A	☒ feet	☐ meters
c)	Bottom of the lowest horizontal structural member (V Zones only)	N/A	☒ feet	☐ meters
d)	Attached garage (top of slab)	N/A	☒ feet	☐ meters
e)	Lowest elevation of machinery or equipment servicing the building (Describe type of equipment in Comments)	0.31	☒ feet	☐ meters
f)	Lowest adjacent (finished) grade (LAG)	-2.55	☒ feet	☐ meters
g)	Highest adjacent (finished) grade (HAG)	-2.26	☒ feet	☐ meters
h)	Lowest adjacent grade at lowest elevation of deck or stairs, including structural support	-2.30	☒ feet	☐ meters

SECTION D - SURVEYOR, ENGINEER, OR ARCHITECT CERTIFICATION

This certification is to be signed and sealed by a land surveyor, engineer, or architect authorized by law to certify elevation information. *I certify that the information on this Certificate represents my best efforts to interpret the data available. I understand that any false statement may be punishable by fine or imprisonment under 18 U.S. Code, Section 1001.*

☒ Check here if comments are provided on back of form.
☐ Check here if attachments.

Were latitude and longitude in Section A provided by a licensed land surveyor? ☒ Yes ☐ No

STATE OF LOUISIANA
LOUIS C. HARTMANN
LIC. NO. 4995
LICENSED PROFESSIONAL
LAND SURVEYOR

Certifier's Name Louis C. Hartmann License Number 4995

Title Professional Land Surveyor Company Name Gilbert, Kelly & Couturie, Inc.

Address 2121 N. CAUSEWAY BLVD., SUITE 121 City METAIRIE State LA ZIP Code 70001

Signature Date 10/2/2013 Telephone (504) 836-2121

ELEVATION CERTIFICATE, page 2

IMPORTANT: In these spaces, copy the corresponding information from Section A.			For Insurance Company Use:
Building Street Address (including Apt., Unit, Suite, and/or Bldg. No.) or P.O. Route and Box No. 2615 ORLEANS AVE.			Policy Number
City NEW ORLEANS	State LA	ZIP Code 70119	Company NAIC Number

SECTION D - SURVEYOR, ENGINEER, OR ARCHITECT CERTIFICATION (CONTINUED)

Copy both sides of this Elevation Certificate for (1) community official, (2) insurance agent/company, and (3) building owner.

Comments
SECTION C2E IS A/C COMPRESSOR PAD, THE TOP OF THE CURB IS -2.82 NAVD., TO CONVERT TO NGVD ADJUST UP .20 (NOT APPLIED)

Signature   Date 10/2/2013

SECTION E - BUILDING ELEVATION INFORMATION (SURVEY NOT REQUIRED) FOR ZONE AO AND ZONE A (WITHOUT BFE)

For Zones AO and A (without BFE), complete Items E1-E5. If the Certificate is intended to support a LOMA or LOMR-F request, complete Sections A, B, and C. For Items E1-E4, use natural grade, if available. Check the measurement used. In Puerto Rico only, enter meters.

E1. Provide elevation information for the following and check the appropriate boxes to show whether the elevation is above or below the highest adjacent grade (HAG) and the lowest adjacent grade (LAG).
a) Top of bottom floor (including basement, crawl space, or enclosure) is ______.____ ☐ feet ☐ meters ☐ above or ☐ below the HAG.
b) Top of bottom floor (including basement, crawl space, or enclosure) is ______.____ ☐ feet ☐ meters ☐ above or ☐ below the LAG.

E2. For Building Diagrams 6-8 with permanent flood openings provided in Section A Items 8 and/or 9 (see page 8 of Instructions), the next higher floor (elevation C2.b in the diagrams) of the building is ______.____ ☐ feet ☐ meters ☐ above or ☐ below the HAG.

E3. Attached garage (top of slab) is ______.____ ☐ feet ☐ meters ☐ above or ☐ below the HAG.

E4. Top of platform of machinery and/or equipment servicing the building is ______.____ ☐ feet ☐ meters ☐ above or ☐ below the HAG.

E5. Zone AO only: If no flood depth number is available, is the top of the bottom floor elevated in accordance with the community's floodplain management ordinance? ☐ Yes ☐ No ☐ Unknown. The local official must certify this information in Section G.

SECTION F - PROPERTY OWNER (OR OWNER'S REPRESENTATIVE) CERTIFICATION

The property owner or owner's authorized representative who completes Sections A, B, and E for Zone A (without a FEMA-issued or community-issued BFE) or Zone AO must sign here. *The statements in Sections A, B, and E are correct to the best of my knowledge.*

Property Owner's or Owner's Authorized Representative's Name

Address   City   State   ZIP Code

Signature   Date   Telephone

Comments

☐ Check here if attachments

SECTION G - COMMUNITY INFORMATION (OPTIONAL)

The local official who is authorized by law or ordinance to administer the community's floodplain management ordinance can complete Sections A, B, C (or E), and G of this Elevation Certificate. Complete the applicable item(s) and sign below. Check the measurement used in items G8. and G9.

G1. ☐ The information in Section C was taken from other documentation that has been signed and sealed by a licensed surveyor, engineer, or architect who is authorized by law to certify elevation information. (Indicate the source and date of the elevation data in the Comments area below.)

G2. ☐ A community official completed Section E for a building located in Zone A (without a FEMA-issued or community-issued BFE) or Zone AO.

G3. ☐ The following information (Items G4.-G9.) is provided for community floodplain management purposes.

G4. Permit Number	G5. Date Permit Issued	G6. Date Certificate Of Compliance/Occupancy Issued

G7. This permit has been issued for: ☐ New Construction ☐ Substantial Improvement

G8. Elevation of as-built lowest floor (including basement) of the building: ______.____ ☐ feet ☐ meters Datum______

G9. BFE or (in Zone AO) depth of flooding at the building site: ______.____ ☐ feet ☐ meters Datum______

G10. Community's design flood elevation: ______.____ ☐ feet ☐ meters Datum______

Local Official's Name   Title

Community Name   Telephone

Signature   Date

Comments

☐ Check here if attachments

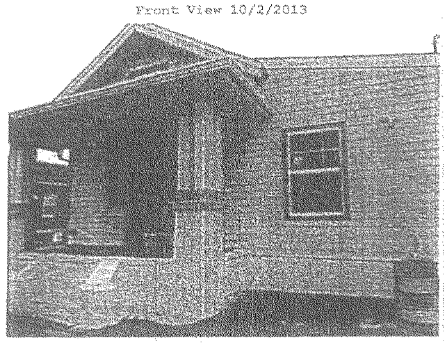
ELEVATION CERTIFICATE, page 3

BUILDING PHOTOGRAPHS
See Instructions for Item A6.

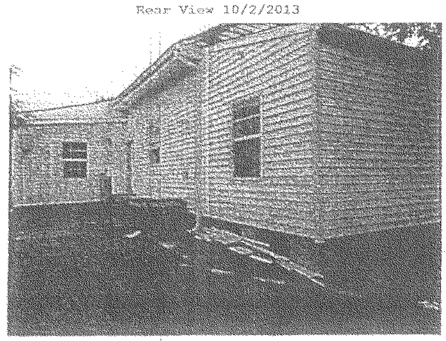
IMPORTANT: In these spaces, copy the corresponding information from Section A.			For Insurance Company Use:
Building Street Address (including Apt., Unit, Suite, and/or Bldg. No.) or P.O. Route and Box No. 2615 ORLEANS AVE.			Policy Number
City NEW ORLEANS	State LA	ZIP Code 70119	Company NAIC Number

If using the Elevation Certificate to obtain NFIP flood insurance, affix at least two building photographs below according to the instructions for Item A6. Identify all photographs with: date taken; "Front View" and "Rear View"; and, if required, "Right Side View" and "Left Side View." If submitting more photographs than will fit on this page, use the Continuation Page, following.

Front View 10/2/2013



Rear View 10/2/2013

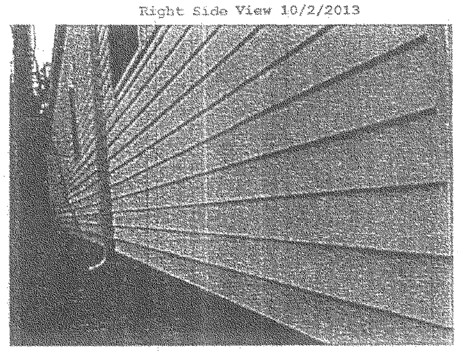


ELEVATION CERTIFICATE, page 4 BUILDING PHOTOGRAPHS
Continuation Page

IMPORTANT: In these spaces, copy the corresponding information from Section A.			For Insurance Company Use:
Building Street Address (including Apt., Unit, Suite, and/or Bldg. No.) or P.O. Route and Box No. 2615 ORLEANS AVE.			Policy Number
City NEW ORLEANS	State LA	ZIP Code 70119	Company NAIC Number

If submitting more photographs than will fit on the preceding page, affix the additional photographs below. Identify all photographs with: date taken; "Front View" and "Rear View"; and, if required, "Right Side View" and "Left Side View."

Right Side View 10/2/2013



Left Side View 10/2/2013

Fidelity National Property And Casualty

Quote Number
17 QT42863405 99
Total Building Coverage
150,000
Total Contents Coverage
50,000

Premium by Deductible Combination

Building	Contents	Disc/Surc	Total Premium
1,000	1,000	0	4,483
2,000	1,000	5	4,262
2,000	2,000	7.5	4,151
3,000	1,000	10	4,039
3,000	2,000	12.5	3,929
3,000	3,000	15	3,818
4,000	1,000	15	3,818
4,000	2,000	17.5	3,707
4,000	3,000	20	3,596
4,000	4,000	22.5	3,486
5,000	1,000	17.5	3,707
5,000	2,000	20	3,596
5,000	3,000	22	3,508
5,000	4,000	23.5	3,442
5,000	5,000	25	3,375

APPENDIX C

APPENDIX C: Example 1

This pre-FIRM property was purchased in 2011by a Pennsylvania couple as a future retirement home. Upon hearing of the changes in the Biggert-Waters Act, the owners sought and elevation certificate and learned that the full-risk rate of the home had increased from $3300 to over $59,000. Even with the phase-in of rates, this sharp increase has made the home unaffordable and the home is now up for sale. The owners fear they will not be able to sell the home because of the full-risk rate.

Flood Processing Center

Submit Department - Specifically Rated Quote

555 Corporate Drive or PO Box 2057
Kalispell, MT 59903-2057
Phone #: 1 (888) 389-8659
Fax #: 1 (406) 257-1409
Email Address:

Date: 10/15/2013
Fax number: [redacted]
Attention: [redacted]
From: submitfax@floodpro.net
Number of Pages including cover: 2

Quote For: [redacted]
Policy/Quote Number: [redacted]
WEB Quote #: [redacted]

Reminder: This Quote will be valid for a period of 30 days until: 11/14/2013

CHECK LIST FOR INFORMATION REQUIRED TO ISSUE A NEW BUSINESS SUBMIT POLICY

X Application - Completed and signed by an Agent.
_ Elevation Certificate - Completed and signed by an Engineer/Surveyor.
_ Recent Photos of the front and back of the entire building or construction drawings if the building is under construction.
_ Variance Form or Statement of no Variance.
_ Elevated Building Determination Form (for all elevated buildings).
_ Certified letter from a qualifying official verifying that the enclosure is designed/built with breakaway walls is required if the enclosure is 300 sq. ft. or more using masonry walls and represented as being breakaway.
X Full Premium

Additional Information Required - If Marked below:

_ Please provide the deductible requested on the application.
_ Please provide a list of machinery/equipment and appliances in the enclosure/basement on the application.
(This is required since the EC shows M & E (C3e) at an elevation below the BFE.
Please identify what the surveyor has indicated.
_ Please send a signed statement that the elevation certificate address and the application address are the same.
Please provide both addresses on the verification.
_ C3a on EC must show as the crawl space/enclosure floor and the C3b as the next higher floor.
X Other - please see below:

Comments:

This quote is rated as a pre-FIRM construction that is elevated with a 1416sqft enclosure and with machinery or equipment below base flood elevation. Please be advised if any of the information used to rate this quote changes or is incorrect this quote is void.

If you have any questions please feel free to call our customer service line at 1-888-389-8659.

Thank you!

This Quote is based on the information provided. The final premium determination will be made following an underwriting review.
Please call our Submit Department at the number above if you have any questions or need further assistance.

Policy/Quote Number: [redacted]
WEB Quote #: [redacted]
Quote For: [redacted]
Underwriter: submitfax@floodpro.net

10/15/2013

Premium Calculations

COVERAGE	DEDUCT.	INS. AMT.	RATES	PREMIUM	DISCOUNT/ BUYBACK	NET PREMIUM
Building	2000	60,000	21.160	12,696		
Added		190,000	21.160	40,204		
Building Totals:		250,000		52,900	3,967	48,933.00
Contents	2000	25,000	18.560	4,640		
Added		75,000	18.560	13,920		
Contents Totals:		100,000		18,560	1,392	17,168.00
Total Building and Contents:				71,460	5,359	66,101.00

Policy Term:	1	
Expense Constant:		0
ICC Premium:		34.00
Community Discount:		9,920.00
Community Probation Charge:		0
Annual Premium:		56,215.00
Reserve Fund Assmt:		2811
Policy Service Fee:		44
Total Annual Due:		59,070.00

Other Deductible Options:

(Please Select the Deductible Option You Want)

	Building	Contents	Premium
___	1,000	1,000	$63,853.00
___	2,000	2,000	$59,070.00
___	3,000	3,000	$54,286.00
___	4,000	4,000	$49,503.00
___	5,000	5,000	$47,908.00

See Checklist for complete submission requirements to issue a New Business policy.

This Quote is based on the information provided. The final premium determination will be made following an underwriting review.

Please call our Submit Department if you have any questions or need further assistance.

Flood Processing Center

Submit Department - "FEMA Special Rate" Quote

555 Corporate Drive or PO Box 2057
Kalispell, MT 59903-2057
Phone #: 1 (888) 389-8659
Fax #: 1 (406) 257-1409
Email Address:

Date: 10/16/2013
Fax number: [redacted]
Attention: [redacted]
From: submitfax@floodpro.net
Number of Pages including cover: 2

Quote For: [redacted]
Policy/Quote Number: [redacted]
WEB Quote #: [redacted]

Reminder: THIS QUOTATION IS BASED ON "FEMA SPECIAL RATES".
This Quote will be valid for a period of 30 days until: 11/15/2013

Important Note: The quote provided is based on an in-depth underwriting analysis by FEMA. The policy will be updated and reviewed upon each renewal. Updated information (i.e. updated interior photos) may be required before the policy can be updated with next year's new renewal "FEMA Special Rates".

CHECK LIST FOR INFORMATION REQUIRED TO ISSUE A

NEW BUSINESS SUBMIT POLICY

_ Application - Completed and signed by an Agent.
_ Elevation Certificate - Completed and signed by an Engineer/Surveyor.
_ Recent Photos of the front and back of the entire building or construction drawings if the building is under construction.
_ Variance Form or Statement of no Variance.
_ Elevated Building Determination Form (for all elevated buildings).
_ Certified letter from a qualifying official verifying that the enclosure is designed/built with breakaway walls is required if the enclosure is 300 sq. ft. or more using masonry walls and represented as being breakaway.
X Full Premium

Additional Information Required - If Marked below:

_ Please provide the deductible requested on the application.
_ Please provide a list of machinery/equipment and appliances in the enclosure/basement on the application.
(This is required since the EC shows M & E (C3e) at an elevation below the BFE. Please identify what the surveyor has indicated.
_ Please send a signed statement that the elevation certificate address and the application address are the same.
Please provide both addresses on the verification.
_ C3a on EC must show as the crawl space/enclosure floor and the C3b as the next higher floor.
X Other FEMA Requirements - please see below:

This is a revised quote for coverage amount changes only. No other changes have been made. Please see original quote correspondence for any additional information for policy issuance as well as any disclaimers for quote premium amount as they may still apply.

Please call our Submit Department at the number above if you have any questions or need further assistance.

Policy/Quote Number: [redacted]3
WEB Quote #: [redacted]
Quote For: [redacted]
Underwriter: submitfax@floodpro.net

10/16/2013

This Quote is based on "FEMA Special Rates"

Premium Calculations

COVERAGE	DEDUCT	INS. AMT.	RATES	PREMIUM	DISCOUNT/ BUYBACK	NET PREMIUM
Building	2000	60,000	14.100	8,460		
Added		190,000	14.100	26,790		
Building Totals:		250,000		35,250	2,291	32,959.00
Contents		0	8.470	0		
Added		0	8.470	0		
Contents Totals:		0		0	0	.00
Total Building and Contents:				35,250	2,291	32,959.00

Policy Term:	1	
Expense Constant:		0
ICC Premium:		34.00
Community Discount:		4,949.00
Community Probation Charge:		0
Annual Premium:		28,044.00
Reserve Fund Assmt:		1402
Policy Service Fee:		44
Total Annual Due:		29,490.00

Other Deductible Options: (Please Select the Deductible Option You Want)

	Building	Contents	Premium
____	1,000		$31,535.00
____	2,000		$29,490.00
____	3,000		$27,916.00
____	4,000		$26,344.00
____	5,000		$24,770.00

See Checklist for complete submission requirements to issue a New Business policy.

This Quote is based on the information provided. The final premium determination will be made following an underwriting review.

Please call our Submit Department if you have any questions or need further assistance.

10/30/2013 06:05 FAX 215 657 0780 WEINSTEIN SUPPLY 001

NORTH CAROLINA FAIR AND BEACH PLANS

NORTH CAROLINA JOINT UNDERWRITING ASSOCIATION
NORTH CAROLINA INSURANCE UNDERWRITING ASSOCIATION
P.O. BOX 8009 - CARY, NORTH CAROLINA 27512
(919) 821-1299 - www.ncjua-nciua.org

HOMEOWNER WIND DECLARATION
COINSURANCE CONTRACT
RENEWAL POLICY EFFECTIVE
10/28/2013
PAGE 1

POLICY NUMBER	POLICY PERIOD FROM	POLICY PERIOD TO	EFFECTIVE TIME AT THE DESCRIBED LOCATION	PRODUCER'S CODE
[redacted]	10/28/2013	10/28/2014	12:01 AM STANDARD TIME	706840

NAMED INSURED AND MAILING ADDRESS	PRODUCER: (910) 329-4443
[redacted]	SFI GROUP, INC 13500-105 NC HWY 50 & 210 SURF CITY NC 28445

THE DESCRIBED LOCATION COVERED BY THIS POLICY IS LOCATED AT:

3655 ISLAND DR
N TOPSAIL BEACH NC 28460-0000

RATING INFORMATION:

NUM OF FAMILIES	OCCUPIED BY	PROTECTION CLASS	YEAR BUILT	TERRITORY CODE	CONSTRUCTION TYPE
1	OWNER	NA	1979	8	FRAME

THIS RENEWAL DECLARATION RENEWS YOUR POLICY FOR THE PERIOD SHOWN. WE WILL PROVIDE THE INSURANCE DESCRIBED IN THIS POLICY IN RETURN FOR THE PREMIUM AND COMPLIANCE WITH ALL APPLICABLE POLICY PROVISIONS. COVERAGE IS PROVIDED WHERE A PREMIUM OR LIMIT OF LIABILITY IS SHOWN FOR THE COVERAGE. PLEASE ATTACH THIS DECLARATION PAGE TO YOUR POLICY.

COVERAGE WRITING RESTRICTIONS MAY APPLY TO EXPIRED OR CANCELED POLICIES IF THERE IS A NAMED STORM LOCATED WITHIN THE COORDINATES OF LONGITUDES 65 DEGREES WEST AND 85 DEGREES WEST, AND LATITUDES 20 DEGREES NORTH AND 37 DEGREES NORTH, IF YOUR PREMIUMS HAVE NOT BEEN PAID TO THE ASSOCIATION.

SECTION I COVERAGES	LIMITS OF LIABILITY	PREMIUM
A-DWELLING COVERAGE	$339,000	$3,487.00
B-OTHER STRUCTURES	$33,900	
C-PERSONAL PROPERTY	$135,600	
D-LOSS OF USE	$67,800	

SECTION I DEDUCTIBLES-IN CASE OF LOSS WE COVER ONLY THAT PART OF THE LOSS OVER THE DEDUCTIBLE STATED BELOW:

	DEDUCTIBLE LIMIT	
DEDUCTIBLE-WINDSTORM AND HAIL	$2,500	
DEDUCTIBLE-NAMED STORM	1%/ $3,390	
TOTAL BASE PREMIUM		$3,487.00
TOTAL ADDITIONAL PREMIUM		$327.00
TOTAL PREMIUM		$3,814.00

POLICY IS BILLED TO: MORTGAGEE

ESSENTIAL PROPERTY INSURER : AMERICAN MODERN INS GRP
(If incorrect or changes please inform your Producer and the Association).

10/30/2013 06:06 FAX 215 657 0780 WEINSTEIN SUPPLY 002

RENEWAL DECLARATION PAGE 8445

AMERICAN FAMILY HOME INSURANCE COMPANY

HOMEOWNERS POLICY DECLARATIONS **POLICY NUMBER: 0700047065050**

NAMED INSURED:
[redacted]

AGENT 079015:
JOHNSON & JOHNSON INC
PO BOX 899
CHARLESTON SC 29402

MAIL TO: [redacted]

BROKER 806264:
SFI GROUP-SURF CITY
13500-105 NC HWY 50 & 210
SURF CITY NC 28445
PHONE: (910) 329-4443

POLICY PERIOD:
FROM: OCT 28, 2013 **TO:** OCT 28, 2014
12:01 A.M. STANDARD TIME
AT INSURED PROPERTY ADDRESS

INSURED PROPERTY:
3655 ISLAND DR
N TOPSAIL BEACH NC 28460-8205

LIENHOLDER 1 ACCT: [redacted]
CORAOPOLIS PA 15108-6942

UNIT	OCCUPANCY	CONSTRUCTION TYPE	NO. FAMILIES	NO. STORIES	PROTECTION CLASS	TERR
1	SEASONAL	FRAME	ONE FAMILY	TWO STORY	06	84

THIS POLICY PROVIDES ONLY THE FOLLOWING COVERAGES FOR THIS UNIT:

SECTION	ITEM	COVERAGE	LIMIT	PREMIUM
1	COVERAGE A	HOMEOWNERS HO3	$339,035	$740.00
1	COVERAGE C	PERSONAL PROPERTY	$169,600	
1	COVERAGE B	OTHER STRUCTURES	$34,000	
1	COVERAGE D	LOSS OF USE	$101,800	
2	COVERAGE E	PERSONAL LIABILITY-PER OCCURRENC	$500,000	$12.00
2	COVERAGE F	MEDICAL PAYMENTS-PER OCCURRENCE	$25,000	
2		DAMAGE TO PROPERTY OF OTHERS	$500	
1	COVERAGE C	PERS PROPERTY REPLACEMENT COST		$37.00
1	DEDUCTIBLE	SUBJECT TO ALL PERILS *	$2,500	$187.00-
2	COVERAGE F	MEDICAL PAYMENTS-PER PERSON	$5,000	$12.00
1	DWELLING	ADDITIONAL AMOUNTS OF INSURANCE	SEE FORM	$15.00
1		PROVIDES AN ADDL 25% OF COV A		
1	DWELLING	ORDINANCE OR LAW COVERAGE	$33,904	
1	COVERAGE A	WATER BACKUP/SUMP OVERFLOW COV.	$25,000	$40.00

MINIMUM WRITTEN AND/OR EARNED MAY APPLY TOTAL PREMIUM $669.00

(CONTINUED ON REVERSE SIDE)

ENDORSEMENT FORMS APPLICABLE TO THIS POLICY:
S3K32 01/09; S3L00 07/08; S3N00 07/08; SCR32 06/07; SFP32 06/07;
IN111 12/12; IN132 06/07; IN150 06/12; IND77 07/06; SHN32 06/07;
S3002 10/00; S3A32 06/10; S3D32 07/08; S3G32 03/10; S3P32 07/08;
S3W32 07/08; V9295 11/05;

BILL TO LIENHOLDER

Policy Number: 87046606282013

FLOOD POLICY DECLARATIONS

Service Insurance Company

Standard Policy

Type: Renewal
Policy Period: 10/28/2013 To 10/28/2014
Form: Dwelling

To report a claim call: (800) 759-8656
These Declarations are effective
as of: 10/28/2013 at 12:01 AM

Address Info

Producer Name and Mailing Address:
SFI GROUP INC
13500 HIGHWAY 50/210 STE 105
SURF CITY, NC 28445-7934

Insured Name and Mailing Address:
[redacted]

Agent/Agency #: 00700-00354-000
Reference #:
Phone #: (910)329-4443

Processed by:
Flood Insurance Processing Center
P.O. Box 2057 Kalispell MT 59903-2057

Property Info

Property Location:
3655 ISLAND DR
N TOPSAIL BEACH, NC 28460

Building Description:
Single Family
Two Floors
Slab On Grade
Main House/Building
Single Family Dwelling

Principal/Primary Residence: N
Premium Payor: 1st Mortgagee
Flood Risk/Rated Zone: AE **Current Zone:**
Community Number: 37 0466 4266 J
Community Name: NORTH TOPSAIL BEACH, TOWN OF
Grandfathered: No
Pre-Firm Construction
Program Type: Regular

Elevated Building: N
Includes Addition(s) and Extension(s)
Replacement Cost: $322,500
Number of Units: 1

Coverage & Rating

Type	Coverage	Rates	Deduct	Discount	Sub Total
Building:	250,000	.910 / .790	2,000		2,047.00
Contents:	100,000	1.350 / 1.410	2,000		1,346.00
Contents Location:	Lowest Floor Above Ground Level and Higher Floors				

Premium Calculation	
Premium Subtotal:	3,393.00
ICC Premium:	55.00
CRS Discount:	517.00
Reserve Fund Assmt:	147.00
Federal Policy Fee:	44.00
Probation Surcharge:	.00
Endorsement Amount:	.00
Total Premium Paid:	3,122.00

Coverage Limitations May Apply. See Your Policy Form for Details.

Mortgage Info

First Mortgage:
OCWEN LOAN SERVICING LLC
ITS SUCCESSORS AND OR ASSIGNS
PO BOX 4025
CORAOPOLIS, PA 15108-6942
Loan#: 0603212073

Third Mortgage:

Second Mortgage:

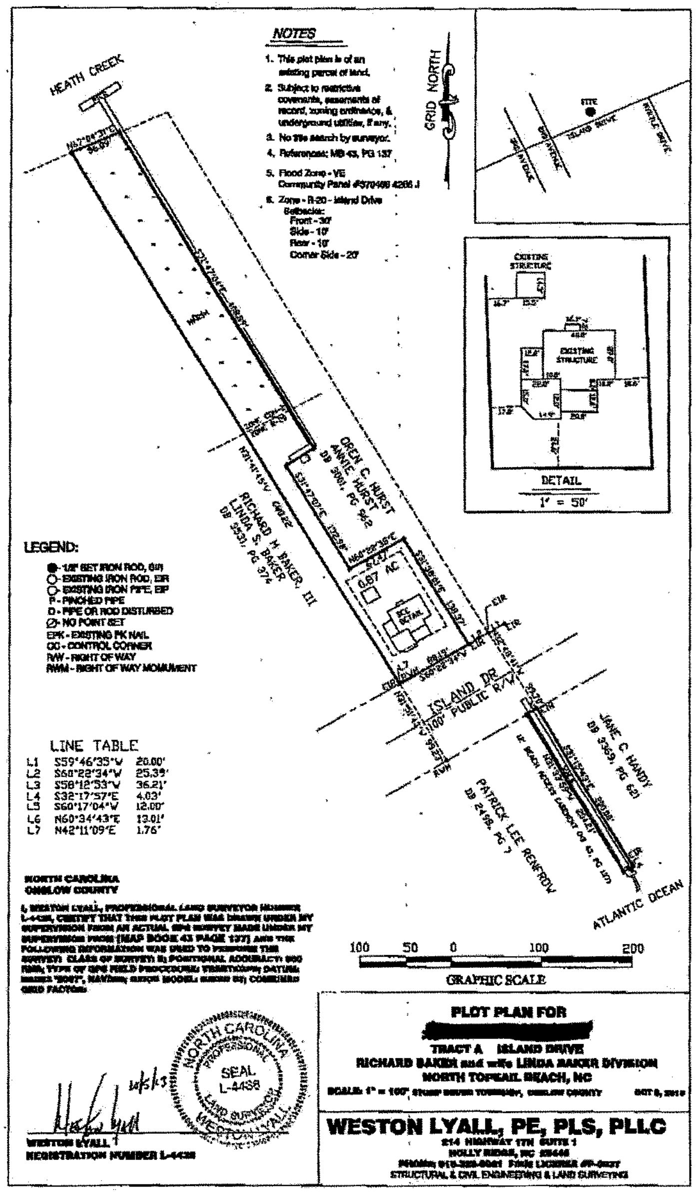
Additional Loss Payee:

This Declaration Page, in conjunction with the policy, constitutes your Flood Insurance Policy.
In WITNESS WHEREOF, we have signed this policy below and hereby enter into this Insurance Agreement.

President

Secretary

10/30/2013 06:06 FAX 215 657 0780 WEINSTEIN SUPPLY ☑004



U.S. DEPARTMENT OF HOMELAND SECURITY
FEDERAL EMERGENCY MANAGEMENT AGENCY
National Flood Insurance Program

ELEVATION CERTIFICATE

Important: Read the instructions on pages 1–9.

OMB No. 1660-0008
Expiration Date: July 31, 2015

[redacted]

SECTION A – PROPERTY INFORMATION

A1. Building Owner's Name [redacted]

A2. Building Street Address (including Apt., Unit, Suite, and/or Bldg. No.) or P.O. Route and Box No.
3656 Island Drive

City North Topsail Beach State NC ZIP Code 28460

A3. Property Description (Lot and Block Numbers, Tax Parcel Number, Legal Description, etc.)
Tract A, Richard & Linda Baker Subdivision, Deed Book 3672, Pg 921; Map Book 43, Pg 137

A4. Building Use (e.g., Residential, Non-Residential, Addition, Accessory, etc.) Residential

A5. Latitude/Longitude: Lat. 34-28-27.0 Long. -77-27-39.4 Horizontal Datum: ☐ NAD 1927 ☒ NAD 1983

A6. Attach at least 2 photographs of the building if the Certificate is being used to obtain flood insurance.

A7. Building Diagram Number 6

A8. For a building with a crawlspace or enclosure(s):
- a) Square footage of crawlspace or enclosure(s) 1416 sq ft
- b) Number of permanent flood openings in the crawlspace or enclosure(s) within 1.0 foot above adjacent grade 2
- c) Total net area of flood openings in A8.b 331 sq in
- d) Engineered flood openings? ☐ Yes ☒ No

A9. For a building with an attached garage:
- a) Square footage of attached garage na sq ft
- b) Number of permanent flood openings in the attached garage within 1.0 foot above adjacent grade na
- c) Total net area of flood openings in A9.b na sq in
- d) Engineered flood openings? ☐ Yes ☐ No

SECTION B – FLOOD INSURANCE RATE MAP (FIRM) INFORMATION

B1. NFIP Community Name & Community Number	B2. County Name	B3. State
370466 North Topsail Beach	Onslow	NC

B4. Map/Panel Number	B5. Suffix	B6. FIRM Index Date	B7. FIRM Panel Effective/Revised Date	B8. Flood Zone(s)	B9. Base Flood Elevation(s) (Zone AO, use base flood depth)
3720426600	J	2-16-07	11-03-05	VE	12.0

B10. Indicate the source of the Base Flood Elevation (BFE) data or base flood depth entered in Item B9.
☐ FIS Profile ☒ FIRM ☐ Community Determined ☐ Other/Source: ____

B11. Indicate elevation datum used for BFE in Item B9: ☐ NGVD 1929 ☒ NAVD 1988 ☐ Other/Source: ____

B12. Is the building located in a Coastal Barrier Resources System (CBRS) area or Otherwise Protected Area (OPA)? ☐ Yes ☒ No
Designation Date: ____ ☐ CBRS ☐ OPA

SECTION C – BUILDING ELEVATION INFORMATION (SURVEY REQUIRED)

C1. Building elevations are based on: ☐ Construction Drawings* ☐ Building Under Construction* ☒ Finished Construction
*A new Elevation Certificate will be required when construction of the building is complete.

C2. Elevations – Zones A1–A30, AE, AH, A (with BFE), VE, V1–V30, V (with BFE), AR, AR/A, AR/AE, AR/A1–A30, AR/AH, AR/AO. Complete Items C2.a–h below according to the building diagram specified in Item A7. In Puerto Rico only, enter meters.

Benchmark Utilized: na Vertical Datum: Geoid 03 VRS RTK GPS

Indicate elevation datum used for the elevations in items a) through h) below. ☐ NGVD 1929 ☒ NAVD 1988 ☐ Other/Source: ____
Datum used for building elevations must be the same as that used for the BFE.

		Check the measurement used.	
a) Top of bottom floor (including basement, crawlspace, or enclosure floor)	6.6	☒ feet	☐ meters
b) Top of the next higher floor	15.5	☒ feet	☐ meters
c) Bottom of the lowest horizontal structural member (V Zones only)	13.3	☒ feet	☐ meters
d) Attached garage (top of slab)	N.A	☐ feet	☐ meters
e) Lowest elevation of machinery or equipment servicing the building (Describe type of equipment and location in Comments)	8.9	☒ feet	☐ meters
f) Lowest adjacent (finished) grade next to building (LAG)	6.5	☒ feet	☐ meters
g) Highest adjacent (finished) grade next to building (HAG)	7.0	☒ feet	☐ meters
h) Lowest adjacent grade at lowest elevation of deck or stairs, including structural support	N.A	☐ feet	☐ meters

SECTION D – SURVEYOR, ENGINEER, OR ARCHITECT CERTIFICATION

This certification is to be signed and sealed by a land surveyor, engineer, or architect authorized by law to certify elevation information. *I certify that the information on this Certificate represents my best efforts to interpret the data available. I understand that any false statement may be punishable by fine or imprisonment under 18 U.S. Code, Section 1001.*

☒ Check here if comments are provided on back of form.
☐ Check here if attachments.

Were latitude and longitude in Section A provided by a licensed land surveyor? ☐ Yes ☒ No

PLACE SEAL HERE

Certifier's Name Weston Lyall License Number L-4436

Title Owner/PLS/PE Company Name Weston Lyall, PE, PLS, PLLC

Address 214 Hwy 17 N City Holly Ridge State NC ZIP Code 28445

Signature Weston Lyall Date 10-7-13 Telephone 910-329-9961

10/30/2013 08:06 FAX 215 657 0780 WEINSTEIN SUPPLY 006

IMPORTANT: In these spaces, copy the corresponding information from Section A.	FOR INSURANCE COMPANY USE
Building Street Address (including Apt., Unit, Suite, and/or Bldg. No.) or P.O. Route and Box No. 3855 Island Drive	
City North Topsail Beach State NC ZIP Code 28460	

SECTION D – SURVEYOR, ENGINEER, OR ARCHITECT CERTIFICATION (CONTINUED)

Copy both sides of this Elevation Certificate for (1) community official, (2) insurance agent/company, and (3) building owner.

Comments C2 e. The wood stand with the A/C unit

Signature [signature] Date 10-7-13

SECTION E – BUILDING ELEVATION INFORMATION (SURVEY NOT REQUIRED) FOR ZONE AO AND ZONE A (WITHOUT BFE)

For Zones AO and A (without BFE), complete Items E1–E5. If the Certificate is intended to support a LOMA or LOMR-F request, complete Sections A, B, and C. For Items E1–E4, use natural grade, if available. Check the measurement used. In Puerto Rico only, enter meters.

E1. Provide elevation information for the following and check the appropriate boxes to show whether the elevation is above or below the highest adjacent grade (HAG) and the lowest adjacent grade (LAG).
a) Top of bottom floor (including basement, crawlspace, or enclosure) is ____.____ ☐ feet ☐ meters ☐ above or ☐ below the HAG.
b) Top of bottom floor (including basement, crawlspace, or enclosure) is ____.____ ☐ feet ☐ meters ☐ above or ☐ below the LAG.

E2. For Building Diagrams 6–9 with permanent flood openings provided in Section A Items 8 and/or 9 (see pages 8–9 of Instructions), the next higher floor (elevation C2.b in the diagrams) of the building is ____.____ ☐ feet ☐ meters ☐ above or ☐ below the HAG.

E3. Attached garage (top of slab) is ____.____ ☐ feet ☐ meters ☐ above or ☐ below the HAG.

E4. Top of platform of machinery and/or equipment servicing the building is ____.____ ☐ feet ☐ meters ☐ above or ☐ below the HAG.

E5. Zone AO only: If no flood depth number is available, is the top of the bottom floor elevated in accordance with the community's floodplain management ordinance? ☐ Yes ☐ No ☐ Unknown. The local official must certify this information in Section G.

SECTION F – PROPERTY OWNER (OR OWNER'S REPRESENTATIVE) CERTIFICATION

The property owner or owner's authorized representative who completes Sections A, B, and E for Zone A (without a FEMA-issued or community-issued BFE) or Zone AO must sign here. The statements in Sections A, B, and E are correct to the best of my knowledge.

Property Owner's or Owner's Authorized Representative's Name

Address City State ZIP Code

Signature Date Telephone

Comments

☐ Check here if attachments.

SECTION G – COMMUNITY INFORMATION (OPTIONAL)

The local official who is authorized by law or ordinance to administer the community's floodplain management ordinance can complete Sections A, B, C (or E), and G of this Elevation Certificate. Complete the applicable item(s) and sign below. Check the measurement used in Items G8–G10. In Puerto Rico only, enter meters.

G1. ☐ The information in Section C was taken from other documentation that has been signed and sealed by a licensed surveyor, engineer, or architect who is authorized by law to certify elevation information. (Indicate the source and date of the elevation data in the Comments area below.)

G2. ☐ A community official completed Section E for a building located in Zone A (without a FEMA-issued or community-issued BFE) or Zone AO.

G3. ☐ The following information (Items G4–G10) is provided for community floodplain management purposes.

G4. Permit Number	G5. Date Permit Issued	G6. Date Certificate Of Compliance/Occupancy Issued

G7. This permit has been issued for: ☐ New Construction ☐ Substantial Improvement

G8. Elevation of as-built lowest floor (including basement) of the building: ____.____ ☐ feet ☐ meters Datum ____

G9. BFE or (in Zone AO) depth of flooding at the building site: ____.____ ☐ feet ☐ meters Datum ____

G10. Community's design flood elevation: ____.____ ☐ feet ☐ meters Datum ____

Local Official's Name Title

Community Name Telephone

Signature Date

Comments

☐ Check here if attachments.

ELEVATION CERTIFICATE, page 3

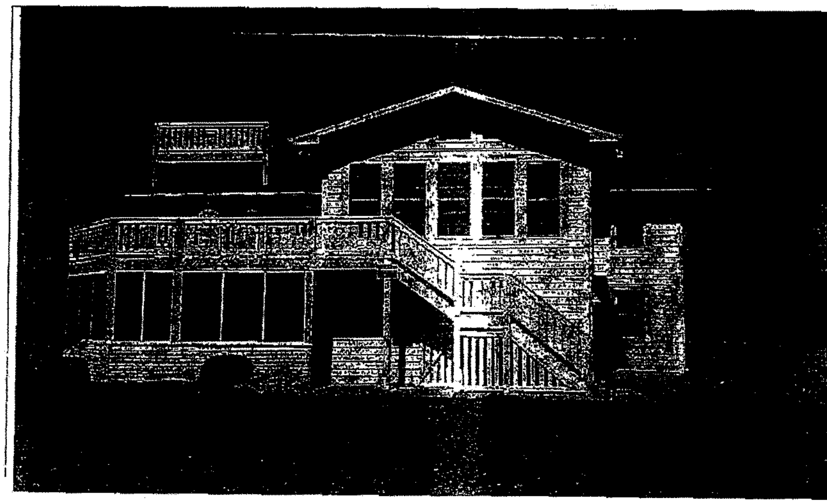
Building Photographs

See Instructions for Item A6.

IMPORTANT: In these spaces, copy the corresponding information from Section A.

			FOR INSURANCE COMPANY USE
Building Street Address (including Apt., Unit, Suite, and/or Bldg. No.) or P.O. Route and Box No. 3655 Island Drive			Policy Number:
City North Topsail Beach	State NC	ZIP Code 28460	Company NAIC Number:

If using the Elevation Certificate to obtain NFIP flood insurance, affix at least 2 building photographs below according to the instructions for Item A6. Identify all photographs with date taken; "Front View" and "Rear View"; and, if required, "Right Side View" and "Left Side View." When applicable, photographs must show the foundation with representative examples of the flood openings or vents, as indicated in Section A8. If submitting more photographs than will fit on this page, use the Continuation Page.



FRONT VIEW
(ROAD SIDE)

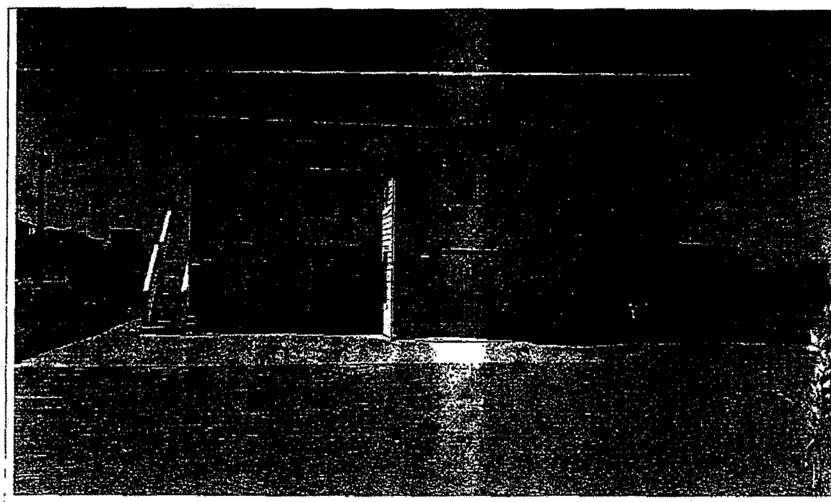
ELEVATION CERTIFICATE, page 4

Building Photographs

Continuation Page

IMPORTANT: In these spaces, copy the corresponding information from Section A.			FOR INSURANCE COMPANY USE
Building Street Address (including Apt., Unit, Suite, and/or Bldg. No.) or P.O. Route and Box No. 3655 Island Drive			Policy Number
City NORTH TOPSAIL BEACH	State NC	ZIP Code 28460	Company NAIC Number

If submitting more photographs than will fit on the preceding page, affix the additional photographs below. Identify all photographs with: date taken; "Front View" and "Rear View"; and, if required, "Right Side View" and "Left Side View." When applicable, photographs must show the foundation with representative examples of the flood openings or vents, as indicated in Section A8.



REAR VIEW

APPENDIX D

APPENDIX D: Example 1

Attach is a list of the 53 communities that currently have the basement exception as allowed under **44 C.F.R. 60.6(c)** of FEMA's NFIP regulations. This exception allows communities to be insured under NFIP even if the residence includes a basement below the base flood elevation (BFE). The basement exception is only available in zones A1-A30, AE, AO and AH and the basements are required to be floodproofed.

APPROVED COMMUNITIES FOR RESIDENTIAL BASEMENT FLOODPROOFING RATING CREDIT

COMMUNITY NUMBER	STATE/ COMMUNITY NAME	EFFECTIVE DATE[1]	STATUS[2]
	Alaska		
025009	Fairbanks N. Star Borough	2/28/73	Current
	Idaho		
160028	Ammon, City of	6/8/90	Current
	Iowa		
190488	Clive, City of	4/24/81	Current
190031	Independence, City of	9/7/89	Current
190309	La Porte City, City of	6/12/89	Current
	Kansas		
200484	Colwich, City of	1/17/86	Current
200323	Derby, City of	2/15/83[3]	Current
200019	Great Bend, City of	8/10/83	Current
200131	Halstead, City of	7/8/83	Current
200215	Lindsborg, City of	11/7/94	Current
200334	Rossville, City of	2/18/92	Current
200319	Salina, City of	3/6/86	Current
200316	Saline County	1/14/86	Current
200134	Sedgwick, City of	5/19/86[3]	Current
	Minnesota		
270267	Alvarado, City of	2/28/85	Current
275235	Clay County	3/28/75	Current
270080	Dilworth, City of	8/29/83	Current
275236	East Grand Forks, City of	5/15/86[3]	Current
275244	Moorhead, City of	2/12/76	Current
270414	Roseau, City of	7/14/92	Current
270273	Stephen, City of	5/10/83	Current
270274	Warren, City of	9/24/82	Current
	Nebraska		
310069	Fremont, City of	1/25/79	Current
310103	Grand Island, City of	7/29/80	Current
310100	Hall County	2/10/80	Current
310001	Hastings, City of	7/8/83	Current
310239	North Bend, City of	10/15/98	Rescinded 11/1/08
310046	Schuyler, City of	9/17/91	Current
310039	Sidney, City of	12/4/84	Current
310104	Wood River, City of	1/12/82	Current
	New York		
360226	Amherst, Town of	11/20/78	Current
360232	Clarence, Town of	8/1/00	Current

1 Effective date corresponds to the date of the letter from FEMA that granted the community's exception request.

2 The Residential Floodproofing Rating Credit may be grandfathered for those residential buildings with a valid Residential Basement Floodproofing Certificate that were constructed between the effective date and rescission date, but not on or after the rescission date.

3 The date the community adopted floodproofing ordinances.

APPROVED COMMUNITIES FOR RESIDENTIAL BASEMENT FLOODPROOFING RATING CREDIT *continued*

COMMUNITY NUMBER	STATE/ COMMUNITY NAME	EFFECTIVE DATE[1]	STATUS[2]
	North Dakota		
380256	Barnes, Township of	1/22/82	Current
380020	Casselton, City of	6/18/81	Current
385364	Fargo, City of	3/26/75[3]	Current
380137	Grafton, City of	5/21/81	Current
380338	Harwood, City of	12/19/85	Current
380259	Harwood, Township of	1/22/82	Current
380022	Horace, City of	1/22/82	Current
380023	Mapleton, City of	1/22/82[3]	Current
380681	Oxbow, City of	6/1/92[3]	Current
380263	Pleasant, Township of	5/5/83	Current
380257	Reed, Township of	1/22/82	Current
380324	Reiles Acres, City of	8/23/82	Current
380258	Stanley, Township of	2/8/82	Current
380024	West Fargo, City of	6/5/78	Current
	South Dakota		
460044	Madison, City of	8/30/83	Current
	Wisconsin		
550612	Allouez, Village of	1/11/93[3]	Current
550600	Ashwaubenon, Village of	10/27/78	Current
550020	Brown County	2/21/79[3]	Current
550021	Depere, City of	10/27/78	Current
550022	Green Bay, City of	10/27/78	Current
550023	Howard, Village of	10/27/78	Current
550309	Shiocton, Village of	8/1/98	Current

1 Effective date corresponds to the date of the letter from FEMA that granted the community's exception request.

2 The Residential Floodproofing Rating Credit may be grandfathered for those residential buildings with a valid Residential Basement Floodproofing Certificate that were constructed between the effective date and rescission date, but not on or after the rescission date.

3 The date the community adopted floodproofing ordinances.

Testimony of Joshua Saks
Legislative Director, National Wildlife Federation

United States House of Representatives
Financial Services Committee, Subcommittee on Housing & Insurance
"Implementation of the Biggert-Waters Flood Insurance Act of 2012: Protecting Taxpayers and Homeowners"

November 19, 2013

Good afternoon Chairman Neugebauer, Ranking Member Capuano and Members of the Subcommittee. I am Joshua Saks, and I serve as the Legislative Director for the National Wildlife Federation (NWF), the nation's largest member-based conservation, education and advocacy organization with more than four million members and supporters and affiliate conservation organizations in 47 U.S. states and territories. I appreciate the opportunity to share our views on impacts the National Flood Insurance Program (NFIP) has on the environment and associated ecosystem benefits, and to discuss how these priorities may be impacted by the implementation of the Biggert-Waters Flood Insurance Reform Act of 2012.

National Wildlife Federation is a strong supporter of Biggert-Waters because it helps to reduce the habitat loss that accompanies unwise, federally-insured development in coastal and riverine areas, helps protects people and communities from floods and storms, and saves taxpayers money. That said, we believe now is the time for Congress to enact targeted changes to the law to address legitimate concerns about certain rate increases – increases that may impose significant and unaffordable costs on homeowners and communities.

National Wildlife Federation has long been engaged in protecting and restoring the nation's coasts, wetlands and floodplains: areas that provide some of the most vital wildlife habitat for a wide range of species. And healthy natural systems also help protect people and communities by providing buffers to wave action, storing water to minimize flood heights, and reducing storm surge. But decades of federal policies have led to increased development and alteration of coasts and floodplains that as a result are no longer able to serve important environmental, public health, and safety functions. Because of our work to reform those policies, NWF joined the Smarter-Safer Coalition, a broad-based partnership of conservationists, free-market and taxpayer advocates, low-income housing advocates, insurance interests and other stakeholders to support passage of Biggert-Waters. NWF and the coalition continue to support the central tenets of that Act. Key reforms in Biggert-Waters took significant strides towards addressing the shortcomings of the NFIP that will help lessen its negative ecological impacts. Specifically these include:

1. Risk based rates
2. Improved science guided mapping
3. Improved mitigation

We recognize that implementation of some of the reforms contained in Biggert-Waters, in particular the unintended impact of move towards risk-based rates on certain properties, has caused great concern and threatens to derail some of the conservation gains contained in the Act. Congress should address these concerns with targeted action.

Though Biggert-Waters made needed changes to the troubled flood insurance program, we understand there could be some people—specifically owners of primary residences who now find themselves facing higher flood threats due to land use decisions made by the federal and state governments - who potentially could face higher and unaffordable rate increases. Among those facing these threats are communities in coastal Louisiana, where National Wildlife Federation has worked to restore coastal wetlands for over a decade. Some of these communities have been settled for more than two centuries. Their increased flood threat is not the result of choices that they made, but rather are in large part the result of governmental actions that changed the management of the lower Mississippi River, built a vast network of federal navigation channels, and permitted and incentivized thousands of miles of oil and gas canals, all leading to the highest marsh loss rate in the nation—a football field every hour. The loss of millions of acres of marsh that formerly buffered those communities is a leading cause of their increasing vulnerability. We believe that there are targeted changes to Biggert-Waters that could be made to help those most at risk without rolling back all of the rate reforms.

We are concerned that anxiety about projected increases may create a perverse incentive to promote Federal structural flood protection at the expense of sustainable non-structural solutions and ecosystem restoration, at a time when the existing backlog for authorized federal projects is in the tens of billions of dollars.

Today I hope to offer potential solutions to alleviate the legitimate concerns of policy-holders while ensuring that the intent of Biggert-Waters is carried out.

Floodplains & Coastal Habitat Functions are Vital

Floodplains and coastal habitats include the bottomlands that cradle rivers, streams and oceans where land and water meet. Functional floodplains provide vital breeding, foraging, and nursery habitat and support a variety of plants, insects, reptiles, amphibians, birds and mammals. Floodplains are also crucial to the survival and recovery of many threatened and endangered species, including salmon, steelhead trout, sturgeon, bivalves, migratory birds, and sea turtles. In their natural form, floodplains also provide an array of environmental and public health benefits. Specifically, floodplains reduce the number and severity of flooding events; filter water pollution; reduce extreme temperature fluctuations in streams and rivers; allow for the recharge of groundwater that provides drinking water for many communities; and provide countless recreational and associated economic benefits from bird watching, hunting, hiking, fishing and more. According to a 2012 report by the Outdoor Industry Association, an industry trade group, Bureau of Economic Analysis data shows that outdoor recreation generates $646 billion in annual consumer spending.[1] Alterations to floodplains threaten wildlife by changing the flow,

[1] "The Outdoor Recreation Economy". Outdoor Industry Association. 2012. http://www.outdoorindustry.org/pdf/OIA_OutdoorRecEconomyReport2012.pdf

hydrology, and bottom surface of river systems; eliminating wetlands and other important habitat areas; and straightening and deepening channels, resulting in siltation, nutrient overloads and other water quality impairments. And these impacts have a ripple effect—modifying the natural function of floodplains puts people in harm's way.

Biggert-Waters Contained Key Reforms

By subsidizing development and redevelopment in environmentally sensitive and high-risk areas, the NFIP, intended to encourage sound land use, has largely done just the opposite. In combination with other federal water policies including navigation and flood-control activities of the Army Corps of Engineers, the result has been large-scale loss and alteration of floodplains. Important natural systems have been developed, filled, and leveed off. The Nation bears the high cost of these policy failures: increased flood risk and flood intensity, habitat loss and destruction, the placement of people in harm's way, and economic devastation when floods hit. Between 1978 and 2008, the number of NFIP policies in force has nearly quadrupled from 1.4 million to 5.6 million. And as more and more properties are located in floodplains, the ecological benefits the floodplains provide are further degraded.

Compounding these challenges are the increasing impacts of climate change on the millions of Americans living in coastal areas or along major rivers. According to the Intergovernmental Panel on Climate Change, climate change "can result in unprecedented extreme weather and climate events,"[2] and many of these events have an outsized effect on those living in coastal and riverine areas. While no one extreme weather event can be solely attributed to climate change, factors like sea-level rise and warming oceans can make storms stronger and more destructive. For example, due to sea-level rise, the extreme flooding along the mid-Atlantic coast caused by Hurricane Sandy is more than 30% more likely to occur today than it would have been half a century ago.[3] And the cost of extreme weather events is rising: the United States saw a total of 11 billion-dollar weather disasters in 2012, making it the second costliest year on record.[4]

Because of these strong connections between flood insurance, the natural environment and the need to adapt to a changing climate, the National Wildlife Federation has long advocated for substantial reforms to the NFIP to ensure that people and communities understand their true flood risk and are encouraged to and can access resources for hazard mitigation. We favor a rate structure that puts the NFIP on more sustainable footing while sending the right market signals to promote better land use planning and mitigation.

With these changes, the program has the potential to live up to its original goals. However, we believe some fixes are needed to address unintended consequences. The Technical Mapping

[2] "Managing the Risks of Extreme Events and Disasters to Advance Climate Change Adaptation." Intergovernmental Panel on Climate Change. March 2012. http://ipcc-wg2.gov/SREX/

[3] "New Report Connects 2012 Extreme Weather Events to Human-Caused Climate Change." World Resources Institute. September 6th 2013. http://insights.wri.org/news/2013/09/new-report-connects-2012-extreme-weather-events-human-caused-climate-change

[4] "Eleven Billion-Dollar Disasters in 2012: NOAA." Weather.com. June 14, 2013. http://www.weather.com/news/billion-dollar-disasters-2012-20121220

Advisory Council (TMAC) established under Biggert-Waters will help make maps more accurate. We encourage the TMAC to incorporate into its maps the benefits of natural, nature-based, and restoration risk-reduction features in addition to more traditional flood protection. Under Biggert-Waters, flood mitigation programs have been consolidated and streamlined to allow for more pre-disaster mitigation. But these dollars are not enough. It is in the national interest to make properties and communities more resilient—and to invest in mitigation in advance of the next big storm. Flood insurance rates are being adjusted to send market signals to limit unwise development and to encourage mitigation whenever possible. Mitigation will not only help protect lives and property, it will also reduce flood premiums.

Implementation Challenges of Biggert-Waters

We recognize that implementation of the premium rate increases mandated by Biggert-Waters has caused concern, specifically in areas being remapped. Reports of dramatic increases have caused panic in some communities across the nation. Unfortunately, it is impossible for residents to discern which of these reports are based on actuarial science and which are based on speculation and guesswork. Congress, FEMA and impacted communities must work together to gain a better understanding of the impact and scope of rate increases and to provide targeted assistance to those who need it.

To be clear, NWF endorses a market signal to lessen harmful development and redevelopment and to encourage communities and individuals to mitigate risk. However, we have some targeted fixes to ensure the economic well-being of communities and their residents. While premium rate increases resulting from remapping are unknown (FEMA has targeted early 2014 to begin this process), FEMA has said that areas at significant risk will face increased rates. While we believe Biggert-Waters' implementation must continue on schedule, we believe the Committee should consider targeted solutions that blunt the impact of rate increases on those who could face undue financial harm. However, simply kicking the can down the road by delaying most rate increases is not, in our view, an adequate solution. Rather, we believe that there are targeted changes to Biggert-Waters that could be made to help those most at risk without rolling back all of the rate reforms.

Certain principles underlie the policy proposals we are recommending today: Delay of rate reforms is not a solution. The flood risk to homeowners is real and it is increasing, and the National Flood Insurance Program should reflect that. Maps must be accurate, and rates must send a meaningful market signal that is fair to both policy holder and taxpayer. Policyholders deserve certainty.

Suggested Policy Reforms

As noted above, increases in premiums for remapped properties mandated by section 207 of the Act have not yet been determined. FEMA has reported that process won't begin until middle 2014[5]. As a result, neither the public nor the Congress has information about the scope and severity of those increases. To help policyholders separate what is real and verifiable information

[5] "Biggert-Waters Flood Insurance Reform Act of 2012 Timeline." FEMA. October 8th 2013. http://www.fema.gov/media-library-data/20130726-1912-25045-8239/bw_timeline_table_04172013.pdf

in the media from what is not, FEMA must provide clear guidance as to how much policyholders in remapped communities can expect to pay.

In the meantime, NWF suggests several steps to provide relief for owners who need it. First, NWF believes in the power of pre-disaster mitigation. But not all homeowners will have the means to take these critical safety and resilience measures on their own. The role of Congress in providing mitigation is clear: invest in properties now, and see the benefits multiply in the form of safer, more resilient communities and lessened economic disturbance from floods later. There is clearly a role for individuals, municipal, local, and state governments in mitigation. In the case of the Community Rating System, the benefits of investment are two-fold: greater resilience, and lower flood insurance rates—and we encourage robust participation in the program. But direction should come from the national level. This multi-level approach will include property-level mitigation, regional efforts like structural flood control measures where appropriate (levees, bulkheads and pumps), and non-structural approaches like wetland restoration and land use planning to protect and promote natural features to the maximum extent practicable: a balance of "green" and "gray" infrastructure. After all, often nature itself provides the most effective and lowest cost flood control measures.

To date, federal funding for individuals, communities, and states to mitigate flooding and disaster risk has fallen far short of demand. Congress must significantly increase the funding for NFIP mitigation programs including the Flood Mitigation Assistance Program, Repetitive Flood Claims Program, and Severe Repetitive Loss Program and Stafford Act programs including the Hazard Mitigation Grant Program, Pre-Disaster Mitigation Program, Public Assistance Grant Program, and Fire Management Assistance Grants Program.

In addition, we recommend that Congress ensure that a percentage of funds allocated through these programs are directed towards areas being hardest hit by Biggert-Waters mandated rate increases. We also encourage Congress and FEMA to target as much funding as possible from the NFIP Reserve Fund created by Biggert-Waters to provide much needed mitigation dollars.

While mitigation is ultimately the key to both risk-reduction and cost containment for NFIP policies, we recognize that other remedies may be needed to limit the shocks associated with rate increases. NWF recommends that Congress immediately lengthen the phase-in period for rate increases to grandfathered-properties facing updated Flood Insurance Rate Maps. Unfortunately, Biggert-Waters provided this class of property holders with the shortest of all phase-in periods in the bill. Congress should extend the phase-in period to limit the immediate financial impact of rate increases and to give communities and individuals ample time to take mitigation actions so that they will hopefully never see a rate that they cannot afford. In addition, Congress should set limits on premium increases imposed on primary residences to ensure that those increases do not exceed what is affordable to homeowners.

NWF also endorses means-tested subsidies to offset the cost of a risk-based rate for primary residences when homeowners simply cannot afford the cost of the policy. NWF argued for this approach while advocating for the passage of Biggert-Waters. The Obama Administration noted the same concern in its Statement of Administration Policy, in which they a desire to work with Congress to find "additional reforms to strengthen the NFIP and help economically distressed homeowners…."[6] Congress should immediately establish a subsidy outside of the rate structure of the program based on the need of the policy-holder. Rates must reflect risk, but some homeowners will need assistance.

Congress should also consider requiring all properties in residual risk areas- i.e., properties in areas behind levees that would flood if a levee fails, a levee is overtopped, drainage systems are overwhelmed, or drainage systems are incapacitated- to purchase flood insurance. These potential high risk areas are not identified on current flood risk maps despite the fact that the potential risk. Bringing these properties into the NFIP would better protect these homeowners, help them understand their risk and help the program achieve actuarial soundness.

We also urge Congress to address regional concerns that are impacting rates. In some areas of the country that are heavily dependent on levee systems for flood control, particularly parts of southern Louisiana, some property owners are likely to experience dramatic rate increases because updated flood maps are not crediting the flood protection provided by non-federal or non-accredited levees. And while we understand and applaud that FEMA is currently delaying map finalization for areas where this issue is being disputed and the Levee Analysis and Mapping Approach (LAMP) process is ongoing, Congress should take steps to rectify this oversight and FEMA should include this in their maps and provide commensurate rates that take the flood control benefits of these unmapped levees into account. In addition we understand there is a lack of clarity for how the program charges rates associated with homes that have basement storm shelters and encourage Congress to clarify that these basements are not covered by NFIP and should not increase rates.

Finally, NWF is committed to working with members of this Committee, the organizations on this panel, the coalitions we represent, FEMA, and impacted communities on proactive solutions to make the program sustainable, vibrant, and fair. We cannot afford to turn back the clock and return to the days when the federal government subsidized to the tune of billions of dollars development and re-development in coastal areas and floodplains across the country, putting people and communities in harm's way. We must move forward with implementation of historic flood insurance reform legislation while rapidly addressing some of the unintended consequences of Biggert-Waters in a targeted and responsible way. In an era of increasingly frequent and severe flooding events, reforming the flood insurance program in a responsible and fair manner is now more urgent than ever.

[6] Statement of Administration Policy: S. 1940—Flood Insurance Reform and Modernization Act of 2011. (June25, 2012) http://www.whitehouse.gov/sites/default/files/omb/legislative/sap/112/saps1940s_20120625.pdf

NATIONAL ASSOCIATION of REALTORS®

REALTOR®

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STATEMENT OF

MAURICE "MOE" VEISSI
NATIONAL ASSOCIATION OF REALTORS® 2012 PRESIDENT

TO THE

UNITED STATES HOUSE FINANCIAL SERVICES COMMITTEE
HOUSING AND INSURANCE SUBCOMMITTEE

HEARING TITLED

IMPLEMENTATION OF THE BIGGERT-WATERS FLOOD INSURANCE ACT OF 2012: PROTECTING TAXPAYERS AND HOMEOWNERS

NOVEMBER 19, 2013

Introduction

Chairman Neugebauer, Representative Capuano, and members of the Housing and Insurance Subcommittee, more than 1 million members of the National Association of REALTORS® (NAR) thank you for this opportunity to testify on implementation of the Biggert-Waters Flood Insurance Act of 2012.

My name is Moe Veissi. I have been a Realtor® for over 40 years, and am the broker-owner of Veissi & Associates, Inc. in Miami, FL. Since 1981, I have served the Realtor® community in many capacities, from local association president to NAR's 2012 President. Based on numerous first-hand accounts over the years, as well as my direct personal experience as a practitioner in the field, I can assure you that there are few issues of greater importance to real estate markets than ensuring access to affordable flood insurance.

Thank you for passing a 5-year reauthorization of the National Flood Insurance Program (NFIP). I especially wish to acknowledge Representative Maxine Waters today, for her continued leadership and tireless efforts in maintaining access to affordable flood insurance. Reauthorization ended the uncertainty of month-long extensions or shut downs that cost 40,000 home sales each month. The flood program also protects taxpayers by reducing the amount of emergency disaster relief to be spent on underinsured properties after major floods.

While the 5-year NFIP reauthorization brought stability, the law has proven complicated and difficult for FEMA to implement. Only the first round of rate changes have taken effect and already, property owners and Realtors® across the country are reporting dramatic increases well beyond what was imagined and certainly beyond congressional intent.

Realtors® strongly support the "Homeowner Flood Insurance Affordability Act" introduced by Representatives Michael Grimm (R-NY) and Maxine Waters (D-CA), and by Senators Bob Menendez (D-NJ) and Johnny Isakson (R-GA) in the Senate. This legislation would delay further implementation of the major rate changes until FEMA completes the affordability study required by Biggert-Waters, creates an office of the Advocate to investigate the flood insurance rate increases and reports to Congress with a proposed solution to the problems encountered based on the findings.

In the interim, NAR calls on FEMA to convene a national summit with key stakeholders to develop a longer-term affordability solution. We believe that the Agency already has the ample authority under current law to begin the discussion and should not wait for Congress. We stand ready to work with you and the Administration to bring clarity to housing markets subject to the Biggert-Waters reforms.

Biggert-Waters Provided 5 Years of NFIP Stability

The Biggert-Waters Act of 2012 (BW12) provided the first longer-term NFIP reauthorization in many years. Eighteen times since 2008, Congress had extended the program month-to-month. Twice, Congress gridlocked and failed to pass an extension. During each lapse, NFIP could not write insurance policies in more than 20,000 communities nationwide where flood insurance is required for a mortgage, and therefore for most property purchases.

The BW12 reauthorization ended the uncertainty surrounding extensions and shutdown that cost 40,000 home sales per month. Each lost sale meant lost jobs, income, economic growth and community revenue. The reauthorization also protected taxpayers by reducing the amount of emergency disaster relief that Congress will need to spend on uninsured and underinsured properties after the next major flood.

In addition to reauthorization, BW12 maintained NFIP coverage for all properties so no one would have to take their chances in a virtually nonexistent private flood insurance market. While there may be the potential for some niche players where lenders can accept a non-NFIP policy, private insurance companies would still cherry pick and likely not find it profitable to write policies in higher risk coastal zones.

BW12 also instituted several reforms so that the NFIP could more quickly pay back the loans incurred to cover losses from Hurricanes Katrina and Sandy and remain solvent over the long-term. The law phases out subsidies for the "Severe Repetitive Flood Loss" properties that represent 1% of insured properties but 30% of flood claims. It also provided a 4-5 year transition period for most properties to adjust to any rate increases, as well as allowing installment payments for flood insurance so the costs would not have to be absorbed in one lump sum.

Lastly, BW12 included improvements to the accuracy of the flood maps used to determine which properties require flood insurance. It created a technical council of experts to review and set the mapping standards. It also subjected FEMA's mapping determinations to third-part dispute resolution and provided for reimbursement for successful map appeals.

BW12 achieved many of NAR's NFIP priorities, and ensured the program's continuation for the 5.5 million businesses and homeowners that rely on the program for flood insurance. It also ensured that U.S. taxpayers will spend less on emergency disaster assistance for underinsured properties after major floods. However, there have been a number of unintended consequences as a result of the new law. The remaining issues of affordability must be addressed.

BW12 Implementation Has Unintended Consequences

While bringing stability to the NFIP, the law has proven too complicated and difficult for FEMA to implement in an open and transparent process for all stakeholders. To date only the first round of rate changes have taken effect and already property owners and Realtors® across the country are reporting dramatic increases that are well beyond what we and many members of Congress believed to be possible. FEMA is relying solely on their network of write-your-own (WYO) insurance agents to roll out the changes to the program without sufficient training or timely, up-to-date information needed to fully respond to consumer questions.

Selective implementation has contributed to the rate confusion

FEMA has introduced needless complexity into an already complicated law. For example, FEMA waited nearly nine months to implement section 205's removal of subsidized rates at point of sale for properties purchased after July 2012. It was not until March 2013 that FEMA issued guidance so that the WYO companies could begin quoting the non-subsidized rate for purchased properties.

FEMA's guidance directed WYOs to implement the purchase provision beginning on October 1, 2013 and to apply it retroactively to sales beginning in July 2012. Some WYO companies were quicker than others in updating their rate quote software before that date. Those that could update provided two quotes for one property – the first if the home was purchased before October 1 and the second, if purchased afterward. This only confused prospective buyers. The other WYO companies, however, only provided the first rate quote, not the second.

In addition, FEMA has yet to implement section 207 because it only recently began collecting the data on "grandfathered" properties, i.e., those properties that have been mapped and are paying an actuarial rate but whose risk has increased due to new maps. In the past, these properties were allowed to keep their original risk rates because they were built to code at the time. FEMA has posted on its site that it will begin phasing out grandfathered rates in late 2014 at the earliest. That date, however, seems to be a moving target.

While continuing to roll out new maps and pushing forward with some provisions increasing rates, FEMA has yet to implement the other provisions that could help homeowners in the affordability arena, including:

- Completing the affordability study required by BW12 so Congress can understand and act on the rate changes; the report was due April 2013 but may not be completed for another two years.
- Providing for installment payments and reimbursement for successful flood map appeals. We are not aware of FEMA's plans to initiate either rulemaking any time soon.
- Issuing a "without levee" policy to give partial credit in the premium rates for any flood protection provided by a dam or levee that has not been federally accredited.

In addition to the changes mandated in BW12, FEMA continues to roll out flood map updates in communities across the country. While not a result of BW12, maps and changes in the law do have overlapping effects. The vast majority of Realtor® reports come from areas where a map was recently updated. Part of the rate increases could be due to the property being mapped into a higher risk flood zone, in addition to a subsidy being phased out. But we do not have the information to determine how many of the reports involved a new flood map.

Homebuyers were not warned

Because FEMA delayed, then retroactively applied, the purchase provision in section 205, many home buyers, specifically those who bought between enactment of BW12 and March 2013, were not warned of rate increases before purchasing their properties. Flood insurance policies are not labeled as "subsidized." Many of the homebuyers did not learn of the increase until opening the policy's renewal notice. For example:

- Tim and Caterine Clearwater (Purchased November 2012) – First-time home buyers with an infant who searched for years near his work as a merchant marine. The Clearwaters spent their life savings to put a 20% downpayment on their purchase and took out a conventional loan on a modest 1950's home in Haleiwa, HI. They were never told and are facing an increase from $2,700/year to $28,000 or more/year (see example 5 of the appended report).
- Brent and Maggie Campbell (Purchased October 2012) – Second home buyers of an 850 ft^2 beach rental in Folly Beach, SC. Like many other middle-class families, the Campbells –

both architects – were looking to supplement their income with an investment property. They too were never told of the increase from $825/year to $13,000/year (nearly a 1,500% premium increase) according to the rate quote.

Neither the Clearwaters nor the Campbells can afford the increases they face. Both would have walked away from the purchase had they been informed.

There do not appear to be good options for these families:

- Neither can sell without significantly reducing the homes' listing prices and taking a loss.
- Both have maxed or nearly maxed out their flood policy deductible at $5,000.
- The Campbell's rate reflects a Community Rating System discount of $2,100.
- The Clearwaters home was already elevated before purchase.
- The Clearwaters were not able to obtain an elevation certificate by the renewal deadline of October 31, so they received a tentative rate of $10,000/year for one year.
- If unable to get a loan to elevate or buyout the property, both could be facing foreclosure.

Realtors® supported BW12 as it passed the House (H.R. 1309), which included a gradual 5-year phase-out both for the purchase or grandfathering of property. There was also a 12-month grace period before the phase-outs would begin. The Senate version did not include a purchase provision.

When added to the omnibus transportation bill (called MAP-21) the night before the vote, those provisions changed. While still applying to grandfathered properties, the gradual 20% cap on rate increases for the purchases was deleted, as was the grace period. Buyers would see the full actuarial increase upfront, but Congress intended them to be warned first. Also, the grandfathering provision appears to have been expanded to include "any property," when the original intent was to limit it to helping newly mapped properties.

The vote was on a conference report for the bill so amendments were not allowed. It was a Sophie's choice: either support the final bill with the changes, or oppose and risk 4 years of efforts to reauthorize NFIP and get real estate transactions moving again in 20,000 communities nationwide. Realtors® chose to support the reauthorization and keep working to make any necessary technical corrections.

$87,000 Flood Insurance

This was supposed to be a myth.

No one could have imagined rates of this magnitude. Before BW12, FEMA had repeatedly reported in its annual rate reviews that subsidized policy holders were paying 40-45% of the actuarial cost and that the average subsidized rate was $1,200/year in 2011.[1] The Congressional Budget Office adopted those figures when scoring the legislation. When FEMA was confronted with the reports of $30,000 flood insurance, the Agency initially responded that actuarial rates could range between $500 and $10,000 or more, but it would be unusual to see a rate outside this range.

[1] GAO. "Flood Insurance: More Information Needed on Subsidized Properties," Report #GAO-13-607, July 3, 2013.

Yet consumers and Realtors® across the nation were routinely reporting rate quotes for flood insurance in the \$20,000-\$30,000 range. Consequently, prospective buyers have been walking away or refusing to come to the closing table on properties if flood insurance is required. Some sellers have responded with a front-yard sign or MLS selling point that "no flood insurance required." Others, who are not so fortunate, are being forced to reduce their listing price or choosing not to sell and are stuck. Based on NAR survey data before October 1, 2013, when the first round BW12 went into effect, Realtors® reported that 10% of their transactions were located in a floodplain.

On October 1, coastal markets froze. The freeze spread, and has been felt as far inland as A zones near rivers in Indiana. According to RAND, a \$500 premium increase is associated with a \$10,000 decrease in property value based on previous research.[2] Not only were the increases affecting the sellers but also entire neighborhoods as winners and losers were picked. It was costing jobs and income in related industries and rippling throughout the local economy and community tax base.

We asked an expert, Lisa Jones of Coastal Flood Solutions, to review several of the rate quotes we received, including one for \$87,000. She's a certified floodplain manager with nearly 30 years of experience advising clients on the NFIP from a variety of vantage points, including former NFIP coordinator and past president of the Association of State Floodplain Managers. Her full report with findings and recommendations is appended to this testimony.

While information to draw definitive conclusions isn't available, it appears that the \$87,000 example is potentially a mistake by the insurance company. The example involves the purchase of property under BW12. However, the property's construction date (1986) appears to follow the community's first flood map (1984), meaning it may be eligible for a lower grandfathered rate (i.e., until FEMA implements section 207). It will also have to be confirmed that the structure is built to A-zone standards or has a current policy where the rate can be assigned. Moreover, this appears to be a classic case of over-insurance: the quote was for \$250,000 of coverage but the property may require less insurance if the structure is valued at less than that. The public tax assessment suggests that the structure's value is closer to \$92,000; for this amount of coverage, the flood insurance would cost only \$24,000/year.

Cost is not the only issue

Each property should have only one actuarial rate. Different WYO insurance agents should all be quoting a single rate based on FEMA issued guidelines. Yet many of the Realtor® reports involve multiple rate quotes for a single property.

The attached report highlights three such examples. In one case, the buyer received six different quotes ranging from \$10,000 to \$30,000 per year; three of those came from different agents for the same company. According to our analysis, all 6 insurance agents provided inaccurate information about the property. When inputting the data into the rate-quote software, information about the home's true elevation, construction date, CRS discount, eligibility for grandfathering, all were entered incorrectly. Those mistakes drove the quotes. As the old saying goes: garbage in, garbage out. When the correct data was entered, the true rate turned out to be \$480 per year, which has been confirmed by FEMA.

[2] RAND. "Flood Insurance in New York City Following Hurricane Sandy," Pre-published report, 2013, page xxi.

Lack of training appears to be contributing to excessive rate quotes. FEMA currently has a 4-hour introductory class that is required only if agents write for the NFIP Direct Program. It does not teach agents how to fill out an application for flood insurance. FEMA could expand the class and modify its agreements with WYO companies to make it a requirement. Additionally, FEMA could require training for surveyors, engineers or architects who complete the Elevation Certificate as part of the Letter of Map Change process.

Many of the rate quotes also appear to be based on arcane "Submit-to-Rate" procedures that require individual judgments for properties that are two or more feet below base flood elevation. There is no transparency in the calculations. The quotes issued do not contain enough information to reproduce the estimates. This should be addressed.

To our knowledge, insurers do not routinely re-underwrite old policies or even verify the accuracy of basic facts about a property before applying rate increases. At least one insurance company adjusted a premium rate upward because the original agent writing the policy a decade before had made a mistake and missed a basement. Another listed a basement on the declaration page of the policy, even though one does not exist for the property.

Right now, consumers have no one to turn to when faced with multiple differing rate quotes for the same property. They are essentially told to trust the WYO agent. If this were a question about the standard homeowners' policy instead, the owner could turn to the state insurance commissioner. There should be an equivalent advocate at the federal level for flood insurance.

Conclusion

While BW12 brought certainty to the NFIP, we now see some unintended consequences as well. However, at this time we cannot identify enough information to determine how many of these are due to the law, its implementation, insurance rating error or flood map updates.

Therefore, Realtors® urge you to support the "Homeowner Flood Insurance Affordability Act" to delay further implementation of the major rate changes until FEMA can complete the affordability study required by BW12, create a flood insurance advocate to further investigate rating abnormalities and report back to Congress with a proposed affordability solution.

In the interim, we are also calling on FEMA to convene a national summit with key stakeholders to develop a long-term affordability solution and work with industry and consumers implement the law in the most transparent and understandable process possible. We believe that the Agency already has the authority under current law to begin the discussion.

Thank you for the opportunity to share the Realtor® community's views on such a critical topic. We stand ready to work with you and the Administration to bring clarity to the housing markets under BW12.

CAROLINA FLOOD SOLUTIONS LLC

Innovative Solutions for Complex Issues

Flood Insurance
Case study

With Recommendations on Improving the NFIP

CONSULTANT REPORT

November 2013

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CAROLINA FLOOD SOLUTIONS LLC

Innovative Solutions for Complex Issues

Consultant Disclaimer

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NFIP Policy Rating Analysis
Summary of Findings after and Recommendations for Improvements

Carolina Flood Solutions LLC is a private consulting firm who assists clients with a variety of flood insurance and floodplain related concerns, including determining if their flood insurance policy is rated properly, resolving any misrating or discrepancies and offering mitigation options to insured's who desire to lower their premiums. Below are five policies or quotes that we selected as part of this case study to support a foundation for recommendations for improvements to the NFIP operational structure, to "shore up" the NFIP before rate increases are expanded or grandfathering is removed, thus making sure that those who are affected are categorized and rated properly.

Disclaimer: None of the information in this document is to be considered quote or an offer of coverage, but an estimate or observations for research and informational purposes only. Example 1 utilized the NFIP Flood Insurance Manual dated 5/1/12, and the remaining examples are based on the NFIP Flood Insurance Manual dated 10/1/13.

Background:

Carolina Flood Solutions LLC works with clients to help lower their flood insurance premiums through forensic underwriting premium audits. My report outlines five policies or quotes that were part of this case study that highlights where mistakes were made that result in insured's being overcharged for their flood insurance premiums or rules misinterpreted, making a residences for sale unattractive to two potential buyers, and lastly, a new homeowner caught off guard by the retroactive application of insurance rates and affordability.

I have gleaned that while most agents try to do a good job, they are not prepared for the complexities of writing a flood insurance policy, as it differs from the normal property and casualty lines they are familiar with.

Summary:

Two of the three policies included in the case study were found to be misrated, which resulted in annual savings and eligibility for multi-year refunds. The third is a structure for which 6 different agents provided quotes to potential buyers or the insured. The NFIP quotes applied the full-risk rate premium and exacerbated the misunderstanding of the NFIP Biggert-Waters NFIP Reform Act of 2012 leading to two potential buyers walking away. The fourth example is an outrageously high quote for over $87,500 that over insures the structure. Based on the information provided this structure is post-FIRM and should not be impacted by the Biggert-Waters Reform changes that have been implemented thus far. The fifth example is an example of a homeowner who bought a house a year before that changes were effective and has been caught off guard by the retroactive provisions of the Biggert-Waters Reform Act of 2012.

Example 1: Misrating

Client's Flood Insurance declarations page (Figure 1) indicates the structure has an unfinished basement. The structure actually is elevated on a crawlspace as supported by the elevation certificate (Figure 2) the client obtained. The cause of the misrating was incorrect information regarding the building. The error resulted in a refund of $846 for the current year in addition to the previous year. Having been compensated with a 2 year refund, the remaining three year refund is pending.

Figure 2 Example 1 Declarations Page

RATING DESCRIPTION

Property/Building	Contents Location
Single family	**Basement and above ground level**
Two floors	**Subject to, III. Property Covered,**
Non-elevated unfinished basement	**Paragraph B.**

Date of construction or substantial improvement was on **01/01/1955**

LOCATION INFORMATION

Community Name: **COLUMBIA, CITY OF** No: **4501720176G**
Status: **Regular** CRS Class: Flood Risk/Rated Zone: **A Current Flood Zone: A** Elevation Difference: Grandfathered:

Figure 2 Example 1 Excerpt from Elevation Certificate

a) Top of bottom floor (including basement, crawlspace, or enclosure floor)	153.1	☑ feet	☐ meters
b) Top of the next higher floor	156.4	☑ feet	☐ meters
c) Bottom of the lowest horizontal structural member (V Zones only)	NA .	☐ feet	☐ meters
d) Attached garage (top of slab)	155.6	☑ feet	☐ meters
e) Lowest elevation of machinery or equipment servicing the building (Describe type of equipment and location in Comments)	155.2	☑ feet	☐ meters
f) Lowest adjacent (finished) grade next to building (LAG)	152.9	☑ feet	☐ meters
g) Highest adjacent (finished) grade next to building (HAG)	156.0	☑ feet	☐ meters
h) Lowest adjacent grade at lowest elevation of deck or stairs, including structural support	153.8	☑ feet	☐ meters

Example 2: Misrating

Client wanted to determine if installing vents would lower her flood insurance premiums and to determine why she lost full coverage five years ago. The client had a quote of approximately $20,000 to restore full coverage to the structure. In 2006, according to the declarations page (Figure 3) the insured was rated Pre-FIRM, elevated, and located in flood zone B. Later that year, the insurer (WYO Company), requested more information from the agent and the insured's coverage of $250,000 was reduced to an amount for the premium received. The revised NFIP policy issued for building coverage in the amount of $19,000 (Figure 4) on a building whose replacement cost of the building is $650,000. The building was then classified as Post-FIRM, non-elevated and located in an A zone.

An underwriting review of all documentation revealed a number of mistakes. The wrong date of construction was used; an incorrect determination flood zone determination was made and the policy was now a "submitted for special underwriter review" resulting in a loss of its "grandfathering" status and CRS discount. Typically, structures that are determined to have the lowest floor two or more feet below the base flood elevation cannot use the standard rate tables from the NFIP Manual and therefore are referred for "special underwriting review."

Once the misrating was corrected and, the policy was properly underwritten with correct information, the insured received a $4,336 refund for five years of overpayment. The Insured was initially denied the multi-year refund by the Insurer (WYO Company) and it was only after the consultant appealed their decision to FEMA did the WYO Company issues the refund. The policy now provides full building and contents coverage for a lesser amount than the insured paid for the last five years.

Figure 3, Example 3 2006 Declarations Page

BUILDING DESCRIPTION
Single Family
~~Three or More Floors~~
Elevated Building

Coverage Limitations May Apply, Refer to your Standard Flood Insurance Policy for details.

CONTENTS LOCATION
N/A

PROGRAM
Regular

FLOOD ZONE
B

CONSTRUCTION
Pre-Firm Construction

COVERAGE & RATING INFORMATION

BUILDING		CONTENTS		PREMIUM PAID	
Coverage:	$250,000	Coverage:	N/A	Premium Subtotal:	$600.00
Deductible:	$500	Deductible:	N/A	Previous Premium Subtotal:	$.00
				ICC Premium:	$4.00
Rates:	.640 / .140	Rates:	N/A	CRS Discount:	$30.00
				Expense Constant:	$.00
				Federal Policy Fee:	$30.00
				Endorsement Amount:	$.00
				Total Premium:	$604.00

Figure 3 Example 3 2006 Declarations Page

Property Info

Premium Payor: Insured
Rated Zone: A10
Current Zone:
Community Number: 45 0025 0159 E
Community Name: BEAUFORT COUNTY*
Grandfathered: No
Post-Firm Construction
Program Type: Regular

Building Description:
Single Family
~~Three or More Floors~~
Slab On Grade

Replacement Cost:
Number of Units: 1

Coverage & Rating

Type	Coverage	Rates	Deduct	Discount	Sub Total	Premium Calculation	
Building:	19,000	6.090 / 3.080	1,000		1,157.00	Premium Subtotal:	1,157.00
Contents:						ICC Premium:	34.00
Contents Location:						CRS Discount:	.00
						Federal Policy Fee:	40.00
						Probation Surcharge:	.00
						Endorsement Amount:	.00
						Total Premium Paid:	1,231.00

Figure 3 Example 2 2013-2014 Declarations Page

Property Info

[redacted]

Principal/Primary Residence: N
Premium Payor: Insured
Flood Risk/Rated Zone: B
Current Zone: A10
Community Number: 45 0025 0008 B
Community Name: [illegible] COUNTY*
Grandfathered: Yes
Post-Firm Construction
Program Type: Regular

Building Description:
Single Family
Two Floors
Slab On Grade
Main House/Building

Elevated Building: N

Replacement Cost:
Number of Units: 1

Coverage & Rating

Type	Coverage	Rates	Deduct	Discount	Sub Total	Premium Calculation	
Building:	250,000	.560 .250	5,000	263-	788.00	Premium Subtotal:	1,315.00
Contents:	100,000	1.450 .450	5,000	175-	527.00	ICC Premium:	[illegible]
Contents Location:	Lowest Floor Above Ground Level and Higher Floors					CRS Discount:	132.00
						Reserve Fund Assmt:	.00
						Federal Policy Fee:	40.00
						Probation Surcharge:	.00
						Endorsement Amount:	[illegible]
						Total Premium Paid:	1,227.00

Coverage Limitations May Apply. See Your Policy Form for Details.

Example 3: Home for Sale, Numerous Inconsistent Quotes

This structure is for sale and the Insured is trapped by the misinformation regarding the implementation of the October 1, 2013 NFIP changes for the Biggert-Waters NFIP Reform Act of 2012. The Insured is currently rated with an elevation difference (ED) of +5, located in an AE zone (current zone: VE), grandfathered, post-FIRM and the premium based on the May 31, 2013 Flood Insurance Manual was $403. The Insured approached more than 6 different insurance agents and received a variety of quotes as seen below (Figure 5). All agents provided quotes applying the Biggert-Waters NFIP Reform provisions even though the structure is clearly post-FIRM. In my opinion, after reviewing these quotes, I observed that all the quotes used different dates of construction, different elevation differences, none applied grandfathering, and the CRS discount even though they qualified had the quotes been completed properly. The CRS discount in this community is 25%.

Figure 4 Flood Insurance Quotes

Quote No.	DOC	ZONE	Pre/Post FIRM	ED	# FLOORS	Applied CRS Discount	Grand-fathered	Premium
1	10/10/1986	V09	Post	-3	2	N	N	$34,688
2	9/29/1986	V09	Post	-2	2	N	N	$10,194
3	6/1/1986	V09	Post	-3	3	N	N	$16,543
4	6/1/1986	V09	Post	-4	3	N	N	$21,793
5	5/1/2000	V09	Post	-4	2	N	N	$21,409
6	?	?	?	?	?	?	?	$21,775

After reviewing the current policy I determined it was misrated based on today's standards as the enclosure below the base flood elevation did not contain sufficient openings and therefore should have been rated using an elevation difference of +2, not +5. Lastly the 3 quotes in red (quotes 3-5) were submitted to the same WYO Company by different insurance agents. Each of these agents submitted difference rating factors resulting in three different quotes ranging from $16,543 to $21,793. As this structure is post-FIRM and a primary residence it is not impacted by any of the Biggert-Waters provisions implemented thus far and the client has lost two sales of her home over the Biggert-Waters scare of higher premiums at the time of sale.

Example 4: Quote Review of Home for Sale

I was provided a quote of $87,574 for a 1319 square foot home located in a VE flood Zone with a base flood elevation of 17 feet NAVD and was asked to review the quote and note observations. The quote provided for $250,000 Building Coverage and $100,000 Contents Coverage with a $1,000 deductible and an elevation difference of -8. The house is for sale at $279,000

In addition to the quote, I was provided the MLS listing, and the elevation certificate which included photographs. I was not able to confirm if structure is currently insured or the building value, as I was not provided a current NFIP declarations page, or a property appraisal for comparison.

Discoveries:

According to the MLS report the date of construction of the home was 1986. FEMA's Community Status Book reveals that the initial FIRM Date for the Community was 1984. In comparing of these two dates we categorized the structure as Post-FIRM. If there is a current flood insurance policy in effect, the owner could assign the NFIP policy to the new owner. The buyer would assume the existing NFIP policy, with the grandfathered rate, provided that it is utilized as a primary residence and it is not a severe repetitive loss structure or other trigger under Section 205 of the Biggert-Waters Reform Act of 2012.

I continued the review of the quote, as I could not confirm that there was an effective NFIP policy in place.

Online research of the County's tax assessor's website revealed a land value of $187,000. Therefore, I estimated the building value to be $92,000 (sale price minus land value) for the purposes of this review, as no property appraisal was available.

After reviewing the Elevation Certificate I determined the elevation difference to be -8 feet. Using FEMA's Special Rating Guidelines, applying base rates, loads and fees, I estimated the premium to be a little more than $24,400, rather than $87,574 initially quoted.

Based on the information provided, this is a clear example of a quote that appears to significantly over insure the owner. This, along with the elevation difference and the insured not being offered optional deductible, results in an exorbitant premium. Had the quote reflected an optional deductible of $5,000, then the premium would have dropped to a little over $18,300.

While I did not investigate the FIRM and flood Zone in effect at the time of construction, I suspect from the foundation type and rating below BFE, that it might have been constructed in a flood Zone beginning with an "A."

Example 5: Tentative Rate Quote – Purchase of a Home in October 2012

This is an example of someone who bought a house on October 26, 2012, who paid $2,776 for flood insurance for the first year, who was unaware that their flood insurance was subsidized and that the impending NFIP rate increases (effective a year later) could ultimately drive their premiums up to $47,000/year.

I was asked to review a quote of a *Tentative Rate Policy* of $10,331 ($6.00/$100 coverage), for a 862 square foot home located in a VE flood Zone with a base flood elevation of 14 FT NGVD. "*Tentative rates are used to issue policies when agents/producers fail to provide the required full-risk rating information. With tentative rates, a policy will be generated with coverage limits based on the actual premium received. Tentatively rated policies cannot be endorsed to increase coverage limits, or renewed for another policy term, until the required actuarial rating information and full premium payment are received. If a loss occurs on a tentatively rated property, payment will be limited by the amount of coverage that the initially submitted premium will purchase using the correct actuarial rating information.*"[i] Tentative Risk Rates range from $3 to $12 per $100 of coverage. Once the insured produces an elevation certificate the tentative rate premium is converted to a full-risk rate premium. With the removal of subsided rates for Pre-FIRM structures the full-risk rate premium could be substantially higher as estimated in this example.

The insured purchased a standard NFIP policy in October 2012 when they purchased the home. The declarations page provided to me indicated that the premium amount charged for year one (10/1/2012-10/1/2013) was $2,776. This policy provided for $193,000 Building Coverage and $0.00 Contents Coverage with a $5,000 deductible.

Discoveries:

This is a single family, one story structure as substantiated by the photographs attached to the elevation certificate. Per the NFIP Declarations Page the structure was built in 1950. A tentative rate policy is cannot be renewed. At the end of the one year the insured is required to submit an elevation certificate and the policy will be rated using the elevation information and full-risk rates will apply per Section 205 of the Biggert-Waters Reform Act of 2012. The structure became ineligible for subsidized rates at renewal on October 1, 2013, when the Section 205 subsidy removal was implemented for Pre-FIRM property sales that took place after July 5, 2012.

In comparing the elevation certificate, the photographs and the limited information on the declarations page, I noted that the building is elevated is pier, posts, piles or columns indicative of a Diagram 5 on the elevation certificate. There appears to be some homemade barrier around the pier, posts, piles or columns to prevent animals, etc. from going under the house but it appears to be relatively open as the area is not enclosed by solid walls. The rating description provided on the NFIP declarations page is "single family, elevated, and two floors with no enclosure." Based on the information provided, a more accurate rating description per the NFIP Manual Lowest Floor Guide, would be "1 Floor No Basement/Enclosure/Crawlspace. "

Once the elevation Certificate is submitted, the insurer will be required to utilize FEMA's Special Rating Guidelines to determine the premium for this structure. The lowest floor for rating will be depend on the attachment method and composition of the material surrounding the piers, posts, piles or column foundation.

- If the insurer determines the lowest horizontal member to be at 4.8 feet NGVD (Elevation Certificate C2a, 5.8 feet NGVD – 1.0) an elevation difference of -9feet may be used for rating purposes. This would result in an estimated premium of $47,900.
- If the insurer determines that the material surrounding the piers, posts, piles or column foundation is not a factor, then lowest horizontal member to be at 7 feet NGVD (Elevation Certificate C2b, 8.0 feet NGVD – 1.0) an elevation difference of -7feet may be used for rating purposes. This would result in an estimated premium of $28,400.

According to the tax records, the sale and transfer of title took place on 10/26/2012. The sale price was $610,000. According to the tax assessor's records the land value is $361,000 and the structure is valued at $55,100. Without a property appraisal stating a definitive value of the structure, I am unable to determine if the homeowner is over insured, but since there is a vast difference it certainly warrants further investigation by the homeowner.

Conclusions

Fundamentally, some of the inherent business practices of the NFIP perpetuate the situation of dissatisfaction with the program. FEMA alone cannot resolve these issues and restore confidence in the program. In order for these issues to be resolved it is going to take a fundamental change in business practices, performance and expectations and the formation of new partnerships and alliances between the public and private sectors

Recommendations for improvements:

The following are recommendations regarding the need to support the foundation of the NFIP so that the implementation of the NFIP Biggert-Waters NFIP Reform Act of 2012 can be fair and successful to all policy holders and improve the long-term solvency of the program.

Mandatory Professional Education (minimum 6 hours)

While requirements for continuing education are state requirements under the licensing provisions for each profession, FEMA and the states must partner together to enhance the quality and performance of agents in the area of flood insurance. Two types of professionals that can increase the likelihood of misrating if mistakes are made are: 1) insurance agents and 2) surveyors, engineers or architects who complete the FEMA Elevation Certificate.

FEMA currently has a 4 hour basic class for agents that is required only if the agent desires to write for the NFIP Direct Program. It gives an introduction to the NFIP products and services but does not teach the fundamentals of how to fill out an application for flood insurance. The current offering should be expanded to include basic and advanced training for agents. FEMA could modify their agreements with WYO Companies to mandate that a WYO Company require and/or provide training to those agents who write flood for them. Additionally, FEMA could require training for surveyors, engineers or architects who complete the Elevation Certificate as part of the Letter of Map Change process.

FEMA could reward participating states with enhanced CRS credit or more favorable cost share during disasters.

Redirect message of Flood Smart Marketing Campaign temporarily

Use direct public service announcements to explain Biggert-Waters Reform Act implications to the consumer. This is similar to the Preferred Risk Policy Outreach Marketing Campaign.

Loan vs. Cash Real Estate Transactions

When there is a loan closing involving a mortgage, the thirty-day waiting period is waived. Closings as cash transactions are required to wait out the thirty-day period before the NFIP policy will be in effect on a structure. This means that for the first thirty days the owner who paid cash is self-insuring and exposed, unlike lenders who are regulated by the federal government. When there is a real estate transaction in place, there should be a level playing field and no difference between a loan and cash.

Update NFIP Policy Information & Commissions (Agency & WYO Company)

The BW12 Reform is set to increase commissions for both the WYO and agents. Rather than cutting or capping that commission, require WYO Companies and agents to earn their increased commission. They should conduct new underwriting reviews of older NFIP policies to see if they are properly underwritten. Homeowners policies are reviewed/updated periodically with new pictures, new rules applied, etc., so why not NFIP (e.g., replacement costs. openings, vents, grandfathering, current map information, etc.)?

Other ideas and Suggestions

- Promote Optional Deductibles. FEMA should require Direct & WYO to add this information to the renewal notice as an option.
- Premiums paid in Installments. Initiate the rule making process to allow for the payment of flood insurance premium in installments for non-escrowed premiums – as provided for in Biggert-Waters.
- Non-mortgage Transactions- level the playing field by treating mortgage and cash transactions alike by waiving the 30-day waiting period for all transaction involving a sale or transfer of property.
- Special rating Outreach and Mitigation Education. Remove the cloak and start a mitigation awareness campaign to educate realtors, homeowners, and insurance agents about mitigation and those structural modifications that can be made to lower premiums. This includes residential elevators and other construction practices that would lower premiums.
- Disclose potential full-risk rate premiums early. This helps homeowners make decisions about the return on investment opportunities as well as mitigation actions early on in the process.
- Replacement Cost Value (RCV) Documentation. Require Documentation to support Replacement Cost Value (RCV) where RCV is a rating factor (V-Zones). Some agents are under reporting the RCV to keep premiums low for their clients and competitive; however, this results in an inaccurate premium being calculated.
- Community developed base flood elevations. FEMA has accepted community determined base flood elevation data, as best available data, for a while. This data is acceptable to FEMA and utilized for insurance rating purposes. One concern is that locally developed data does not have to be submitted to FEMA for review not does it have to follow the normal FEMA process for validating the accuracy of the hydrologic and hydraulic data or methodology. Community developed data is not assured the same public review or scrutiny that FEMA studies are required to adhere to. Since this data is locally developed and managed it is not appealable to FEMA. If Community's are going to utilize locally developed data it should be required to meet those same standards required of FEMA. The data should be required to be submitted to FEMA before the allowing the data to be utilized for insurance rating. Once this data is submitted and validated by FEMA, FEMA should then be required publicize the availability of the data, initiate an appeals process and incorporate the data, as appropriate.

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[i] NFIP Flood Insurance Manual U.S. Dept. of Homeland Security, FEMA – October 1, 2013

CAROLINA FLOOD SOLUTIONS LLC

Innovative Solutions for Complex Issues

Lisa S. Jones, CFM, CPM, ANFI

General Qualifications

As owner of her own business since 2011, Lisa works with client(s) to assist them with understanding, interpreting and applying the complexities of the National Flood Insurance Program (NFIP) to achieve desired outcomes within the framework of the NFIP regulatory and insurance programs. Lisa's expertise in all aspects of the NFIP enables her to be an effective negotiator between her client(s), local communities, technical, and insurance professionals. Lisa's institutional knowledge and expertise of both the NFIP insurance and regulatory programs allows her to quickly identify NFIP application or rating errors saving her clients, in some cases, thousands of dollars. Lisa then works with her clients and their agents to optimize annual premium savings and the return on their investment.

Experience

Lisa Jones is best known as ***Chair of Association of State Floodplain Managers (ASFPM)*** during the "No Adverse Impact" (NAI) launch and a ***Public Policy Leader***. Lisa is an active member of the ***ASFPM Leadership Team*** who ***engages*** with ***FEMA Leadership*** in Washington, DC and provides direct input on public policy.

Lisa is a proven leader with ***more than 28 years of diversified national experience*** both in flood insurance and as a Project Manager with proven capability on numerous regulatory, mitigation, mapping and federal/state partnership initiatives totaling millions of dollars. Lisa's high profile career and experience provides opportunities to serve on numerous federal task forces, including FEMA's ***Community Rating System (CRS) Task Force*** (2002-2009), as well as testifying before Congress. Lisa served as the departmental member of the ***Governor's Hazard Mitigation Interagency Coordinating Council*** (11 years), ***SC Department of Insurance Safe Home Board Member***, and ***co-founder the Silver Jackets Program*** in SC.

Prior to entering the consulting arena fulltime in June 2013, Lisa served a ***Senior Professional*** with CSC, specializing in ***training Underwriters and Customer Service Representatives*** on the National Flood Insurance Program to support the FEMA Direct (Flood Insurance) Contract. Preceding her move to the private sector she thrived in the public sector for 25 years as the ***NFIP State Coordinator*** with the SC Department of Natural Resources and as the Assistant State NFIP Coordinator for the NC Division of Emergency Management.

Most recently Lisa has been working with companies and professional organizations to digest the complexities of the new ***Biggert-Waters NFIP Reform Act of 2012***. Lisa is ***nationally recognized*** as a subject matter expert delivering numerous presentations and acts as a "consumer advocate" for her clients.

Carolina Flood Solutions LLC *provides a comprehensive array of consulting services in floodplain management, mitigation, flood insurance and flood mapping specialties as well as customized training programs.*

Professional Qualifications

- Certified Floodplain Manager (CFM), since 2004
- Certified Public Manager Program (CPM)- Class of 2007
- Associate National Flood Insurance (ANFI) since 2012
- SC Department of Insurance, Licensed Producer, Property & Casualty 2013

Affiliations

- Association of State Floodplain Managers (ASFPM), Member
  - *Past Chair*
  - *Regulations Committee Co-Chair*
  - *Certification Board of Regents (CFM)*
- South Carolina Association of Hazard Mitigation
- South Carolina Society of Certified Public Managers
- Home Builders Association of SC, *Advisor on Building Codes, BGEGS and CRS; SC Builder Journal, contributing writer*
- *HBA of Greater Columbia*, Member

Key Areas of Expertise

- Lowering flood insurance rates for homes, condos and businesses
- Identifying affordable low cost mitigation and insurance solutions
- Floodplain Regulatory Compliance Assistance
- Flood Insurance Rate (FIRM) Map Appeals

"Implementation of the Biggert-Waters Flood Insurance Act of 2012: Protecting Taxpayers and Homeowners"
Tuesday, November 19, 2013 1:30 PM in 2128 Rayburn HOB

Congressman Bill Cassidy, M.D.
Statement for the Record

On July 6, 2012 the Biggert-Waters Flood Insurance Reform Act of 2012 (BW12) was signed into law, reauthorizing the National Flood Insurance Program (NFIP) through 2017 with significant reforms. Congress acted to make the NFIP rates more risk-based, reducing existing subsidies. As of October 2013, the NFIP owed the U.S. Treasury $24 billion. This debt was largely accrued due to the failure of federal flood walls/levees in New Orleans during Hurricane Katrina in 2005 and compounded by Hurricane Sandy's destruction in 2012.

Key provisions of the legislation require the NFIP to phase out subsidized and grandfathered rates so that policy premiums reflect true actuarial risk. These changes aim to make the NFIP solvent and ensure its long-term sustainability. However, the legislation created an affordability challenge for policyholders in communities across the country.

The economic ramifications surrounding unaffordable flood insurance has the potential to devastate home values, small businesses, and entire communities across the country. Since the U.S. House of Representatives took action in early June to delay certain flood insurance rate hikes, FEMA has released its Specific Rate Guidelines; confirming fears of sudden and steep rate increases for many Americans.

In several cases around the country, the sale or purchase of a home has already begun to trigger significant rate increases. In these situations, a homeowner could find themselves having to pay up to $10,000 or $15,000 more in flood insurance premiums depending on FEMA's classification of the property and the position of the structure relative to base flood elevation.

Meanwhile, FEMA is years away from completing the affordability study mandated by the Biggert-Waters Flood Insurance Reform Act of 2012. FEMA has only begun to administer its revised Levee Analysis and Mapping Procedure designed to take into account levee and flood protection structures when assessing a community's true flood risk. To this point, FEMA's risk analysis fails to factor in the protection these levees afford communities.

In addition, flood mapping inaccuracy continues to be a prevalent concern within communities across the country. Many map accuracy problems and successful map appeals resulted from FEMA having used inaccurate or outdated data concerning land elevation and landscape features, in some cases data that is decades old. As an example, Louisiana's coastal landscape is changing due to erosion and restoration. In many cases FEMA's use of "best available data" results in "mis-mapping" because the data is old and inaccurate. It is also of great concern that FEMA has not yet administered a program that would allow homeowners to make monthly installments on their insurance premiums. Instead, FEMA expects skyrocketing flood insurance premiums to be paid all at once.

FEMA has rushed to implement rate hikes on homeowners without implementing the portions of BW12 that could help offset the costly premium increases. Many policyholders cannot afford nor will pay exorbitant flood insurance premiums and a depopulation of the program could threaten NFIP's solvency. This sporadic implementation of BW12 is destroying home values, real estate markets, and the overall fiscal stability of the National Flood Insurance Program.

My colleagues and I have put forth several solutions to make flood insurance more affordable; including solutions to reduce FEMA's overhead expenses and ideas to increase the private sector's role in financing flood losses. It is incumbent upon us as Members of Congress to work together in finding a comprehensive legislative solution. I thank the Chairman for holding this hearing today and for his attention and work on this important issue impacting the livelihood of millions of Americans across the country. I look forward to working with you and the Committee on efforts to balance flood insurance accessibility and solvency with consumer affordability.

Thank you.

Hearing:
Financial Services Subcommittee on Housing and Insurance: "Implementation of the Biggert-Waters Flood Insurance Act of 2012: Protecting Taxpayers and Homeowners"
Date and Location:
Tuesday, November 19, 2013 1:30pm 2128 Rayburn
From:
Congressman Jack Kingston

****

Chairman Neugebauer and Members of the Subcommittee-

I appreciate the opportunity to express my views today on the changes to the National Flood Insurance Program, known as NFIP, brought about by the Biggert-Waters Flood Insurance Act of 2012. Before I begin let me make two things clear: I believe firmly that our first job as Members of Congress is to be responsible stewards of taxpayer dollars and reforms to the NFIP are needed because it is $28 billion in debt to taxpayers. In a perfect world the NFIP would charge the appropriate amount of premiums so that it could insure whatever losses it incurred. NFIP would be self-containing. However, this is not the case. NFIP has expanded the number of participants while charging less and less in premiums. When a catastrophe hits, all taxpayers, whether they are enrolled in NFIP or not, are liable for the loss.

That being said, FEMAs' implementation of wide reaching changes like those encompassed in Biggert Waters must be done competently and fairly. It should not be done in a way that undercuts markets so suddenly that it drastically disrupts the lives of hardworking Americans or causes undue hardship for our coastal communities. Prior to rate changes, FEMA should complete the affordability study required in BW12. According to Director Fugate, FEMA simply did not complete this study due to a "lack of time and resources." This is unacceptable. The federal government has provided flood insurance since 1968 under the National Flood Insurance Program, and is currently the only provider of flood insurance – there are no private companies that provide flood insurance.

Millions of mortgages are required to have flood insurance, and FEMA seriously neglected its responsibility by failing to complete an affordability study. Congress demands a rigorous cost/benefit analysis of every regulation and changes to NFIP are no exception.

In addition to doing the affordability study as required by law, FEMA should also grandfather previously subsidized rates on homes purchased before the new rates were implemented on Oct 1, 2013. As signed into law, BW12 states that homes purchased after enactment, July 2012, lose their subsidy. However, FEMA waited until March 2013 to remove subsidized rates and instead directed both the subsidized and non-subsidized rates to be quoted. Only starting on October 1, 2013 did FEMA require the unsubsidized rate to be independently listed. FEMA's lack of clarity created a significant amount of confusion. This is why I am introducing a narrowly targeted bill that simply extends the grandfathering of subsidized rates for primary residences purchased up to October 1, 2013 when the new, increased rates were actually reflected in the purchasers' home buying documents.

Again, I thank the Subcommittee for holding this hearing and I cannot stress the importance of getting the implementation of BW12 right. If this process is done quickly without a proper cost/benefit analysis and a thorough understanding of the effects it will prove disastrous for Georgia's coastal communities.

Statement of Congressman Steven Palazzo of the Mississippi Fourth Congressional District Subcommittee on Housing and Insurance Hearing on the Implementation of Biggert-Waters Flood Insurance Reform Act November 19, 2013

Thank you Chairman Neugebauer and Ranking Member Capuano for having this hearing, particularly in light of the letter I sent with seven other Members on May 23, 2013 requesting that the committee hold a hearing to review the Biggert-Waters Flood Insurance Reform Act (BW12).

The National Flood Insurance Program was set up in 1968 to provide affordable flood insurance because of a gap in the private market. Since then, the NFIP has provided flood insurance to millions of homeowners as a way to protect against flood losses.

However, the NFIP was not set up to be actuarially sound. Rates have been subsidized, and policyholders typically have paid only about 40 percent of their property's actual risk premiums. This worked for many decades until Hurricane Katrina struck the Gulf Coast and flooded thousands of homes in Mississippi and other Gulf Coast states.

After Katrina, the NFIP was flooded with an $18 billion debt because the program had to borrow from taxpayers and the general treasury to pay Katrina-related claims. In addition, many of the flood maps across the nation were more than 20 years old. The program's authorization was set to expire and did expire several times while Congress passed a patchwork of short term reauthorization bills.

Reforms were needed. Congress enacted BW12 in order to put the NFIP on financially solid ground and give policyholders more certainty going forwarded. The goal was always to ensure that the NFIP remained available to policyholders. But it was never intended to make the program unaffordable.

However, because of the flawed and selective way that FEMA is now implementing BW12, it has produced unintended and unforeseeable consequences. The agency has proceeded to implement enormous increases while ignoring affordability studies mandated under the law. Homeowners have no way to know how to estimate how costs will change with flood maps that are being re-drawn.

It was never the intent of Congress to punish homeowners with enormous, widespread rate increases. Congress did not intend to force people to move out or give their homes back over to the bank. I think it is key to note that even BW12's co-author, Representative Maxine Waters, has called the severe rate increases "unintended consequences."

It is important for FEMA, this committee, and Congress to understand BW12's impact from a personal, local level, so allow me to share some insights and examples specific to Mississippi and discuss possible solutions to the affordability issue.

The Impact in Mississippi

The residents of Mississippi's Fourth District have a unique story to tell on BW12's financial and emotional toll on their communities. Many of my constituents are not wealthy, and they should not be dismissed as such. Recently critics of our efforts have pointed out that 29 percent of subsidized properties lie in areas where high income earners reside. However, it is important to remember that this leaves 71 percent of policyholders who fall outside these areas AND there is nothing to show that the other 29 percent of NFIP policyholders actually are high income earners. In my district, many policyholders are residents whose families have resided near Mississippi's Gulf Coast for decades, or middle-class retirees who spent years working and saving to invest in the homes they have today.

In August of this year, I invited FEMA Associate Administrator David Miller and his staff to my district so they could see firsthand what these rate increases will do to these homeowners and communities in Mississippi. During FEMA's visit, we shared how Hurricane Katrina devastated the Mississippi Gulf Coast, leaving thousands of Mississippi homes damaged or completely destroyed through flooding.

Certainly, Mississippians' resolve was tested in the wake of the storm. However, our community banded together and began the long road to recovery. Many homeowners diligently planned, attentively followed all the rules, and built back in compliance with the building codes and effective flood maps at that time. As a prime example, one elderly resident from my district, living on a fixed income, built back to code after Hurricane Katrina. Because of BW12 and new maps, her flood insurance premium will increase to almost $7,000 per year. She currently pays about $500 per year. This type of increase has become a common example in South Mississippi. Other examples include the following:

Example 1: One resident of Picayune, Mississippi has voluntarily purchased flood insurance for the past eight years. He has paid about $450 dollars a year, and his home has never flooded. Because of these rate increases, he will see a 370 percent increase in his flood premiums. He believes he will have to drop his flood insurance coverage.

Example 2: In Long Beach, Mississippi, a family had their home foreclosed on because they could not pay their flood insurance premium which increased overnight to $11,400. They previously paid $1,419.

Example 3: Another homeowner in Long Beach initially built seven feet higher than required, but the updated flood maps now show his property one foot below Base Flood Elevation. His premium will increase from $452 to approximately $16,500.

There are hundreds more accounts where these came from, and I'm submitting several dozen for the record.

It is unconscionable to move the goal posts on these residents who did nothing but follow the rules. Congress must revisit BW12 and address flood insurance affordability sooner rather than later. Otherwise, these draconian rate increases will serve as a crushing domino effect of consequences upon the American economy. Properties will become uninsurable. Property values will drop to virtually zero. Owners are already having trouble selling their homes. Owners are losing their homes to foreclosures. Banks will lose their mortgage portfolios. The real estate market, which has struggled to come back after Katrina, is taking a major hit. Residents who can are trying to move, and local governments will continue to lose revenue. The NFIP will lose participants, resulting in the program's collapse.

In Mississippi, Commissioner Mike Chaney of the Mississippi Insurance Department has filed a lawsuit against the Department of Homeland Security and FEMA to stop these rate increases from going into effect. Florida and Alabama have filed an amicus brief in support of Mississippi's lawsuit. But this isn't just a Mississippi or Gulf Coast problem, BW12 affects almost every congressional district in the nation. Residents in New York and New Jersey are concerned with NFIP changes in light of Hurricane Sandy, and the flooding in Colorado is all but certain to put Colorado residents on high alert for flood insurance changes.

Congress knew that some rates would increase under BW12. But they were never intended to be implemented apart from affordability measures that are now being ignored by FEMA. Because of this, the severity and magnitude of these increases were wholly unexpected. Without a doubt, these are the unintended consequences. No one expected rate increases to go up as high as 1,000 percent. The rate increases coupled with inaccurate flood mapping will only force families from their homes, communities, schools, and churches.

Many outside groups and even FEMA have tried to downplay BW12's impact, but they are not listening to my constituents who are staring these rate increases in the face and experiencing the uncertainty of whether they can afford to stay in their homes.

BW12's Affordability Study

In BW12, Congress required FEMA to complete an affordability study within nine months of enactment. This study was due in April of this year. That deadline has come and gone, and it has been reported that FEMA did not even sign a contract to begin the study until August. The affordability study is vital to understand fully the impact that rate increases will have on homeowners and communities, how to address affordability challenges, and how to implement actuarial rates in a compassionate manner. Yet, FEMA Administrator Craig Fugate has testified that the affordability study won't be completed for another two years.

The completion of the affordability study is paramount to rate increase implementation, **and it is implicitly clear in the legislative text that Congress intended to have FEMA complete the affordability study before it implemented BW12's rate increases**. A straightforward reading of Section 236 illustrates this congressional intent:

> Sec. 100236. STUDY OF PARTICIPATION AND AFFORDABILITY FOR CERTAIN POLICYHOLDERS
>
> (b) National Academy of Sciences Economic Analysis. -- ... The [FEMA] Administrator shall enter into a contract under which the National Academy of Sciences...shall conduct and submit to the Administrator an economic analysis of the of the costs and benefits to the Federal Government of a flood insurance program with full risk-based premiums,

> combined with means-tested Federal assistance to aid individuals who cannot afford coverage, through an insurance voucher program. The analysis shall ***compare*** the costs of a program of risk-based rates and means-tested assistance to the ***current system*** of subsidized flood insurance rates...

This makes it implicitly clear that the study was to be completed **before** increased rates were implemented, because the findings of the study were intended to be **compared** to the current subsidized rates.

Congressional intent is not the only indicator of the importance of the affordability study, but common sense demands completion before implementation. It only makes sense to implement rate increases when FEMA has the accurate, comprehensive data in order to understand the implications of the new premium rates. FEMA does not have this data, and without this data or an affordability study, I am only left to believe that premiums are determined arbitrarily in a vacuum without sufficient data and little to measure the impact of rate increases.

In several recent reports, the Government Accountability Office (GAO) notes that FEMA lacks key data and still has many challenges to resolve and plans to formulate before BW12 is fully implemented. Questions linger and are yet to be answered by FEMA regarding the determination of primary or secondary residences, determining the fair market value of insured properties, developing a definition of severe repetitive loss for multifamily properties, and the income of policyholders. In addition, FEMA must establish full-risk rates that reflect flood risk for active policies that no longer are eligible for subsidies. The bottom line is that much like the policy holders and communities this bill will impact, FEMA is not prepared to implement, nor does it fully understand the ramifications of the legislation.

Alarmingly, FEMA is selectively implementing BW12. FEMA has yet to establish procedures for policyholders to pay premiums in installments rather than in one lump sum, as set out by BW12. This will help homeowners spread the cost of premiums over the course of a year.

Why has FEMA failed to implement this BW12 provision, yet is so adamant about increasing rates on homeowners? I think it's strongly indicative of FEMA's priority list. FEMA places little value on homeowners and little value on the affordability of flood insurance. This is simply unacceptable.

SOLUTIONS

So where do we go from here? What actions can FEMA or Congress take? FEMA and Administrator Fugate have said their hands are tied and cannot delay or make administrative changes to the program. I don't buy that. The current Administration has delayed major parts of the Affordable Care Act without the consent or authority from Congress. The reasoning behind these delays, at least according to the Administration, is because those portions were simply not ready for primetime.

Just like the Affordable Care Act, BW12 is not ready for primetime. The manner in which FEMA is implementing these exorbitant rate increases directly conflicts with the intent of the

NFIP – to provide affordable flood insurance. In addition, FEMA does not have the data to implement premium increases in accordance with the NFIP's affordability goal nor in any manner that gives high confidence in the implementation process as a whole.

The first solution I would offer - albeit a temporary one – is to delay the rate increases until after the affordability study is completed and the essential data is collected, particularly for grandfathered policies, new homebuyers, and businesses. If FEMA will not or cannot delay rate increases administratively, then Congress should immediately pass a delay.

I introduced legislation, H.R. 1267, the Flood Insurance Premium Relief Act, that would delay all rate increases for one year. I was pleased to see a version of this delay pass the House through the Cassidy-Palazzo-Grimm Amendment to the House Homeland Security Appropriations Act in May, and I was also delighted to see that the Senate has included similar language in its draft versions of the appropriations bills. Most recently, I helped introduce H.R. 3370, the Homeowner Flood Insurance Affordability Act of 2013. This bill would delay rate increases for grandfathered policies and newly purchased properties until two years after FEMA fulfills its statutory duty and completes the affordability study. This bi-partisan legislation currently has 119 co-sponsors and is the largest consensus on addressing this issue within Congress.

The rate increase delay would give FEMA more time to finish the affordability study, understand fully the appropriateness of subsidies, and it would also allow Congress to revisit BW12 and make any necessary legislative changes to prevent the crushing rate increases and the consequences that come with them.

A delay is a quick fix; however, it is not the last step. I believe Congress should consider all options moving forward. I have heard many different approaches to address affordability, such as restoring the practice of grandfathering, providing targeted vouchers, or examining catastrophic financing and reinsurance programs.

The members of this committee and their staff, the other Members of Congress, industry stakeholders, emergency managers, and state and local officials have to come together to solve this issue before the rate increases destroy communities and economies. We cannot wait any longer. We must fix this.

I hope to serve as a resource and advocate to this committee for NFIP reform that puts the NFIP on strong financial footing, but keeps flood insurance affordable and available to those who need it.

Thank you.

City of Galveston

Office of the Mayor

P.O. Box 779 / Galveston, Texas 77553-0779 / (409) 797-3509 / Fax 797-3511

November 19, 2013

Randy Neugebauer
Chairman
Housing and Insurance Subcommittee
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Neugebauer:

On behalf of the City of Galveston, Texas, we write to you to express serious concerns over dramatic increases in flood insurance premiums as a result of recent changes to the National Flood Insurance Program (NFIP). Provisions included in the Biggert-Waters Act of 2012 will make flood insurance unaffordable for working Americans who have built homes and businesses to code and followed the law every step of the way. We urge you to vote in favor of the Homeowner Flood Insurance Affordability Act of 2013 (H.R. 3370) that would delay implementation of changes to the National Flood Insurance Program until after FEMA completes an affordability study, and to support efforts to keep flood insurance rates affordable for primary, non-primary and business properties, while balancing the fiscal solvency of the program.

The Biggert-Waters Act of 2012 phases-in full actuarial rates on non-primary residences and businesses built before the first flood maps were established (pre-FIRM). It also requires that home buyers escalate immediately to the full rate upon purchasing a pre-FIRM primary residence. The Biggert-Waters Act will also phase out grandfathering. This means that properties built in accordance with all FEMA required elevations and applicable codes at that time may now be considered out of compliance, through no fault of their own, due to new flood mapping. FEMA has begun the phase-in for pre-FIRM properties, including homes purchased after enactment, and already we are seeing rate quotes for unaffordable increases and a chill in local real estate markets. In numerous instances, homes and businesses built to code and with no history of flooding are facing 2,000-3,000% increases in annual premiums. This drastic increase in premiums will cause property values and assessments to drop, bank mortgages to go into default, local tax bases to erode, and economies to be eviscerated. Ironically, while these increases were intended to make the NFIP solvent and protect taxpayers, it could have the opposite effect if business and homeowners are forced to drop flood insurance completely or face foreclosure as a result.

Severe repetitive loss designated properties notwithstanding, we respectfully urge you to administratively delay implementation of rate increases on all pre-FIRM businesses, non-primary residences, and homes purchased after enactment of the Biggert-Waters Act of 2012, as well as the purchase provision on all pre-FIRM primary residences. We also respectfully urge you to delay Section 207 in its entirety until the congressionally-mandated FEMA affordability study is completed and its recommendations are considered by Congress. Finally, please consider urging FEMA to hold a summit of industry stakeholders to consider long-term solutions to the sustainability of the National Flood Insurance Program.

We support a fully authorized, sustainable, and fiscally responsible NFIP. However, fiscal sustainability must be balanced with protecting the businesses and homes built according to code and following all applicable laws. We understand and support the intent of the Biggert-Waters Act, but unintended consequences of the reforms threaten to harm the very people the program was designed to protect.

Sincerely,

Lewis Rosen
City of Galveston, *Mayor*

Janelle Williams for Rusty Legg
Rusty Legg, Mayor Pro Tem
District 2

Cornelia Harris Banks
Cornelia Harris Banks, Council Member
District 1

Elizabeth Beeton
Elizabeth Beeton, Council Member
District 3

Norman Pappous, Council Member
District 4

Terrilyn Tarlton
Terrilyn Tarlton, Council Member
District 5

Janelle Williams for Marie Robb
Marie Robb, Council Member
District 6

Michael Kovacs
City of Galveston, *City Manager*

Janelle Williams
Janelle Williams
City of Galveston, *City Secretary*

Cc:

Blaine Luetkemeyer, Missouri, *Vice Chairman*

Edward R. Royce, California

Gary G. Miller, California

Shelley Moore Capito, West Virginia

Scott Garrett, New Jersey

Lynn A. Westmoreland, Georgia

Sean P. Duffy, Wisconsin

Robert Hurt, Virginia

Steve Stivers, Ohio

Dennis A. Ross, Florida

Jeb Hensarling, Texas, *ex officio*

Spencer Bachus, Alabama, *Emeritus*

Michael E. Capuano, Massachusetts, *Ranking Member*

Nydia M. Velázquez, New York

Emanuel Cleaver, Missouri

Wm. Lacy Clay, Missouri

Brad Sherman, California

James A. Himes, Connecticut

Carolyn McCarthy, New York

Kyrsten Sinema, Arizona

Joyce Beatty, Ohio

Maxine Waters, California, *ex officio*

STATEMENT BEFORE THE

COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND INSURANCE

UNITED STATES HOUSE OF REPRESENTATIVES

November 19, 2013

The Big "I" is the nation's oldest and largest trade association of independent insurance agents and brokers, and we represent a nationwide network of more than a quarter of a million agents, brokers, and employees. IIABA represents independent insurance agents and brokers who present consumers with a choice of policy options from a variety of different insurance companies. These small, medium, and large businesses offer all lines of insurance – property/casualty, life, health, employee benefit plans, and retirement products. In fact, our members sell 80% of the commercial property/casualty market and a sizeable portion of the homeowner's market. It is from this unique vantage point that we understand the capabilities and challenges of the insurance market when it comes to insuring against flood risks.

Background

The Big "I" believes that the NFIP provides a vital service to people and places that have been hit by a natural disaster. The private insurance industry has been, and continues to be, largely unable to underwrite flood insurance because of the catastrophic nature of these losses. Therefore, the NFIP is virtually the only way for people to protect against the loss of their home or business due to flood damage. Prior to the introduction of the program in 1968, the Federal Government spent increasing sums of money on disaster assistance to flood victims. Since then, the NFIP has saved disaster assistance money and provided a more reliable system of payments for people whose properties have suffered flood damage. It is also important to note that for almost two decades, up until the 2005 hurricane season, no taxpayer money had been used to support the NFIP; rather, the NFIP was able to support itself using the funds from the premiums it collected every year.

Under the NFIP, independent agents play a vital role in the delivery of the product through the Write Your Own (WYO) system. Independent agents serve as the sales force of the NFIP and the conduits between the NFIP, the WYO companies, and consumers. This relationship provides independent agents with a unique perspective on the issues surrounding flood insurance, yet also makes the role of the insurance agent in the delivery process of flood insurance considerably more complex than that of many traditional property/casualty lines. Agents must possess a higher degree of training and expertise than their non-NFIP participating counterparts, which requires updating their continuing education credits through flood conferences and seminars. This is done regularly and involves traveling to different regions of the country, costing personal time and money. Every agent assumes these responsibilities voluntarily and does so as part of being a professional representative of the NFIP.

Despite our strong support of the NFIP, we also recognize that the program is far from perfect, which was made all the more clear by the devastating 2005 hurricane season as well as Superstorm Sandy. The current $24 billion dollar debt, incurred from both 2005 and Sandy, reveals some of the deficiencies of the program. While the Big "I" is confident that the NFIP will eventually recover, it was important that Congress shore up the NFIP's financial foundation by enacting needed reforms to ensure the long-term sustainability of the program.

Additionally, the NFIP is a Congressionally-authorized program that requires periodic reauthorization. Unfortunately, in 2007 the NFIP authorization ran out, and Congress began a pattern of renewing the program on short-term extensions only. Since September 2008, Congress had approved nine NFIP extensions and allowed five lapses. During the June 2010 lapse, the National Association of Realtors estimated that 47,000 home sales were delayed or cancelled. A long term extension of the NFIP was critical to the U.S. economy, as well as to the individual policyholders that rely on the NFIP for flood protection.

For these reasons, the Big "I" strongly supported H.R. 1309, the "Flood Insurance Reform Act of 2011," which passed the House of Representatives with over 400 votes in the 112th Congress. We also supported H.R. 4348, the MAP-21 Transportation legislation, that included a modified version of the Flood Insurance Reform Act in it. On June 29, 2012, H.R. 4348 passed the House by a margin of 373-52 and the Senate 74-19. On July 6, 2012, President Obama signed the measure into law and the "Biggert-Waters Act" took effect.

The Biggert-Waters Act included many important provisions that were critical to the NFIP. Chief among them was a long-term extension of the program, until 2017. Additionally, the law included important pieces meant to strengthen the financial footing of the program. These included increasing the "elasticity band" of annual rate increase from 10% to 20%, the phase-out of subsidies for commercial properties, vacation homes, and severe repetitive loss properties, and greater flexibility for FEMA to utilize private reinsurance for the NFIP.

However, despite the good intentions of the legislation and its authors, two specific provisions of the Biggert-Waters Act are now causing serious problems across the country as the law is being implemented.

Problems with Biggert-Waters Section 205

Section 205 of Biggert-Waters eliminates subsidies for second homes, business properties, severe repetitive loss properties, properties incurring flood damages that equal or exceed the fair market value (FMV) of the property, and properties that are substantially damaged (greater than 50 percent of the FMV) or substantially improved (greater than 30% of the FMV). Where subsidies are phased out, the annual premium increase is limited to 25% until premium levels are harmonized with unsubsidized properties.

Subsidies also cannot be extended when homes are sold to new owners, properties that were not insured or had a lapse in coverage after the enactment of Biggert-Waters, and insured owners of Severe Repetitive Loss (SRL) structures that refuse mitigation assistance after their structure is destroyed in a disaster. In each of these cases the subsidy removal is conducted immediately (there is no phase-in).

About 20% of NFIP policyholders receive subsidized NFIP policies. Only 5% of these policies fall into the category that will immediately begin to see their subsidies phased-out under this provision. FEMA estimates the remaining 15% are primary properties that will only lose their subsidies if they let their policy lapse, if they are bought/sold, or if they are remapped (see Sec. 207 below). The Big I strongly supported a phase-out of most subsidies from the program. Although it was a difficult decision to make and will leave some consumers paying significantly more in premiums for their flood insurance, the Association believes that phasing out most subsidies in the program slowly is the only way to put the NFIP on a path towards true financial stability.

However, despite our support of the intent of much of Section 205, the Big I is concerned about the provision that automatically and immediately eliminates a pre-Firm subsidy from any property that is bought/sold.

The provision eliminating subsidies for all properties bought/sold was added in the 111th Congress by an amendment offered at the House Financial Services Committee. It is important to note, however, that when the amendment was added to the legislation it allowed properties bought/sold to have their subsidies phased out by increases of 20 percent a year until full rates are realized. This phase-out for homes bought/sold remained in the language of the legislation throughout the next Congress as well, and was in the House-passed legislation in 2011, which was the basis for the final Biggert-Waters legislation. However, the phase-in of new rates for homes bought/sold was removed when the legislation was rolled into H.R. 4348, the MAP-21 Transportation legislation, which ended up being the vehicle used to get Biggert-Waters enacted into law.

Section 205's provision eliminating subsidies for pre-FIRM properties that are bought and sold was implemented by FEMA on October 1st, 2013. Unfortunately, FEMA has decided to implement this provision retroactive to enactment of the Biggert-Waters law (July 6, 2012). Therefore any purchase for a pre-FIRM property since July 6, 2012 will immediately result in a complete loss of the properties subsidy and a significant corresponding premium increase. In one widely reported example, a customer purchased a property after July 6, 2012 but before FEMA had announced any details of implementation of Biggert-Waters. The customer bought the property assuming the NFIP premiums would be approximately $2,500 a year, but was subsequently informed, well after closing, that the new premium would be over $20,000 per year.

The Big "I" is concerned about the impact that the bought/sold provision of Section 205 will have on individual consumers as well as the broader U.S. housing market. Examples such as the one above quite clearly indicate that there is a problem with this specific provision, and we urge the Committee to examine avenues of mitigating and fixing it.

Problems with Biggert-Waters Section 207

Section 207 of Biggert-Waters phases out the "grandfathering" of policies within the NFIP. Currently, the NFIP grandfather procedure provides eligible property owners the option of using risk data from previous flood maps if a policyholder maintained continuous coverage through a period of a FIRM revision or if a building was constructed "in compliance" with the requirements for the zone a previous map. Section 207, however, requires FEMA to use revised flood risk data (zone and base flood elevation or BFE) after a map revision. The legislation provides a 5-year mechanism to phase-in the new rates.

Because Section 207 will require risk-based, actuarial rates on all properties that experience remapping, eventually Section 207 could affect all 5.6 million NFIP policyholders. While FEMA estimates that remapping will result in just as many properties mapped into lower risk zones as those mapped into higher risk zones, the penalties incurred upon homeowners mapped into higher risk zones will be severe, especially for those properties that are primary pre-FIRM residences that have had their subsidies protected from Section 205 but will see them eliminated via Section 207.

The Big "I" has major concerns regarding the elimination of the "grandfather" process via Section 207. The fact is that this provision will end up punishing good actors, those responsible homeowners that built or purchased homes in compliance with the known risks at the time, took responsible steps towards mitigation based upon the government maps in existence, and kept active NFIP policies.

As a real world example let's look at a house that was recently built in 1998, and the homeowner did the responsible and appropriate thing by building it fully to existing building codes. Additionally, this property was built at 2 feet above the existing base flood elevation (BFE). For the last 14 years, this property was paying $600 a year in NFIP premiums, and it never experienced a flood event. Unfortunately for his property, the new FEMA flood maps were just released and they show his property is no longer 2 feet above BFE, but it is now 6 feet below BFE. Because of Section 207 of Biggert-Waters, along with FEMA's questionable remapping project, this property owner is now paying approximately $17,000 a year in premiums. This is almost a 3,000% increase.

While the above example is extreme, it again serves to illustrate the real problems that Section 207 of Biggert-Waters has caused in the marketplace. The unfortunate nature of Section 207 is that it hurts only the good actors, or those responsible homeowners that have NFIP policies and have been playing by the rules all along. Again, we urge the Committee to explore ways to fix Section 207 to avoid punishing the NFIP's good actors.

Possible Solutions

<u>Delay</u>

One possible way to mitigate the harmful effects of Biggert-Waters would be to simply delay implementation of the bought/sold provision of Section 205 and the entirety of Section 207. A delay would accomplish two important goals. First, it would allow FEMA to complete their "affordability study" as required by Biggert-Waters. Second, and perhaps most importantly, a delay would allow Congress additional time to develop a broad legislative package to deal with the issues created by both these provisions as well as other unintended effects caused by Biggert-Waters.

The Biggert-Waters Act extended the authorization of the NFIP through September 30, 2017. Therefore a delay strategy would potentially allow Congress to address the fundamental issue of "affordability vs. actuarially soundness" during the debate for the next reauthorization.

The "Homeowner Flood Insurance Affordability Act" introduced in the House (H.R. 3370) by Reps. Michael Grimm (R-NY) and Maxine Waters (D-CA) and in the Senate (S. 1610) by Sens. Bob Menendez (D-NJ) and Johnny Isakson (R-GA) is one such proposal that deserves consideration by Congress. The proposed legislation would delay implementation of the bought/sold provision from Sec. 205 and the entirety of Sec. 207 until after FEMA completes the affordability study required by law. Upon completion of that study, the legislation would require FEMA to propose a draft regulatory framework to address any affordability issues identified by the study within 18 months. The legislation then establishes a six month period thereafter to provide for Congressional review. The House and Senate would hold up or down votes through a privileged motion on giving FEMA the authority to propose regulations in accordance with the regulatory framework. If Congress approves this authority, the targeted freeze promulgated by this bill would continue until regulations are finalized. If not, the freezes would be lifted absent other Congressional action.

The "Homeowner Flood Insurance Affordability Act" would potentially mitigate some of the harmful effects of Biggert-Waters without undoing the numerous good provisions within the law.

Extending the Phase-Out Timeline

Section 207 of Biggert-Waters provides a 5 year phase-out of the "grandfathered policies." Meanwhile, Section 205 of Biggert-Waters phases-out subsidies by increasing premiums 25% per year until the subsidy is eliminated. Unfortunately, homes bought/sold do not receive this phase-out but instead have their subsidy removed immediately.

Some stakeholders have suggested that a solution to the problems associated with Section 207 could be to lengthen the phase-out time period from the current 5 year window to something longer (perhaps 10 years). They have also suggested that the Section 205 bought/sold provision could be amended so that it too would have a phase-out of subsidies. The Big "I" believes both proposals warrant investigation and consideration by this Committee and Congress as a whole. One important consideration that the Big "I" would like to highlight for the Committee is that, if a "longer phase-out" strategy is pursued, the legislation must take into account those properties already affected by the immediate, and retroactive, loss of subsidy for those properties bought/sold since July 6, 2012.

Revert to Original House Language

One of the priorities of Biggert-Waters as it was originally written was actually protecting homeowners that had adverse actions as a result of remapping. Section 3 of H.R. 1309 (Biggert-Waters) that was introduced in the 112th Congress called for a suspension of the mandatory purchase requirement for properties that were newly mapped into a mandatory purchase zone if they met one of three requirements. These requirements were: that the area had never had a history of flood hazards before, that the area had flood protection systems under improvement, or that the area was appealing a new or revised map.

Similarly, in regards to the phase-in of rates for newly mapped areas (what later became known as Section 207 of Biggert-Waters), the legislation as introduced by Reps. Biggert and Waters in the 112th Congress very specifically only applied to properties that were newly mapped into a special flood hazard as a result of the remapping project (not ALL properties that have a new or revised map, as FEMA is currently implementing the law). Section 5 (b) of H.R. 1309 clearly states that the 5 year phase in of actuarial rates only applies for newly/revised maps in the case of "any area that was not previously designated as an area having special flood hazards and that, pursuant to any issuance, revision, updating, or other change in flood insurance maps, becomes designated as such an area."

Additionally, H.R. 1309 also quite clearly envisioned a phase-out of subsidies for all relevant categories of properties (commercial, second/vacation homes, homes bought/sold, severe repetitive loss properties, etc). However, and as previously mentioned, the final product (Biggert-Waters as signed into law in H.R. 4348) removed the phase-out for homes that are bought and sold and instead required the complete removal of the subsidy immediately. In regards to this provision, HR 1309 also quite clearly required the subsidy phase-out for homes bought or sold to begin 12 months after enactment of the law (as found in Section 5 (c)(3)(A)). Unfortunately the final legislation did not include this 12 month "buffer" and therefore FEMA is now implementing the bought/sold provision retroactive to July 6, 2012 (date of enactment).

Each of these provisions were included and unchanged in the legislation that ultimately was passed by the House of Representatives by a vote of 406 – 22.

In terms of a legislative solution to the issues presented by Sec. 205 bought/sold and Sec. 207, Congress could consider writing a "technical corrections package" that would restore each of these "protections" that were overwhelming supported by the House of Representatives in 2011.

The Committee could consider reverting the law back to the House-passed language by passing a "technical corrections" package. Such a package could include; applying Section 207 (grandfather removal) ONLY to properties newly mapped into special flood hazard areas, applying a phase-out to Section 205 bought/sold properties, and eliminating the retroactive nature of Section 205 bought/sold by changing enactment date to 12 months after passage of this technical corrections package. Please note that language must be included to retroactively "take care" of those properties that have been bought/sold between July 6, 2012 and implementation of any technical corrections package.

Means-based Subsidies

Some stakeholders have suggested that a potential remedy for the problems caused by Section 205 and 207 could be instituting a transparent means-based subsidy program into the NFIP. The proposal is that the subsidy would be clearly differentiated from the premium of the policy (therefore the policyholder would know their true risk of flooding), the program would be charging true actuarial prices, yet the policy would remain affordable for those low-income individuals that cannot afford the actuarial rates. These transparent means-based subsidies would also presumably go to significantly less policyholders than those currently receiving subsidies; therefore this approach could represent a significant source of financial savings for the program.

Unfortunately, in the Association's view this means-based subsidy proposal, while worthy of discussion in the coming years, represents a radical departure from the current operation of the NFIP and would therefore take a significant amount of time to vet through Congress. Additionally, it is unknown how FEMA itself would implement such an approach or their timeline for doing so. While we encourage the Committee and Congress to consider this proposal during the debate for the next reauthorization of the NFIP, we do not believe that this proposal represents the immediate fix that is required for the provisions of Sec. 205 and 207.

Conclusion

The IIABA is very pleased that the Subcommittee is conducting today's hearing on the impact of Biggert-Waters. Reforming and extending the NFIP via the Biggert-Waters Act of 2012 was essential to ensure the long-term stability of the NFIP. However, the Big "I" now recommends that Congress go back and make minor modifications to both Section 205 (bought/sold) and strongly recommends changes toSection 207 of the legislation to ensure that, while the efficacy of Biggert-Waters is protected, the law works for both individual policyholders and the U.S. economy at large. It is our sincere hope that agreement can be reached soon on legislation to accomplish these goals, and we thank the Committee for conducting today's hearing.

NAMIC®
NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

Statement

of

National Association of Mutual Insurance Companies

to the

United States House of Representatives

Committee on Financial Services

Hearing on

Implementation of the Biggert-Waters Flood Insurance Act of 2012:

Protecting Taxpayers and Homeowners

November 19, 2013

Introduction

The National Association of Mutual Insurance Companies is pleased to offer testimony to the Housing and Insurance Subcommittee for the hearing entitled "Implementation of the Biggert-Waters Flood Insurance Reform Act of 2012: Protecting Taxpayers and Homeowners."

NAMIC is 1,400 property/casualty insurance companies serving more than 135 million auto, home and business policyholders, with more than $196 billion in premiums accounting for 50 percent of the automobile/homeowners market and 31 percent of the business insurance market.

NAMIC is the largest property/casualty insurance trade association in the country, with regional and local mutual insurance companies on main streets across America joining many of the country's largest national insurers who also call NAMIC their home.

Through our advocacy programs we promote public policy solutions that benefit NAMIC companies and the consumers we serve. Our educational programs enable us to become better leaders in our companies and the insurance industry for the benefit of our policyholders.

When the Biggert-Waters Flood Insurance Reform Act (BW-12) was passed by Congress in July 2012, the National Flood Insurance Program was more than $17 billion in debt to the U.S. Treasury, with virtually no chance that the debt would ever be repaid. The crowning achievement of BW-12 was a set of provisions that aimed to repair and stabilize the program's financial condition, mainly by phasing out many of the premium subsidies that have historically been applied to the riskiest 20 percent of structures in the NFIP's policy portfolio. According to the Government Accountability Office, approximately 1.1 million of the 5.5 million NFIP policies in force in 2012 had subsidized rates. The subsidies are substantial, allowing their beneficiaries to pay 40 to 45 percent less than the risk-based rate while masking the true cost of living in a flood prone area. BW-12 reflected Congress' understanding that this state of affairs could not continue without exposing taxpayers to continually escalating losses.

By the time the first wave of subsidy phase-outs began to take effect this fall, the NFIP's debt had ballooned to more than $25 billion primarily because, as in the past, the premiums collected from flood insurance policyholders were insufficient to pay claims. The continuing deterioration of the NFIP's financial condition would seem to underscore the magnitude of the problem that BW-12 sought to address. Yet now some legislators are wavering on their commitment to risk-based pricing for flood insurance because of concerns that some of their constituents will not be able to afford coverage.

The affordability concerns are understandable, given that the 1.1 million structures whose rates are subsidized would require substantial rate increases to reflect the true cost of insuring the risk they present. According to the GAO, BW-12 immediately began the phase out of subsidies for 438,000 policyholders with another 715,000 discounted policies moving towards actuarial rates over time. Among the structures already facing the phasing out of subsidies, 345,000 are non-primary residences (i.e., vacation homes), 87,000 are businesses, and 9,000 are single-loss repetitive properties.

In response to fears about sudden and dramatic rate increases, mostly stemming from homes sold post BW-12 enactment that immediately face full actuarial rates, some lawmakers have proposed that all rate increases be delayed by four years, which is the entire length of the BW-12 NFIP reauthorization period. Such a "delay" would essentially eviscerate the move toward risk-based rates, with the result that the flood program will continue to be funded by ever-larger taxpayer bailouts. Moreover, delaying the move toward risk-based rates will further incentivize American homebuyers and business owners to continue migrating to risky coastal regions, thanks to the availability of inexpensive flood insurance whose rates disguise the risk that comes with living and doing business on the flood-prone coasts.

Indeed, coastal states such as Florida are facing a future in which flooding is likely to become more frequent and severe due to changes in climate. The *New York Times*[1] recently reported that "Florida is the most vulnerable state in the country to the rise in sea levels" that are expected to occur over the next several decades. The amount of real estate value, and the number of properties potentially affected, rises incrementally with each inch of sea-level rise, the *Times* notes. Interestingly, the article paraphrases one analyst as saying "the most salient indicator of the crisis will be the insurance industry's refusal to handle risk in coastal areas here and around the country that are deemed too exposed to rising seas." The program will be particularly hard hit by sea-level rise in Florida, since the state accounts for roughly 40 percent of all NFIP policies.

Rather than instituting an across-the-board delay in the implementation of risk-based flood insurance rates, Congress should consider other ways to address the problems of affordability caused by the onset of sudden, substantial rate increases:

Provide means-tested assistance to property owners for whom risk-based rates would create genuine hardship.

According to the GAO, nearly 80 percent of subsidized properties are located in counties that rank in the top 30 percent nationwide with respect to average home value. Fewer than 1 percent are located in the 30 percent of counties with the lowest average home values. Unless Congress intends for taxpayer-subsidized flood insurance to become a permanent middle-class entitlement, not all subsidized property owners should continue to enjoy discounted flood insurance rates. An across-the-board four year delay for BW-12 will continue flood insurance subsidies for homeowners who not only can afford incremental rises in their premiums but also should fully realize the risks they face.

Instead, lawmakers should take a more targeted approach to easing the pain for those who truly cannot afford it. One way would be to create a flood insurance voucher program that targets the minority of subsidized property owners for whom risk-based rates would be truly unaffordable. Such a program could be modeled on the Section 8 Housing Choice Voucher program currently administered by the Department of Housing and Urban Development. Under this program, local public housing agencies collect information and data to assess need and determine voucher amounts. This same data could be used to determine eligibility and voucher amounts that would

[1] "South Florida Faces Ominous Prospects from Rising Waters", Nick Madigan, New York Times, Nov. 10, 2013

be made available to property owners who could not otherwise afford their flood insurance premium. Importantly, the voucher amount should not be "baked into" the flood premium; rather, it should be designed so that each voucher recipient sees the risk-based rate to which the voucher amount is applied, thus enabling the voucher recipients to be fully aware of the actual flood risk that he or she faces.

Provide low-interest loans or grants to finance property owners' investment in mitigation.

Mitigation measures, such as elevating structures, have been proven to protect properties from damage caused by flooding. Here again, some property owners will lack the financial resources to pay for such measures. Thus, Congress should consider creating a program that would make financing available to property owners for whom investing in mitigation would be truly unaffordable. Such a program could operate in concert with the voucher program described above. Mitigation tools are a much better method of assisting homeowners who live in flood prone areas. Not only does every $1 spent on mitigation save $4 in the long run, but forces homeowners to confront reality in understanding the risks they face.

Encourage property owners to consider a high -deductible flood policy, and consider allowing property-owners to establish tax-exempt flood loss accounts to pay out-of-pocket flood costs.

The NFIP offers flood insurance purchasers a choice of six deductibles: $500, $1,000, $2,000, $3,000, $4,000, and $5,000. Evidence suggests that the overwhelming majority of policyholders choose the lowest possible deductible. A 2009 study by the Wharton Risk Management Center at the University of Pennsylvania examined NFIP policies in force for Florida properties in 2005 and found that 98.3 percent of policyholders chose a deductible lower than the maximum available one. Moreover, more than 80 percent chose the lowest deductible, and roughly 18 percent chose the second-lowest deductible. The Wharton researchers hypothesized that policyholders who purchased the maximum $250,000 coverage limit would tend to choose a higher deductible because presumably someone living in home worth at least $250,000 could easily afford higher out-of-pocket loss costs, especially for a policy designed to insure against a relatively low-probability event such as flooding. But to the researchers' surprise, this proved not to be the case: nearly 81 percent of policyholders with the maximum coverage limit chose the lowest possible deductible.

As noted, the Wharton study included data from Florida only, but given that the "Sunshine State" makes up 40 percent of the NFIP portfolio, Florida probably serves as a reasonably accurate proxy for the rest of the country with regard to policyholders' choice of deductible. The Wharton findings raise several important questions that directly relate to the flood insurance affordability issue: Are flood insurance buyers unaware of the choice of deductibles available to them? Do they not know that when purchasing flood insurance, no less than with other forms of insurance, choosing a higher deductible results in lower premiums? When lawmakers hear complaints from constituents about exorbitant flood insurance premiums, do they ask the constituent what the amount of their deductible is? Most importantly, how much could NFIP policyholders, particularly those facing subsidy eliminations, reduce their premiums by switching to a higher deductible?

It may turn out that at least some of the flood insurance affordability problem is attributable to something as simple as the policyholder's choice of deductible. If so, it would make sense for policymakers to consider measures that would make risk-based premiums more affordable by encouraging policyholders to choose a higher deductible. Such measures might include "nudging" policyholders into a higher deductible by making a $2,000 or $3,000 deductible the "default" choice. In response to concerns that some property owners may not be able to afford the higher out-of-pocket loss costs associated with high-deductible policies, Congress may wish to consider borrowing a concept from the world of health insurance that has proved popular: combining high-deductible insurance coverage with tax-exempt savings accounts that can be used to pay for losses below the deductible amount.

In sum, if most NFIP policyholders are retaining only $500 in flood risk, perhaps Congress should ask them to retain somewhat more of the risk so that less risk will be transferred to taxpayers.

Conclusion

The NFIP was in need of significant reforms in order to continue providing flood protection to those who need it. NAMIC supports the Biggert-Waters Flood Insurance Reform Act of 2012 as an effective way to balance the many goals of the reform: fiscal soundness, adequate coverage for those at risk, floodplain management (reduction of flood hazard vulnerability), economic development, individual freedom, and environmental protection. Modifications could be made that would assist those who truly cannot afford higher flood insurance premiums, but attention should also be paid to better mitigation techniques which could decrease costs to policyholders and taxpayers.

Testimony before the United States House of Representatives

Financial Services Committee,

Craig Poulton, CEO of Poulton Associates, Inc.

National Flood Insurance Program Rate Increases

My name is Craig Poulton. I am the CEO of Poulton Associates Inc., which is located in Salt Lake City, Utah. Poulton Associates is engaged in the business of property and casualty insurance brokerage. Our organization acts as the Underwriting Manager and Administrator of the Natural Catastrophe Insurance Program (NCIP). The Natural Catastrophe Insurance Program is available to a greater or lesser degree in all 50 states, through over 4,000 independent insurance production offices. Under our NCIP the perils of flood, earthquake and landslide may be insured for both personal and commercial properties through Certain Underwriters at Lloyds (London). Thank you for allowing us to participate in this hearing.

Our Natural Catastrophe Insurance Program is the largest competitor to the (NFIP) in the United States with well over $3.5 billion in property values being insured for the peril of flood on a first dollar basis. For many years, Federal Lending Regulators and the National Flood Insurance Program (NFIP) have advised lenders to reject our flood insurance coverage forcing, consumers to purchase NFIP flood insurance policies.

Our product is widely available, provides superior coverage in comparison to the NFIP, and is very competitively priced. If Federal Lending Regulators and NFIP had not denied consumer choice to the vast majority of flood insurance buyers, i.e. those with mortgages, we estimate that during the past decade, we would have been able to remove many billions of dollars of flood risk from taxpayers. And, those insured through our facility would have the added protection of both state insurance adjudication of disputes as well as the right to petition the courts for redress, neither of which is available to NFIP insureds.

The Biggert Waters Flood Insurance Reform Act made several important changes to the NFIP. With near unanimous support of Congress, the legislation directs FEMA to phase out subsidies and implement actuarial rates. This is a logical response to the dire financial condition of the program created by years of increasing subsidies that have in large measure benefited those who could most afford to pay- owners of coastal affluent housing. The artificially low rates have served to further discourage private participation in the flood insurance market. Allowing rates to increase, while painful to some, will result in a more robust private flood insurance market and lower rates than the existing state-run monopoly on flood insurance could ever hope to produce.

Concerning the actuarially valid rating of flood insurance premiums, I would like to make the following observations:

1- Moving more flood risk to the private market will result in many actuarial models as opposed to the single NFIP only model as we now have it. This, in turn, will create greater diversity in rates and will allow consumers far more choices in the pricing of risk.

2- Moving more flood risk to the private market will increase diversification of risk by placing American flood risk in the worldwide insurance market where it will be supported by other lines of insurance such as fire, marine, liability, inland marine, etc. Pooling U.S. flood risk in a geographically diverse pool of risk that is much larger than that contemplated by an NFIP-only model where there is no diversity of risk and tax payers are almost guaranteed to lose money year after year can only be achieved through the private market.

3- Some homes and commercial structures are located where they should not be., Many of them have been placed where they never should have been placed because the subsidized rates of the NFIP made it attractive to build there! Rate increases, while painful, will spur increased competition in the market and ultimately lower rates for homeowners who have been subsidizing others and effectively stop developers and municipalities from unfairly profiting from subsidized rates.

4- Private market actuarial rates are the key to providing consumers with the best coverage at the best rates over time and will automatically serve to encourage responsible development of only the most appropriate areas contained within America's coastal and riverine habitats.

5- While actuarially based rates will be painful for some and, in some cases, will require a significant one time relocation subsidy for those in greatest need, actuarially based rates are the only way to solve the flood insurance crisis. Congress should aggressively pursue encouraging the private flood insurance market. Congress should demand that regulators encourage private flood insurance options and end the current failed NFIP-only model supported by Federal Lending Regulators when the regulation is finally issued.

Of course, the private market will not be able to even participate in solving the flood insurance crises unless federal lending regulators change their proposed regulation concerning the private flood insurance provisions of Biggert-Waters. The passage of the Biggert-Waters Flood Insurance Reform Act of 2012 is intended to reverse years of counterproductive regulatory discrimination against private flood insurance. Despite the fact that Biggert-Waters was passed almost two and one half years ago, Federal Lending Regulators have continued the suffocation of private primary flood insurance providers.

Section 100239 of Biggert-Waters instructs GSE's and regulated lenders that private flood insurance must be accepted as an alternative to NFIP government issued policies in meeting the mandatory purchase requirement. On October 10, 2013 regulators issued a "Joint Notice of Proposed Rulemaking to implement Section 100239 of the Biggert-Waters Flood Insurance Reform Act of 2012".

The draft rule issued by Federal Lending Regulators on October 10, 2013 fails to meet the objectives of Biggert-Waters because federal lending regulators assume that Congress wants them to engage in the regulation of private insurance. If that were the case, Congress would have amended McCarran-Ferguson and specifically empowered federal lending regulators to do become insurance regulators; Congress did not do that. Federal lending regulators should acknowledge Congressional intent by removing from the proposed rule any attempt to regulate or direct the regulation of private flood insurance.

If implemented as proposed, the rule will not only run contrary to Congressional intent, it will actually make things worse by causing the complete elimination of private primary flood insurance from the market place. By imposing an entirely new state regulatory practice the draft rule would fail to increase consumer choice and protections, would violate the provisions of the McCarran-Ferguson Act, disallow any reasonable utilization of the definition of private flood insurance found in Biggert-Waters and cause a dramatic increase in the rate of discrimination against private sector flood insurance while doing nothing to promote the financial stability of the NFIP. Implementation of the proposed rule would have exactly the opposite effect from that anticipated by congress in Biggert-Waters.

In accordance with the Congressional intent of Biggert-Waters, regulators should issue a final rule which serves to promote and increase the participation of private insurers in the flood insurance market. An effective rule would: (1) interpret the definition of "private flood insurance" contained within the Act as a limiting restraint relative to the rejection of private insurance by lenders rather than an attempt to commandeer the regulation of private flood insurance from the states; (2) provide borrowers, lenders, insurers, and regulators with certainty as to the role of private flood insurance in the flood insurance market through the use of a Safe Harober provision, and (3) place the responsibility for determining the adequacy of flood insurance products with state insurance regulators just as with, and on the same basis as, all other such insurance products, without the need for prior approval of a flood insurance policy unless a state regulator requires it. The draft rule would have the opposite effect in every instance.
The central flaw in the proposed regulation would force state regulators to return to a failed model of insurance regulation known as "prior approval" when regulating flood insurance. This model has been abandoned by virtually all state regulators for many years because it simply does not work. Changing just a few words of the proposed rule will allow the regulation of private flood insurance to be accomplished on the same basis as all other types of insurance such as homeowners and automobile insurance.

Let us here make a rather sobering observation: **NFIP flood insurance policies are so deficit in so many respects, when compared to state regulated flood insurance policies, that an NFIP policy would have to be significantly altered in order to qualify for sale in virtually every state if not every state. In a well-intentioned but ill-executed attempt to protect flood insurance consumers, federal lending regulators have done just the opposite; they have forced consumers to purchase sub-standard flood insurance from the NFIP and the proposed regulation would do nothing but intensify the same wretchedly dismal result.** I have attached a comparison of coverage between our policy and that sold by the NFIP in support of this contention.

The regulation, when issued, should foster and support free market participation and creativity, rather than limiting the consumer to NFIP products only. Insurance products and services should be allowed to enter the market unfettered by over-reaching federal regulation, thus benefitting consumers by giving them options that meet their needs while spreading the risk of flood loss more effectively and more equitably.

The proposed regulation is fatally flawed, however it can be easily and simply corrected so as to protect consumers by directing Federal Lending Regulators to allow State regulators to use the same regulatory paradigm already in place in each state through a properly worded Safe Harbor provision.

In many developed countries, flood risk is entirely shouldered by the private market. Because the NFIP has been allowed to become "the only game in town" for so many years, the vast majority of people are not even aware that private primary flood insurance is available in the United States. If decisive action in the form a stipulation that regulators improve their proposed rule so as to encourage the private market is not taken by Congress soon, over time, there will be no private alternative to taxpayer funded primary flood insurance in the United States. By taking action now, Congress can spread the assumption of flood risk more widely, provide consumers with better coverage options, and give taxpayers greater protection from unnecessary exposure to massive federally funded flood insurance losses.

Thank you.

NCIP Private Program		NFIP	
Features	NCIP	NFIP	Comments
Direct Bill on Renewal?	✓		NCIP - Automatic on renewal
Increased cost of materials?	✓		NCIP - Due to Catastrophe Shortages
Covers commercial property?	✓	✓	Through NCIP Commercial
Additional living expense?	✓		NCIP - up to $25,000 ALE
Debris removal?	✓		NCIP - up to $25,000
Contents in basement covered?	✓		
Replacement cost on dwelling?	✓	✓	
Replacement cost on contents?	✓		NCIP - "New for Old"
Limits up to $ 5,000,000?	✓		NFIP $250,000 Residential $500,000 Commercial
$ 5,000,000 Stop Loss Limit Option?	✓		NCIP allows risk between $5 mil and $20 mil in values to receive a $5 mil limit with no Coinsurance Penalty.
Covers Earthquake?	✓		
Covers Flood?	✓	✓	
Covers Landslide?	✓		
Coverage becomes effective 15 days after policy inception for the perils of flood?	✓		NFIP requires a 30 day wait after policy inception before flood coverage is in force.
Waiting period waived for mandatory purchase requirement	✓	✓	
Broad definition of Flood?	✓		NFIP requires 2 homes or 2 acres to be inundated to trigger coverage. NCIP has no such limits.
Deductible for Earthquake?	✓		NCIP is 5%, 10%, 15% or 20%
Deductible for Flood?	✓	✓	NCIP Residential is 5%, $5,000 or $1,000 NCIP Commercial is 2% or $ 25,000
Pay on commission basis?	✓	✓	
Covers rental property?	✓	✓	If primary also covered by NCIP
RCV on secondary dwellings?	✓		
Course of construction?	✓	✓	
Decks covered?	✓	✓	NFIP - Only 16 square feet
Carports covered?	✓		

Rev. 10/2013

November 18, 2013

Chairman Jeb Hensarling
Committee on Financial Services
2228 Rayburn House Office Building
Washington, D.C. 20515

Ranking Member Maxine Waters
Committee on Financial Services
2221 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Hensarling and Ranking Member Waters:

We write as members of the "Write-Your-Own" (WYO) Flood Insurance Coalition to discuss the National Flood Insurance Program (NFIP). The NFIP is a vitally important insurance program to the 5.6 million American home and business owners and more than 22,000 communities who rely on the NFIP to manage and recover from flood risk. However, in recent years the program has fallen $24 billion in debt.

The Biggert–Waters Act was designed to make the NFIP more sustainable and financially sound over the long term. The Act requires the NFIP to raise rates on many previously subsidized properties over time to reflect true flood risk and make the program more financially stable. We supported passage of the Biggert-Waters Act and believe that it is in the best interest of taxpayers and the nation for the federal flood insurance program to be on sound financial footing. Unfortunately, as the provisions of Biggert-Waters have been implemented, there have been unintended hardships for some consumers. We recognize both the interest and division of opinion in Congress in how to address some of these special cases and stand ready to help carefully shape appropriate changes that protect both consumers and the long-term fiscal soundness of the flood insurance program.

While Congress considers possible changes to the Biggert-Waters rate structure policymakers must realize and acknowledge that any changes will take no less than six months for WYO insurers to implement. This is a result of legal mandates that have already been implemented and to reverse any such changes would require regulatory guidance and many system and business changes.

This unavoidable implementation delay will necessarily create confusion and potential lapses in the marketplace unless the legislative changes are properly timed, carefully drafted and clear guidance from Congress is provided on how policyholders are to be treated during the interim period. The NFIP will also need to give clear requirements to WYO insurers on the implementation of any changes and the treatment of those policyholders. We hope that any proposed legislative changes would be discussed with the NFIP and other stakeholders as they are being developed to avoid further unintended consequences. While we understand that modifications may need to be made to Biggert-Waters, they should be carefully considered to avoid causing even more confusion for the 5.6 million consumers relying on the stability of the National Flood Insurance Program.

Respectfully submitted on behalf of the Members of the WYO Flood Insurance Coalition.

For further information, please contact Don Griffin at donald.griffin@pciaa.net.

cc. Chairman Randy Neugebauer
Ranking Member Michael Capuano

Charleston Daily Mail
DAILYMAIL.COM

October 24, 2013

Homeowners worry about flood insurance rates

by **Andrea Lannom**
Daily Mail Staff

CHARLESTON, W.Va. -- When Richard Holmes purchased his St. Albans home two months ago, he didn't expect his monthly payments to double.

Now, because of increasing flood insurance premiums under the 2012 Biggert-Waters Flood Insurance Reform Act, Holmes said he and his family might lose their Riverbend subdivision home before they get the chance to enjoy it.

Homeowners nationwide are experiencing similar problems.

The act, which was attached to the federal transportation bill, was meant to shore up the National Flood Insurance Program because of multiple claims from Hurricane Katrina.

The increase is supposed to reflect the full risk for covering properties. Currently, many flood insurance policies are subsidized, particularly residential policies. In West Virginia, 60 percent of policies are subsidized.

Most people can keep their primary residence's subsidized rate unless they sell their property, let the policy lapse, buy a new policy or their property sustains flood damage.

Starting Jan. 1, people who own a second home in a Special Flood Hazard Area also will see increases amounting to 25 percent annually until the rate reflects true risks.

Beginning this month, properties with subsidized rates that have experienced severe or repeated flooding and owners of businesses or non-residential properties in a Special Flood Hazard Zone will see a 25 percent annual increase until rates reflect true risk.

Chuck Grishaber, Kanawha County's floodplain manager, said he has received many calls from residents like Holmes. He said although the act went into effect last year, problems have started up more recently.

Holmes, who works as a coal miner in Danville, said he knew his home was in a flood zone when he bought it. However, he said he was told at closing the cost of flood insurance would be $1,470 a year.

That number later went up to $12,000 a year.

Holmes bought the house for $160,000 and his monthly payment doubled.

"I can't afford that. I'm going to have to foreclose," Holmes said. "It's going to ruin my credit; so I probably won't be able to buy another home. And renting, they check your credit. So, I don't know what's going to happen there."

He isn't alone.

Just in his neighborhood, several residents expressed concerns over the increasing costs, though none had experienced an increase quite as dramatic as his.

One of his neighbors said his insurance increased from $1,400 to $1,900 a year and one of the solutions to reduce premiums would be to reduce the house's value and space by filling in the basement. However, the premium would still be high, the neighbor said.

Mary Anne Wilder, who has lived in the neighborhood for about 40 years, said although she isn't in the same position as her neighbors across the street, she is concerned about the current rates and what that might mean if she ever tried to sell the house.

"Our daughter has been pleading for us to move and there will be a time when we're not young and can't drive a car. We can't sell our home," she said.

These concerns represent a national problem. According to a September article in the Insurance Journal, one of the representatives the bill was named after, expressed concerns about the increased costs.

Rep. Maxine Waters, D-Calif., told the Insurance Journal that she was "outraged by the increased costs of flood insurance premiums that have resulted from the Biggert-Waters Act." She said she never intended for premiums to skyrocket.

Beth Ryan, spokeswoman with the West Virginia Attorney General's office, said the office is aware of the concerns with the Biggert-Waters Flood Insurance Reform Act.

"We are analyzing the implications of the act on West Virginia citizens and property owners," the statement says. "To date, our office has not received any complaints."

Grishaber said many people are getting letters from the insurance company telling them to get elevation certificates, which can hurt or help them.

This certificate will have the base flood elevation, the lowest floor elevation and the highest floor elevation.

Grishaber said Kanawha County has 90 minus rated structures where the building is insured but people are paying a higher rate for various reasons. He said these residents are getting letters asking to call and set up times to meet and review the structure to see what they can do to improve their situation.

There are a few things people can do to help decrease their rates, Grishaber said. He explained people can get an elevation certificate and sometimes, the solution can be as simple as elevating an air conditioner or furnace.

However, it may not make a big difference to everyone.

Grishaber said one Clendenin resident was told to take out an expensive loan to fill in the basement and raise the remainder of the house two feet above the base flood zone to get a lower rate.

He said if that resident did so, she would end up owing $140,000 on a $50,000 home, while cutting her living space in half.

Grishaber said people also may call their municipality's flood plain administrators if they have questions and they will assist residents the best way they can.

The attorney general's office encourages people to contact the Consumer Protection office at 1-800-368-8808 if they experience substantial increases in flood insurance because of the act.

For Holmes, he hopes a solution will come up so he won't have to lose his home.

"I love this neighborhood and I love this house and now, I'm going to lose it before I can enjoy it," he said. "It's disheartening. I never know when I go to work if I'm going to get a call saying I have to get out."

Contact writer Andrea Lannom at ***Andrea.Lan...@dailymail.com*** *or 304-348-5148. Follow her at* ***www.twitter.com/AndreaLannom****.*

November 15, 2013

The Honorable Craig Fugate
Administrator
Federal Emergency Management Agency
500 C Street, SW
Washington, DC 20472

Dear Administrator Fugate:

The undersigned organizations representing the impacted real estate, development, finance and insurance industries and local governments, urge you to convene a **National Flood Insurance Summit** immediately to bring greater certainty to many of the provisions currently being implemented in the Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert Waters Act).

The housing markets are still recovering in a fragile economy. In the more than 20,000 communities nationwide where flood insurance is required to secure a mortgage, we are responding to several difficult implementation decisions made by the Federal Emergency Management Agency (FEMA) involving the Biggert Waters Act. We understand FEMA has a monumental task, implementing this complex and far-reaching law. However, uncertainty and confusion surrounding these implementation issues are now beginning to stall transactions nationwide. We believe this summit should be separate from legislative efforts, and should focus on the provisions of the reform act that require immediate attention and clarification.

The impacted stakeholders are on the front lines working directly with borrowers, home owners and businesses. Our roles in real estate transactions require us to explain the law and respond to any questions or misconceptions that may arise. It is vital we better understand FEMA's intentions and approach to the law so we can educate the public and convey critical information about the law's implementation. We have many questions about FEMA's plans, timelines and challenges, and we need up-to-date and accurate data.

We propose the following topics to begin the discussion. These are all subjects we believe have administrative flexibility and where the industry can work with you to provide greater certainty in implementation. These include:

- Expediting regulations for the reimbursement of flood mapping appeals, the Technical Mapping Advisory Council, and installment payments to improve the affordability of flood insurance;
- Working to streamline and better publicize the Community Rating System (CRS) so the program is used by more communities to lower premiums;
- Streamlining and better educating consumers about the process for obtaining Elevation Certificates;

- Developing better education and information resources for the real estate, lender, development and insurance industries and local governments, including information about reducing premiums by mitigation actions;
- Enhancing consumer education and materials on the impacts of the Biggert Waters Act and the ongoing flood mapping process, including materials on the scientific resolution panel review process for map appeals; and,
- Designating a FEMA "Ombudsman" or a consumer point-of-contact for implementation and mapping issues and concerns.

The undersigned organizations support a fully authorized, sustainable, and fiscally responsible National Flood Insurance Program (NFIP). We have a vested interest in the most efficient, effective implementation of the new law, and we believe a National Summit with the key stakeholders will begin discussing a way forward. Thank you.

Sincerely,

American Bankers Association
American Bankers Insurance Association
Association of State Flood Plain Managers
Credit Union National Association
Independent Community Bankers of America
Independent Insurance Agents & Brokers of America, Inc
Manufactured Housing Institute
Mortgage Bankers Association
National Apartment Association
National Association of Counties
National Association of Federal Credit Unions
National Association of Home Builders
National Association of Local Housing Finance Agencies
National Association of Realtors
National Flood Determination Association
National Multi Housing Council

Dear Congressman Lynch, Nov. 6, 2013

Thank you for coming to Hingham tonight to discuss issues relating to the FEMA management of the NFIP, the B-W act and HR 3370.

I am a resident of Hingham and along with close neighbors have been greatly impacted by the most recent 2012 FEMA flood map. In my neighborhood of 50 homes, 43 were never in any flood plain prior to 2012 and the other 7 were in relatively low risk flood zoning requiring NFIP premiums of a few thousand dollars. The 7 homes in the flood plain before the 2012 FIRM have experienced minimal flooding from any of the major storms during the last half century. These included the blizzard of '78 and other so called 100 year storms. The extent and severity of that flooding never exceeded what was predicted on the previous 1986 flood map. The other 43 homes in my neighborhood have never experienced any flooding on any part of their properties due to ocean surges. However, the new, 2012 FIRM zoned all 50 homes in my neighborhood into a very high risk VE 22 zone! This new zoning means that after the ramp-up to full "so called" actuarial rates all of the 50 homeowners will be required to pay very high flood insurance premiums. More than 10 of the homeowners will be subject to flood insurance premiums of $50,000 or more per year and the others will be paying premiums from several thousand dollars up to $50,000 per year for the maximum coverage of $250,000. This obviously results in draconian impacts on the property owners in my neighborhood.

My 60 background in scientific and engineering work, including over 30 years as a professor of engineering at MIT, have helped me develop a fair understanding of a number of issues related to the NFIP. I have also read the current draft of HR 3370. This bill proposes to improve the previous B-W legislation in a number of ways and many of the bill's provisions would do that. There are however two areas which I have identified which could be improved by appropriate changes or additions.

Improved accuracy in flood mapping is needed. When errors in flood mapping occur, as in my neighborhood, onerous burdens fall on the affected property owners. Property owners are forced to use their own time and resources to appeal for flood map changes. HR 3370 provides some recognition of this problem by providing for reimbursements of costs to property owners who successfully appeal for a change in the flood map. However, this provision does not compensate the property owner for the enormous amount of time they often have to invest to mitigate a situation created by inaccuracies in the FEMA flood maps. Errors should be rare rather than common as evidenced by the many appeals being made for flood map changes.

I have a few suggestions which should help assure that flood map errors are rare.

1. Have flood maps reviewed by a competent neutral party and not just the mapping contractor and FEMA as we found out during the recent forum in the Marshfield Middle School, which I recall you attended.
2. The flood maps should agree with the historical data. I am appalled that that this not a requirement. In the general scientific world, the ability of a model calculation to obtain results in agreement with actual hard data is the ultimate test of the validity of the model calculation.
3. FEMA should not expend taxpayer funds to remodel areas where the existing models have been shown to be accurate. "If it is not broke do not fix it"

I would also like to suggest that HR3370 include provisions, if needed, for Congress to examine the fiscal operations of the NFIP. The goal would be to assure that FEMA is operating the NFIP in a fiscally efficient manner. Here are a few reasons that I feel this is needed. Over the 34 year history of the NFIP a total of $44B has been paid out in flood losses to policy holders. FEMA has required $30B to operate the program, ($24B borrowed from the treasury plus $6B fund balance from premiums minus losses, (see FEMA web site for policy-claim-statistics-flood-insurance). Thirty billion in operating costs to administer forty-four billion in losses seems like a poor ratio. Perhaps part of the answer lies in the high fees that private insurance companies are given to write and administer flood insurance policies for the NFIP, (found in Congressional testimony given by an insurance executive). These insurance companies receive more than 30% of the premiums for their services. The insurance companies do not assume any risk in writing the insurance for FEMA's NFIP! Perhaps that is a reason that 85 insurance companies lobbied for B-W with its projected major increases in flood insurance premiums. The subsidized rates previously given many NFIP policy holders is likely another significant contributor to FEMA's deficit but this seems to be over compensated for in the B-W act.

Yours Sincerely,

Otto Harling

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ICBA NEWS

The Nation's Voice for Community Banks

FOR IMMEDIATE RELEASE

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ICBA Advocates Bipartisan Bill to Delay Flood Insurance Premium Hikes

Washington, D.C. (Oct. 29, 2013)—Independent Community Bankers of America® (ICBA) President and CEO Camden R. Fine released this statement following the introduction of bipartisan legislation to protect homeowners from significant increases in flood insurance premiums, which began being phased in on Oct. 1. The legislation was introduced in the Senate by Sens. Robert Menendez (D-N.J.) and Johnny Isakson (R-Ga.) and in the House by Reps. Michael Grimm (R-N.Y.) and Maxine Waters (D-Calif.).

> "ICBA applauds the introduction, in both the House and the Senate, of the Homeowner Flood Insurance Affordability Act by a bipartisan coalition of lawmakers to address the issue of higher National Flood Insurance Program premiums that recently went into effect. Delaying NFIP premium increases until the Federal Emergency Management Agency completes its congressionally mandated affordability study would minimize the impact of dramatic flood insurance rate increases for millions of Americans.
>
> "Unless Congress acts, the flood insurance rate increases due to the Biggert-Waters Flood Insurance Reform Act of 2012 would make flood insurance unaffordable for many policyholders who built to code and followed the law every step of the way.
>
> "ICBA continues to work closely with Congress to develop a solution to these devastating rate increases. The association strongly urges House and Senate lawmakers to act quickly to advance this critical legislation."

About ICBA
The Independent Community Bankers of America®, the nation's voice for nearly 7,000 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education and high-quality products and services. For more information, visit www.icba.org.

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INDEPENDENT COMMUNITY BANKERS of AMERICA®

November 19, 2013

NFIP Changes Pose a Serious Threat to Homeowners and the Housing Market

On behalf of the nearly 7,000 community banks represented by the Independent Community Bankers of America (ICBA), thank you for convening this hearing on "Implementation of The Biggert-Waters Flood Insurance Act of 2012: Protecting Taxpayers and Homeowners." ICBA is pleased to have this opportunity to submit a statement for the record. ICBA has serious concerns about the impact of drastic and unsustainable flood insurance premium increases on homeowners, local housing markets, mortgage lenders, and the broader economy. Pending premium increases are already depressing home values and freezing the housing market in certain communities, and the impact will only get worse as the law continues to be phased in. ICBA urges the House to expeditiously pass the Homeowner Flood Insurance Affordability Act (H.R. 3370), which will provide a four year delay for most rate increases.

ICBA does not believe Congress intended the rapid dislocation that premium increases of such magnitude will bring. In some cases, premiums will increase by 500 percent or more and the phase-in schedule, though helpful, will do little to offset the impact. Premiums of $25,000 a year or more on modest single family homes are disproportionate to the risk and to the value of the home. Properties built to code under then-current flood maps ("grandfathered properties") as well as older properties that pre-date the NFIP ("subsidized properties") but have never experienced a flood will be subject to these premium increases. Moreover, new flood maps do not take into account a community's flood mitigation efforts, including levees and pump systems paid for by the community, and therefore mandate unnecessary elevations. If no action is taken, dramatic rate increases will:

- Price people out of their homes. New premiums will simply be unaffordable for many middleclass homeowners.
- Destroy home values. Home values are already dropping in certain communities in anticipation of the rate increases. For example, the St. Charles Parish, Louisiana Tax Assessor estimates new premiums will depress home values by 18 to 30 percent. In many communities, the housing market recovery could be abruptly reversed.
- Undermine the value of mortgage collateral, drive mortgages into delinquency, erode bank capital, and thereby depress new lending.
- Curtail property tax revenues local governments rely on to fund schools and other essential services.
- Depress consumer spending and economic growth.

The impact of rate increases will be seen not only in coastal communities but in any community located near a river. Broad swathes of the country will be impacted.

1615 L Street NW, Suite 900, Washington, DC 20036 ■ 202-659-8111 ■ Fax 202-659-9216 ■ www.icba.org

We urge Congress to act expeditiously to amend the Biggert-Waters Flood Insurance Act. ICBA supports all viable solutions to provide immediate relief for policy holders. In particular, ICBA supports H.R. 3370, introduced by Reps. Grimm and Waters, which would:

- Delay premium rate increases for most properties for approximately four years.
- Require FEMA to complete an affordability study initially mandated by the Biggert-Waters Act.
- Require FEMA to propose an affordability framework for consideration by Congress that will help homeowners cope with higher premiums.
- Eliminate the 50 percent cap on community-provided funding for the construction of flood protection systems. FEMA does not currently recognize systems built without federal dollars and flood maps do not take them into account.

Nearly 130 bipartisan members of the House have cosponsored H.R. 3370. ICBA urges this Committee and the House to act, without delay, as premium increases for additional properties went into effect October 1 and additional increases will take effect in 2014. Premium rate shock will endanger homeowners, mortgage lenders, local governments and the broader economy.

Thank you for your consideration.

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National Association of Home Builders

NAHB

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Government Affairs

James W. Tobin III
Senior Vice President & Chief Lobbyist

October 29, 2013

The Honorable John Boehner
Speaker
U.S. House of Representatives
Washington, DC 20515

The Honorable Nancy Pelosi
Minority Leader
U.S. House of Representatives
Washington, DC 20515

Dear Speaker Boehner and Minority Leader Pelosi:

On behalf of the more than 140,000 members of the National Association of Home Builders (NAHB), I am writing to express NAHB's strong support for the *Homeowner Flood Affordability Insurance Act*. NAHB commends Representative Michael Grimm and House Financial Services Ranking Member Maxine Waters for introducing this important legislation, which will help alleviate some of the costly and unintended consequences caused by the implementation of the Biggert-Waters Flood Insurance Reform Act (Biggert-Waters).

NAHB supported the passage of Biggert-Waters in order to secure a five-year reauthorization of the National Flood Insurance Program (NFIP), which enables the housing industry to continue to provide safe, decent, and affordable housing to consumers. However, the implementation of Biggert-Waters has caused unforeseen affordability concerns. NAHB has heard from members across the country who are extremely concerned about the dramatic premium rate increases, as well as the remapping process. These concerns impact the sale, construction and remodeling of homes in affected communities.

The *Homeowner Flood Insurance Act* helps address these issues by delaying the implementation of higher premium rates until an affordability study can be completed; allowing for a more accurate mapping process; and providing reimbursement for successful consumer appeals. These provisions will prevent undue hardship on the recovering housing market, prevent home values from decreasing, and make the NFIP stronger and more effective for years to come.

While NAHB wishes this legislation would address the treatment of non-primary residences and the lowering of the remodeling threshold, this bill addresses many of our members' concerns with Biggert-Waters. NAHB encourages the House of Representatives to support the *Homeowner Flood Insurance Affordability Act*, and will work to ensure that the NFIP remains affordable and viable for American homeowners.

Thank you for considering our views.

Sincerely,

James W. Tobin III

cc: All members of the U.S. House of Representatives.

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2013 President

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October 29, 2013

The Honorable Robert Menendez
528 Hart Senate Office Building
Washington, DC 20510

The Honorable Michael Grimm
512 Cannon House Office Building
Washington, DC 20515

The Honorable Johnny Isakson
131 Russell Senate Office Building
Washington, DC 20510

The Honorable Maxine Waters
2221 Rayburn House Office Building
Washington, DC 20515

Dear Senator Menendez, Senator Isakson, Representative Grimm and Representative Waters:

On behalf of the National Association of REALTORS®, thank you for introducing the "Homeowner Flood Insurance Affordability Act." This bipartisan legislation takes the crucial first step of delaying further implementation of some rate increases in the Biggert-Waters law (BW12). This will enable FEMA to complete the affordability study already mandated by BW12, propose targeted regulations that address the affordability issues found in the study, and give Congress adequate time to review these regulations.

We are grateful that Congress provided a 5-year reauthorization of the National Flood Insurance Program through BW12, ending the program shutdowns that cost 40,000 home sales each month. NAR strongly supports the long-term reauthorization of this program to provide certainty in real estate markets where flood insurance is required to obtain a mortgage. While this longer-term stability is greatly appreciated, the implementation of the new rate structures in BW12 has caused serious confusion and hardship for property owners. FEMA's continued delays and missed deadlines in combination with the legally required transition to true risk rates has been a recipe for disaster.

In light of all of this, we appreciate your bipartisan effort to prudently defer rate increases until FEMA can complete the affordability study mandated by BW12 and propose a regulatory affordability framework for targeted relief. We believe that the results of this study combined with additional time for Congress to consider the impact of changes to the NFIP will allow for a thoughtful way forward. As with any law, unexpected consequences often occur. We are hearing of increases in rates beyond what anyone imagined possible. If correct, these must be addressed.

The bill would also create an office of the Advocate for flood insurance rate and mapping concerns. We believe that this is a necessary provision. Other than insurance agents, property owners and real estate professionals do not have an effective avenue to pursue concerns regarding flood insurance rating errors and discrepancies. If FEMA relies only on its write-your-own network to implement changes in the law, an independent arbiter would be a useful addition.

We support the "Homeowner Flood Insurance Affordability Act," and urge its immediate consideration. We look forward to continuing our work with you and the rest of the Congress to protect homeowners and taxpayers and create a responsible and sustainable National Flood Insurance Program. Again, thank you for your leadership.

Sincerely,

Gary Thomas
2013 President, National Association of REALTORS®

EQUAL HOUSING OPPORTUNITY

NLC RESOLUTION

IN SUPPORT OF AN AFFORDABLE AND SUSTAINABLE NATIONAL FLOOD INSURANCE PROGRAM

WHEREAS, Congress created the National Flood Insurance Program (NFIP) in 1968 to make affordable flood insurance available to homeowners, renters, and business owners in exchange for using Federal Emergency Management Agency (FEMA) generated and specified Flood Insurance Rate Maps (FIRMS) for floodplain management by a participating community; and

WHEREAS, today, businesses and homeowners in 22,000 communities in all states and territories have made plans and investments based on the existence of affordable flood insurance with 5.6 million NFIP policies providing over $1.2 trillion in coverage; and

WHEREAS, in July 2012, the Biggert-Waters Flood Insurance Reform Act of 2012 (BW-12) was enacted (PL 112-141) in order to assure the solvency of the highly indebted NFIP;

WHEREAS, BW-12 requires FEMA to adjust flood insurance premiums to reflect true flood risk and phase out subsidies for properties built before the community adopted its first FIRM; and

WHEREAS, BW-12 requires FEMA to complete an affordability study and to establish an affordability framework for the NFIP, which is not yet complete; and

WHEREAS, through the passage of BW-12, the NFIP was revised such that the public's reliance on the program to provide affordable flood insurance protection for prior investments in their homes and businesses was essentially dissolved since these structure will be subject to a 25 percent increase in the flood insurance premium for the next four years (in some cases a 20 percent increase over five years) and since this law substantially and immediately devalued the investments made in properties receiving subsidized insurance premium rates because of increases in the cost of flood insurance; and

WHEREAS, previously these structures were rated on pre-FIRMs or the FIRMs in effect when the structure was constructed, and now, even though the structures were not substantially damaged, their owners will struggle to pay premiums to keep flood insurance on these structures; and

WHEREAS, the Flood Disaster Act of 1973 requires the purchase of flood insurance on and after March 2, 1974, as a condition of receiving any form of federal or federal-related financial assistance for acquisition or construction purposes with respect to the insurance buildings; and

WHEREAS, the rate increases will affect municipalities nationwide in multiple areas such as real estate markets, banks and mortgage companies, elderly citizens living on fixed income, and policyholders, who built their communities with the best available information; and

WHEREAS, on October 29, 2013, a bipartisan coalition of lawmakers introduced the Homeowner Flood Insurance Affordability Act of 2013 (S. 1610/H.R. 3370) that would delay implementation of BW-12 rate increases on certain properties until after FEMA completes the affordability study and proposes a draft affordability framework for Congress to consider; and

WHEREAS, it is incumbent upon all of us to have a long term, sustainable and viable NFIP with rates that are affordable.

NOW, THEREFORE, BE IT RESOLVED, NLC urges Congress to pass the Homeowner Flood Insurance Affordability Act of 2013 that will delay the implementation of rate increases until FEMA completes the affordability study and to undertake any other such amendments to BW-12 that will keep flood insurance rates affordable for primary, non-primary and business properties while balancing the fiscal solvency of the program.

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November 18, 2013

The Honorable Randy Neugebauer
Chairman
Subcommittee on Housing and Insurance
House Financial Services Committee
United States House of Representatives
Washington, D.C. 20515

The Honorable Michael Capuano
Ranking Member
Subcommittee on Housing and Insurance
House Financial Services Committee
United States House of Representatives
Washington, D.C. 20515

Re: Implementation of the Biggert-Waters Flood Insurance Act of 2012

Dear Chairman Neugebauer and Ranking Member Capuano:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions, I write in advance of tomorrow's subcommittee hearing, "Implementation of the Biggert-Waters Flood Insurance Act of 2012: Protecting Taxpayers and Homeowners." We appreciate the Subcommittee's focus on this important issue at such a critical juncture.

As discussed in previous correspondence, NAFCU remains concerned about National Flood Insurance Program (NFIP) premium increases that are starting to take effect this year and the impact that they will have on credit unions and their members. NAFCU believes such increases should be delayed until at least such time as the Federal Emergency Management Agency (FEMA) completes its affordability impact study outlined in the "Biggert-Waters" legislation and Congress is able to review the findings.

Failure to act in this regard could mean that premiums will skyrocket for many Americans struggling in these uncertain times. Furthermore, various local housing markets could face drastic negative impacts. New premiums could be unaffordable to many, dropping home values in a tenuous economy. We are already hearing reports from our member credit unions that these impacts are beginning to materialize, so any action on this matter must be timely.

Thank you for your attention to this matter. If NAFCU can be of assistance to you, or if you have any questions regarding this issue, please feel free to contact me or NAFCU's Director of Legislative Affairs, Jillian Pevo, at 703-842-2836.

Sincerely,

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the Subcommittee on Housing and Insurance

Question#:	1
Topic:	rate increases
Hearing:	Implementation of the Biggert-Waters Flood Insurance Reform Act of 2012: Protecting Taxpayers and Homeowners
Primary:	The Honorable Kyrsten Sinema
Committee:	FINANCIAL SERVICES (HOUSE)

Question: Mr. Fugate, as I'm sure you're aware, some properties in Arizona have already started to see rate increases as a result of the removal of subsides under Biggert-Waters. Now that FEMA has begun to implement these increases, can you give me a sense of the number of policies affected in Arizona? What is the range of increases that policyholders in Arizona are seeing as a result of these phase-outs?

Response: FEMA's website (http://www.fema.gov/flood-insurance-reform-act-2012) includes an interactive map of National Flood Insurance Program subsidized policies. The map shows the universe of subsidized policies by State and county and provides some detail as to how they will be transitioned. As noted in the map, FEMA estimates that 6,005 of Arizona's 34,848 flood insurance policies are currently subsidized. Of the subsidized policies, 3,967 are primary residences and will retain their subsidies until they are sold, the policy lapses, or they are subject to severe repeated flooding as defined by the law.

With regard to the range of increases that policyholders are seeing, we are just beginning to receive data from our write-your-own insurance company partners on the first policyholders to transition to full-risk rates. Later this year, we will have collected enough data to be able to provide additional information about how policyholders are actually transitioning to full risk rates, including the full risk premiums they are paying.

At that point, we will provide the committee with the requested data.

Question: Mr. Rutenberg, you touched upon the importance of "fixing" Biggert-Waters and mitigating skyrocketing rate increases that many policyholders in Arizona are facing. Can you further discuss the importance of a fix? What do you anticipate the impacts of inaction to be on homebuilding, the housing market, and the economy in Arizona?"

Congresswoman Sinema,

Thank you for your question regarding the importance of "fixing" the unintended consequences of the Biggert-Waters Flood Insurance Reform Act (Biggert-Waters Act). In my November 19, 2013, testimony on behalf of the National Association of Home Builders (NAHB), I discussed how the Biggert-Waters Act could have a significant economic impact on the home building industry and the housing market across the nation. I will limit my response to several specific issues that are vital to home builders in your state. NAHB is unable to predict the overall economic impact on the Arizona home building industry and communities within floodplains; however, there are 34,887 National Flood Insurance Program (NFIP) policyholders in Arizona that could be affected by the implementation of the Biggert-Waters Act.

Section 205 of the Biggert-Waters Act requires that all pre-Flood Insurance Rate Map (pre-FIRM) properties upon sale or transfer immediately shift to full-risk actuarial flood insurance rates. Homeowners of pre-FIRM properties will undoubtedly see the value of their properties decrease as prospective buyers factor in higher flood insurance costs. Homeowners will struggle to sell their homes, and may be prevented from becoming "move-up buyers" of newly-constructed homes. Many prospective homebuyers of pre-FIRM properties will fail to qualify for residential mortgages because of potential increases in flood insurance premiums. NAHB's Household Priced-Out Model estimates that nearly two million households could be priced out of the market because they will no longer qualify for traditional residential mortgages due to NFIP rate increases.

Another significant economic impact of the Biggert-Waters Act is the reduction in the "substantial improvement threshold" from the historic 50% to 30% of a structure's fair market value. Once a homeowner surpasses this 30% in either repairs or improvements they will not only trigger the higher flood insurance rates, they will also be forced to comply with local flood damage prevention requirements. This could require extensive and expensive mitigation, such as elevating the building or relocating electrical systems. If not addressed, NAHB estimates that the 30% threshold will place up to $8.5 billion in annual remodeling economic activity at risk, as the extreme cost of crossing this threshold will force many homeowners to forgo necessary and appropriate improvements or even the simplest of remodeling jobs.

Also of concern is FEMA's remapping process. While new, scientifically based flood maps are necessary, there are concerns that FEMA is not taking into account all flood control structures–including local levees, dams, and berms. That failure, combined with FEMA's long history of inaccurate mapping, is resulting in homes unnecessarily added to higher rate-zones or forced to buy flood insurance for the first time at full-risk rates.

In conclusion, Congress should prevent FEMA from implementing any rate changes before completion of the affordability study, mandated in the Biggert-Waters Act. With regard to remapping, FEMA should be required to take into account all flood control structures and allow significant time for public review and comment. Congress should also reinstate the substantial improvement threshold to the 50% level. By making these and other suggested legislative changes, the NFIP will be an affordable and viable program while, preventing some of these unintended consequences that are hurting homeowners and home builders in Arizona and the rest of the nation.

12/27/13

Terrie Allison

Committee Editor

Committee on Financial Services

RE: Question forwarded by representative Sinema 12/15/13

First let me express my appreciation for the opportunity to testify before the Committee on Financial Services. It was a privilege and an honor to provide information for the record on an issue near and dear to my heart.

I am delighted you forwarded the question by Rep Sinema as that is a valid and important issue nationwide, and more importantly, in Arizona who's housing market is sustaining a recovery from the housing downturn in the late 2000's.

Many areas across the country have experienced drastic housing market adjustments since 2008, most notably states like Arizona, California, Nevada Massachusetts, DC, and Florida.

The National Flood Insurance Program is absolutely essential to successfully closing half a million homes sales annually. A conservative overview by the National Association of Realtors subsequently concluded that every day the NFIP lapsed (the most notable was from May 31st to July 2nd 2010) resulted in approximately 40,000 delayed or cancelled transactions per month. That's over 1,330 per day).

Please recognize that about 8%, or over 10,000,000 homes nationwide, are located in FEMA's 100 year floodplains (called special flood hazard areas SFHA)

What does that mean to the economies of those areas, many that are struggling to stabilize a fragile housing recovery? It means that without the flood insurance program, the certainty of home financing for new and resale homes is jeopardized. The confidence of lenders to make loans without a flood insurance program in place, for more than a few months extension at a time, is suspect at best. It means that of the 75,000,000 home owners in America (of which about 45,000,000 have mortgages) there is a real concern that flood insurance clauses may well be enforced by the lender if flood insurance is unavailable or too costly to buy. Those clauses simply say that the mortgage borrower must have insurance in place or the lender may call the loan due or force the home owner to but the lenders insurance which, more often than not, is an extremely high cost policy.

Anything that would further impact this recovery would be a huge negative for the country.

But why be concerned about the real estate recovery? Well for a few very good reasons

1. 4 of the last 5 economic downturns emerged from recessionary cycles because of a healthy real estate housing markets, one because of a war
2. For every two homes that are sold in America one job is created so even in the worst of times in '08. '09, and '10 the real estate industry was pumping out over 2,000,000 jobs a year
3. We know that each time a home is sold, that event triggers peripheral economic activity in the community equal to about $55,000 in the first 12 months after the sale (things like new appliances, furniture, roofs, landscaping, painting and the like)
4. We know that home owners in the U.S. provide 85% of all the personal income tax dollars collected by the federal government. Yes that comes from those 75,000,000 home owners
5. We know that the typical renter in the U.S. has an equity base of around $5,000. A typical home owner in the U.S. has an equity base of in excess of $160,000 (the large difference is the equity in home ownership) Those home owners use that home equity money to start new business, educate their children, and help with retirement.

We know the many economic advantages of home ownership, what we don't emphasize as well as we should, are the social and cultural benefits that accrue from home owner.

1. We know that people who own homes are healthier
2. We know that those people's children are healthier too
3. We know that home owners marriages last longer
4. We know that home owners children make better grades in high school and college and go on to get better jobs
5. We know that there is less teen pregnancy in those homes
6. We know there is less crime in those communities
7. We know that those home owners are communally involved at a greater level

The reality is that I could go on and on about the advantages to the economy, the country, and our society because the opportunity of home ownership exists and is available to all Americans who are able to qualify for the opportunity. This is the reason that I was empathic about the need for a stable and long lasting extension of the National Flood Insurance Program in America. Congress did the right thin to extend for 5 years, we simply need some time to work out the kinks in this bill

If I didn't believe so fervently that the eminent good created by a stable real estate economy was a huge contributor to and a significant barometer of this country's health, I certainly wouldn't waste your time in asking you to review this letter.

You asked how it could impact Arizona, I have requested our (NAR) chief economist Lawrence Yun, and Austin Perez, our staff member who has lived and breathed this topic for years, to further supply you with information specific to Arizona.

Pending their response let me address your question from a Realtor and home owners stand point. The recovery of the worse real estate recession (many economists have said) perhaps since the great depression is still under way. Areas like those in Phoenix, Miami, Las Vegas, Boston, Sacramento, and San Diego are pulling out of the downturn with, slow but steady, valid stabilization of their real estate markets. But in many areas of the country including those in FEMAS designated flood zones (Arizona has 104 as per information I supplied) a drastic increase in Flood insurance premiums could well turn the tables on this recovery in housing and commercial properties. As a sidebar The Rand Group out of California, stated , in their opinion, homes that sustained insurance increase could expect a devaluation of about $10,000 for each $500 increase to their insurance policy.

Flood Insurance premiums, for a maximum coverage of $250,000 on the structure and $100,000 on contents, have increased in many cases from subsidized levels of $1,500 to as much as $50,000+ and that's a per year coverage. The outcome of these increases could significantly dampen or even reverse housing recoveries and devastate local economies.

Many home owners in flood plains didn't know that their insurance was federally subsidized. These same home owners simply were advised of the premiums by their insurance companies and paid, which is what most all of us would do. Many, my estimation the vast majority, bought or built their homes in full compliance with the laws at the time they assumed ownership. Now the rules of the game have changed drastically. It's like committing to run a triathlon and then when you get to the dedicated finish of each event the rules changed and you're required to do substantially more than you had trained for.

I am convinced that a "time out" is desperately needed to empanel professionals from all areas and address the unintended circumstances that have developed

I'd be happy to provide you additional information with the history of the Flood Insurance program and how, in my opinion, we progressed to this point with some personal insights as to what we might explore.

I'm including several pieces of information for your review

1. Flood facts issued by FEMA
2. NAR overview of Flood Insurance Lapse v. Home Sales
3. FEMA's Community Status Book Report for Arizona

4. Email from Tim Clearwater, a new home owner, as an example of what happens to regular people caught in the unintended circumstances that erupted from the Oct 2013 implementation of Biggert-Waters Flood Insurance Act 2012
5. Synopsys of a conversation I personally had with Tim & pictures of the home

Please convey my sincere appreciation to Rep. Sinema and thank you for this opportunity to submit requested info. Please don't hesitate in contacting me with any questions and concerns. Again Thanks so much

Maurice "Moe" Veissi

*PRESIDENT NATIONAL ASSOCIATION OF REALTORS 2012 / 1,100,000 members (largest trade organization in the world)

*PRESIDENT MIAMI ASSOCIATION OF REALTORS 2008/09 /32,000 members (largest local Realtor Association in the World)

*PRESIDENT FLORIDA ASSOCIATION OF REALTORS 2002 /125,000 members (2nd largest state Realtor Association in the United States)

*PRESIDENT CORAL GABLES ASSOCIATION OF REALTORS 1981 /1,500 members

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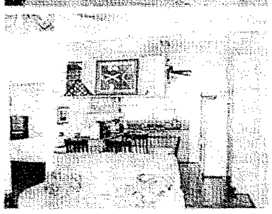

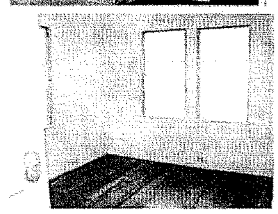

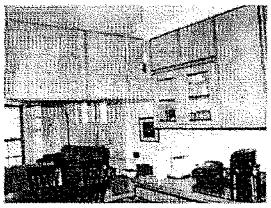
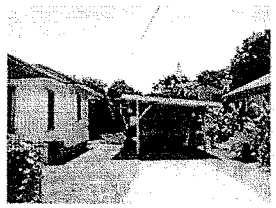


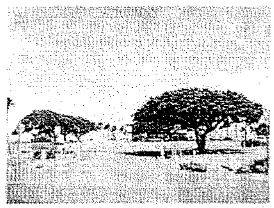



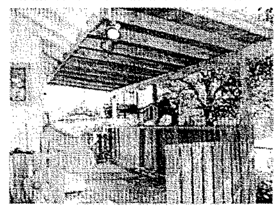

Federal Emergency Management Agency
Community Status Book Report
ARIZONA
Communities Participating in the National Flood Program

CID	Community Name	County	Init FHBM Identified	Init FIRM Identified	Curr Eff Map Date	Reg-Emer Date	Tribal
040001#	APACHE COUNTY *	APACHE COUNTY	12/20/74	07/05/82	09/28/07	07/05/82	No
040120#	APACHE JUNCTION, CITY OF	PINAL COUNTY	06/10/80	09/30/82	12/04/07	09/30/82	No
040038#	AVONDALE, CITY OF	MARICOPA COUNTY	02/15/74	06/15/79	10/16/13	06/15/79	No
040013#	BENSON, TOWN OF	COCHISE COUNTY	01/16/74	06/25/76	08/28/08(M)	06/25/76	No
040014#	BISBEE, CITY OF	COCHISE COUNTY	08/30/74	01/03/79	08/28/08	01/03/79	No
040039#	BUCKEYE, TOWN OF	MARICOPA COUNTY	03/29/74	02/15/80	10/16/13	02/15/80	No
040125#	BULLHEAD CITY, CITY OF	MOHAVE COUNTY	08/05/86	03/15/82	02/20/13	03/15/82	No
040131#	CAMP VERDE, TOWN OF	YAVAPAI COUNTY	07/25/78	08/19/85	09/03/10	12/30/88	No
040126#	CAREFREE, TOWN OF	MARICOPA COUNTY		07/02/79	10/16/13	07/02/79	No
040080#	CASA GRANDE, CITY OF	PINAL COUNTY	04/05/74	08/01/77	12/04/07	08/01/77	No
040129#	CAVE CREEK, TOWN OF	MARICOPA COUNTY		06/09/88	10/16/13	06/09/88	No
040040#	CHANDLER, CITY OF	MARICOPA COUNTY	05/24/77	07/16/80	10/16/13	07/16/80	No
040094#	CHINO VALLEY, TOWN OF	YAVAPAI COUNTY	05/03/74	09/01/81	09/03/10	09/01/81	No
040095#	CLARKDALE, TOWN OF	YAVAPAI COUNTY	08/23/74	12/01/82	09/03/10	12/01/82	No
040035#	CLIFTON, TOWN OF	GREENLEE COUNTY	06/07/74	03/01/84	09/28/07	03/01/84	No
040012#	COCHISE COUNTY*	COCHISE COUNTY	09/06/74	12/04/84	08/28/08	12/04/84	No
040019#	COCONINO COUNTY *	COCONINO COUNTY	01/24/75	11/16/83	09/03/10	11/16/83	No
040059#	COLORADO CITY, CITY OF	MOHAVE COUNTY		08/04/88	11/18/09	08/04/88	No
040082#	COOLIDGE, CITY OF	PINAL COUNTY	04/05/74	12/04/07	12/04/07(M)	06/10/80	No
040096#	COTTONWOOD, CITY OF	YAVAPAI COUNTY	06/07/74	09/16/81	09/03/10	09/16/81	No
040061#	DEWEY-HUMBOLDT, TOWN OF Use Yavapai County FIRM panels, 04025C2115F, c2120F, c2140F, c2500F, anc c2525F	YAVAPAI COUNTY		06/06/01	09/03/10	04/11/08	No
040015#	DOUGLAS, CITY OF	COCHISE COUNTY	06/28/74	09/29/78	08/28/08	09/29/78	No
040036#	DUNCAN, TOWN OF	GREENLEE COUNTY	09/13/74	08/02/82	09/28/07	08/02/82	No
040103#	EAGAR, TOWN OF	APACHE COUNTY	08/08/75	01/06/82	09/28/07	01/06/82	No
040041#	EL MIRAGE, CITY OF	MARICOPA COUNTY	02/15/74	12/01/78	10/16/13	12/01/78	No
040083#	ELOY, CITY OF	PINAL COUNTY	05/31/74	09/18/87	12/04/07	08/05/80	No
040020#	FLAGSTAFF, CITY OF	COCONINO COUNTY	06/28/74	01/19/83	09/03/10	01/19/83	No
040084#	FLORENCE, TOWN OF	PINAL COUNTY	05/03/74	08/17/81	12/04/07	08/17/81	No
040133#	FORT MOJAVE INDIAN TRIBE SEE ENTRY FOR FORT MOJAVE INDIAN TRIBE UNDER CID 060743, CALIFORNIA. MAILING ADDRESSEE IS IN THE STATE OF CALIFORNIA.	MOHAVE COUNTY		11/18/09	02/20/13	03/18/96	Yes
040135#	FOUNTAIN HILLS, TOWN OF	MARICOPA COUNTY		07/19/01	10/16/13	02/10/94	No
040021#	FREDONIA, TOWN OF	COCONINO COUNTY	06/07/74	03/17/82	09/03/10	05/17/82	No
040043#	GILA BEND, TOWN OF	MARICOPA COUNTY	12/24/76	12/04/79	10/16/13	12/04/79	No
040028#	GILA COUNTY *	GILA COUNTY	11/01/74	09/27/85	12/04/07	09/27/85	No
040044#	GILBERT, TOWN OF	MARICOPA COUNTY	04/05/74	01/16/80	10/16/13	01/16/80	No
040045#	GLENDALE, CITY OF	MARICOPA COUNTY	07/26/74	04/16/79	10/16/13	04/16/79	No
040029#	GLOBE, CITY OF	GILA COUNTY	05/24/74	05/01/80	12/04/07	05/01/80	No
040046#	GOODYEAR, CITY OF	MARICOPA COUNTY	03/15/74	07/16/79	10/16/13	07/16/79	No
040032#	GRAHAM COUNTY*	GRAHAM COUNTY	01/17/75	12/04/84	09/28/07	12/04/84	No
040110#	GREENLEE COUNTY*	GREENLEE COUNTY	10/25/77	07/18/85	09/28/07	07/18/85	No
040111#	GUADALUPE, TOWN OF	MARICOPA COUNTY		04/15/88	10/16/13	04/01/94	No
040104#	HAYDEN, TOWN OF	GILA COUNTY	04/23/76	09/14/79	12/04/07	09/14/79	No
040067#	HOLBROOK, CITY OF	NAVAJO COUNTY	03/15/74	09/30/83	09/26/08	09/30/83	No
040016#	HUACHUCA CITY, TOWN OF	COCHISE COUNTY	12/28/73	02/14/76	08/28/08	02/14/76	No
040085#	KEARNY, TOWN OF	PINAL COUNTY	11/30/73	08/17/81	12/04/07	08/17/81	No
040060#	KINGMAN, CITY OF	MOHAVE COUNTY	05/31/74	08/15/77	11/18/09	08/15/77	No
040122#	LA PAZ COUNTY*	LA PAZ COUNTY		09/19/84	08/28/08	09/19/84	No

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Communities Participating in the National Flood Program

CID	Community Name	County	Init FHBM Identified	Init FIRM Identified	Curr Eff Map Date	Reg-Emer Date	Tribal
040116#	LAKE HAVASU, CITY OF	MOHAVE COUNTY	08/26/80	11/18/09	11/18/09	09/01/81	No
040128#	LITCHFIELD PARK, CITY OF	MARICOPA COUNTY		09/29/89	10/16/13	08/19/88	No
040086#	MAMMOTH, TOWN OF	PINAL COUNTY	12/07/73	09/15/81	12/04/07	09/15/81	No
040118#	MARANA, TOWN OF	PIMA COUNTY	12/17/73	08/01/84	06/16/11	08/01/84	No
040037#	MARICOPA COUNTY*	MARICOPA COUNTY		07/02/79	10/16/13	07/02/79	No
040052#	MARICOPA, CITY OF	PINAL COUNTY		12/04/07	12/04/07	12/27/07	No
040048#	MESA, CITY OF	MARICOPA COUNTY	04/13/73	05/15/80	10/16/13	05/15/80	No
040030#	MIAMI, TOWN OF	GILA COUNTY	06/28/74	05/01/80	12/04/07	05/01/80	No
040058#	MOHAVE COUNTY*	MOHAVE COUNTY	01/10/75	03/15/82	02/20/13	03/15/82	No
040066#	NAVAJO COUNTY *	NAVAJO COUNTY	08/23/74	06/01/82	09/26/08	06/01/82	No
040091#	NOGALES, CITY OF	SANTA CRUZ COUNTY	05/24/74	04/15/81	12/02/11	04/15/81	No
040109#	ORO VALLEY, TOWN OF	PIMA COUNTY	04/11/75	12/04/79	06/16/11	12/04/79	No
040113#	PAGE, CITY OF	COCONINO COUNTY		09/03/10	09/03/10(M)	09/05/12	No
040049#	PARADISE VALLEY, TOWN OF	MARICOPA COUNTY	12/07/73	05/01/80	10/16/13	05/01/80	No
040100#	PARKER, TOWN OF	LA PAZ COUNTY		12/17/76	08/28/08	12/17/76	No
040092#	PATAGONIA, TOWN OF	SANTA CRUZ COUNTY	04/09/76	03/18/80	12/02/11	03/18/80	No
040107#	PAYSON, TOWN OF	GILA COUNTY	01/24/75	03/18/80	12/04/07	03/18/80	No
040050#	PEORIA, CITY OF	MARICOPA COUNTY	01/21/74	01/16/81	10/16/13	11/17/78	No
040051#	PHOENIX, CITY OF	MARICOPA COUNTY	06/28/74	12/04/79	10/16/13	12/04/79	No
040073#	PIMA COUNTY *	PIMA COUNTY	08/23/77	02/15/83	09/28/12	02/15/83	No
040033#	PIMA, TOWN OF	GRAHAM COUNTY	05/24/74	02/15/84	09/28/07	02/15/84	No
040077#	PINAL COUNTY*	PINAL COUNTY	01/10/75	08/15/83	12/04/07	08/15/83	No
040127#	PINETOP-LAKESIDE, TOWN OF	NAVAJO COUNTY	02/19/87	02/19/87	09/26/08	09/22/88	No
040121#	PRESCOTT VALLEY, TOWN OF	YAVAPAI COUNTY	03/11/80	08/16/82	09/03/10	08/16/82	No
040098#	PRESCOTT, CITY OF	YAVAPAI COUNTY	05/17/74	02/02/77	09/03/10	02/02/77	No
040134#	QUARTZSITE, TOWN OF	LA PAZ COUNTY		09/19/84	08/28/08	09/19/84	No
040132#	QUEEN CREEK, TOWN OF	PINAL COUNTY/MARICOPA COUNTY		09/29/89	10/16/13	07/22/92	No
040124#	SAFFORD, CITY OF	GRAHAM COUNTY		07/03/97	09/28/07	01/18/85	No
040137#	SAHUARITA, TOWN OF	PIMA COUNTY		02/08/99	06/16/11	06/30/97	No
040090#	SANTA CRUZ COUNTY*	SANTA CRUZ COUNTY	04/23/71	08/01/80	12/02/11	08/01/80	No
045012#	SCOTTSDALE, CITY OF	MARICOPA COUNTY		09/21/73	10/16/13	09/21/73	No
040130#	SEDONA, CITY OF	YAVAPAI COUNTY/COCONINO		06/06/01	09/03/10	12/30/88	No
040069#	SHOW LOW, CITY OF	NAVAJO COUNTY	02/20/76	02/03/82	09/26/08	02/03/82	No
040017#	SIERRA VISTA, CITY OF	COCHISE COUNTY	05/10/74	09/28/84	08/28/08	09/28/84	No
040070#	SNOWFLAKE, TOWN OF	NAVAJO COUNTY	04/05/74	03/01/82	09/26/08	03/01/82	No
040114#	SOMERTON, CITY OF	YUMA COUNTY		08/28/08	(NSFHA)	08/28/08	No
040075#	SOUTH TUCSON, CITY OF	PIMA COUNTY	04/05/74	02/08/98	06/16/11(M)	01/31/79	No
040011#	SPRINGERVILLE, TOWN OF	APACHE COUNTY	05/24/74	06/25/76	09/28/07	06/25/76	No
040010#	ST. JOHNS, CITY OF	APACHE COUNTY	02/13/76	06/16/93	09/28/07	03/30/81	No
040022	STAR VALLEY, TOWN OF	GILA COUNTY		12/04/07	12/04/07	04/11/08	No
040119#	SUPERIOR, TOWN OF	PINAL COUNTY	07/31/79	07/31/79	12/04/07	08/11/82	No
040053#	SURPRISE, CITY OF	MARICOPA COUNTY	06/28/74	12/15/78	10/16/13	12/15/78	No
040071#	TAYLOR, TOWN OF	NAVAJO COUNTY	05/17/74	02/03/82	09/26/08	02/03/82	No
040054#	TEMPE, CITY OF	MARICOPA COUNTY	06/28/74	12/14/82	10/16/13	08/15/80	No
040117#	THATCHER, TOWN OF	GRAHAM COUNTY		12/15/83	09/28/07	12/15/83	No
040055#	TOLLESON, CITY OF	MARICOPA COUNTY	04/12/74	01/16/80	10/16/13	01/16/80	No
040106#	TOMBSTONE, CITY OF	COCHISE COUNTY	08/15/75	02/16/83	08/28/08	02/16/83	No
040076#	TUCSON, CITY OF	PIMA COUNTY	08/02/74	08/02/82	09/28/12	08/02/82	No
040112#	WELLTON, TOWN OF	YUMA COUNTY		08/28/08	01/16/14(>)	07/01/08	No
040056#	WICKENBURG, TOWN OF	MARICOPA COUNTY	02/01/74	01/05/78	10/16/13	01/05/78	No
040018#	WILLCOX, CITY OF	COCHISE COUNTY	05/24/74	07/17/78	08/28/08	07/17/78	No

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ARIZONA

Communities Participating in the National Flood Program

CID	Community Name	County	Init FHBM Identified	Init FIRM Identified	Curr Eff Map Date	Reg-Emer Date	Tribal
040027#	WILLIAMS, CITY OF	COCONINO COUNTY	04/05/74	12/15/83	09/03/10	12/15/83	No
040031#	WINKELMAN, TOWN OF	GILA COUNTY	01/23/74	09/14/79	12/04/07	09/14/79	No
040072#	WINSLOW, CITY OF	NAVAJO COUNTY	07/19/74	09/16/81	09/26/08	09/16/81	No
040093#	YAVAPAI COUNTY *	YAVAPAI COUNTY	07/25/78	08/19/85	09/03/10	09/18/85	No
040057#	YOUNGTOWN, TOWN OF	MARICOPA COUNTY	12/28/73	11/15/78	10/16/13	11/15/78	No
040099#	YUMA COUNTY *	YUMA COUNTY	04/12/74	12/15/83	01/16/14(>)	12/15/83	No
040102#	YUMA, CITY OF	YUMA COUNTY	04/12/74	07/05/83	01/16/14(>)	07/05/83	No

Summary:

Total In Flood Program	104
Total In Emergency Program	0
Total In the Regular Program	104
Total In Regular Program with No Special Flood Hazard	1
Total In Regular Program But Minimally Flood Prone	4

Federal Emergency Management Agency
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ARIZONA

Communities Not in the National Flood Program

CID	Community Name	County	Init FHBM Identified	Init FIRM Identified	Curr Eff Map Date	Sanction Date	Tribal
040123#	COLORADO RIVER INDIAN TRIBE INCLUDES ALL AREAS OF THE COLORADO RIVER INDIAN RESERVATION IN ARIZONA AND CALIFORNIA.	LA PAZ COUNTY		05/04/87	08/28/08	05/04/87(S)	Yes
040136#	SAN LUIS, CITY OF	YUMA COUNTY		08/28/08	01/16/14	08/28/09	No

Summary:

Total Not in Flood Program	2
Total Suspended from Emergency Program	0
Total Suspended from Regular Program	1
Total Withdrawn Communities Not In Program	0
Total Not In Program With Hazard Area Identified	2
Total Not In Program With Hazard Area Identified < 1 Year	0

Legend:

(E)	Indicates Entry In Emergency Program
NSFHA	No Special Flood Hazard Area - All Zone C
(>)	Date of Current Effective Map is after the Date of This Report
N/A	Not Applicable At This Time
(S)	Suspended Community
(W)	Withdrawn Community
(M)	No Elevation Determined - All Zone A, C and X
(L)	Original FIRM by Letter - All Zone A, C and X

- Floods and flash floods happen in all 50 states.
- Everyone lives in a flood zone. (For more information, visit our Flood Zones FAQs.)
- Most homeowners insurance does not cover flood damage.
- If you live in a Special Flood Hazard Area (SFHA) or high-risk area and have a Federally backed mortgage, your mortgage lender requires you to have flood insurance. (To find your flood risk, fill out the Flood Risk Profile.)
- Just a few inches of water from a flood can cause tens of thousands of dollars in damage.
- Flash floods often bring walls of water 10 to 20 feet high.
- A car can easily be carried away by just two feet of floodwater.
- Hurricanes, winter storms and snowmelt are common (but often overlooked) causes of flooding.
- New land development can increase flood risk, especially if the construction changes natural runoff paths.
- Federal disaster assistance is usually a loan that must be paid back with interest. For a $50,000 loan at 4% interest, your monthly payment would be around $240 a month ($2,880 a year) for 30 years. Compare that to a $100,000 flood insurance premium, which is about $400 a year ($33 a month).
- Homes and businesses may qualify for the low-cost Preferred Risk Policy, with premiums starting as low as $129 for a home and its contents and $643 for a commercial building and its contents.*

  *$129 residential annual premium provides $20,000 building and $8,000 contents coverage. $643 commercial annual premium provides $50,000 building and $50,000 contents coverage.
- You are eligible to purchase flood insurance as long as your community participates in the National Flood Insurance Program. Check the Community Status Book to see if your community is already an NFIP partner.
- In most cases, it takes 30 days after purchase for a policy to take effect, so it's important to buy insurance before the storm approaches and the floodwaters start to rise.
- In a high-risk area, your home is more likely to be damaged by flood than by fire.
- Anyone can be financially vulnerable to floods. People outside of high-risk areas file over 20% of NFIP claims and receive one-third of disaster assistance for flooding.
- From 2003 to 2012, total flood insurance claims averaged more than $3.0 billion per year.
- When your community participates in the Community Rating System (CRS), you can qualify for an insurance premium discount of up to 45% if you live in a high-risk area and up to 10% in moderate- to low-risk areas.
- Since 1978, the NFIP has paid more than $41.6 billion for flood insurance claims and related costs (as of 2/14/13).
- More than 5.5 million people currently hold flood insurance policies in more than 21,800 communities across the U.S.

For more policy and claim statistics, visit the National Flood Insurance Program.

Lapses of the National Flood Insurance Program Jeopardize Home Sales

(August 2, 2011)

The National Flood Insurance Program (NFIP) is essential to successfully completing half a million home sales annually. When NFIP lapsed from May 31 to July 2 in 2010, REALTORS® Confidence Index showed 6 percent of REALTORS® had at least one delayed or cancelled home sale, amounting to 46,886 transactions during that 33-day period or 1,421 per day. Because the survey was conducted in June, one of the busiest home-sales months, and the first time homebuyer tax credit influenced the 2010 June activity, the National Association of REALTORS® (NAR) conducted further analysis to evaluate the survey result's sensitivity; NAR found that its initial estimate was robust to additional analysis.

Based on more generalized analysis, NAR estimates that each day that NFIP lapses results in the delay or cancellation of 1,332 home sale closings nationwide. This provides additional support for NAR's earlier estimate that each lapse would jeopardize closings across the nation on the order of 40,000 per month. To arrive at the refined estimate, NAR calculated the average sales throughout the year using the 2008 through 2010 sales activity as the basis. Nationwide, about 8 percent of the housing units, or over 10 million homes, are located in FEMA's 100-year floodplains, called Special Flood Hazard Areas (SFHAs). Some regions have a larger share of the housing stock located in SFHAs and account for a greater share of the home sales activity; thus we aggregated at the regional level before reducing the combined annual figure to its daily equivalent. The following table summarizes the estimated daily impact of NFIP lapses on home sales by Census region.

	A	B	C
CENSUS REGION	Annual Existing Home Sales (2008-2010 Average)[1]	Percent in SFHAs[2]	Daily Number of Transactions Impacted ((A x B) ÷ 365 Days)
South			
Existing Residential Sales	1,899,800	14.1%	732
New Residential Sales[3]	187,500	14.1%	72
		SUBTOTAL	804
Midwest			
Existing Residential Sales	1,118,075	5.0%	155
New Residential Sales	49,500	5.0%	7
		SUBTOTAL	161
West			
Existing Residential Sales	1,104,600	6.0%	181
New Residential Sales	80,500	6.0%	13
		SUBTOTAL	194
Northeast			
Existing Residential Sales	758,058	8.0%	166
New Residential Sales	31,000	8.0%	7
		SUBTOTAL	172
		TOTAL	1,332

[1] Using the data since 2008 ensures that any year-to-year and event-specific variability (such as the first-time home buyer credit) is smoothed out and also avoids the elevated activity of the circa-2002 housing boom. The 2008-2010 market activity has been generally consistent with the activity prior to the year 2000.

[2] To estimate this number in the SFHAs, NAR used GIS software to overlay spatial layers containing block-level data from the latest American Housing Survey (ACS 2005-2009) with the map of SFHAs from FEMA.

[3] New residential sales data is available by region only. Assuming the new homes are similarly located in the SFHAs as the existing homes are, the share of homes located in the flood zone is multiplied by the total number of new sales by region.

NATIONAL ASSOCIATION of REALTORS®

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1st of last year. No one in our escrow even mentioned any changes to the NFIP or Biggert waters. Had we even had any idea we would have canceled escrow in a heartbeat.

In September this year we received a notice from NFIP on a Liberty Mutual letter. Informing us of Biggert waters 2012 and that no renewal would be offered until we completed an elevation certificate. It was the first we had heard of any changes to flood insurance. And of course we now faced the full risk rate.

Our house is a pre-firm 1950's house in a coastal neighborhood about. 1000' or so from the water. We are a VE zone with. 14 BFE. Our home has never flooded in its history.

As we sit now we are 6.5 feet below BFE.

We until a few days ago did not have an elevation certificate. In Hawaii we received quotes varying from 800-1600 dollars .

We thought we had it sorted out with liberty mutual and Wells Fargo, our lender and insurer that we could keep the coverage under a tentative rate (without the elevation certificate) which we were quoted at about 10k dollars. We have an escrow account and it was supposed to be billed to that. However we just received notice from Wells Fargo that was not completed and our policy has lapsed. I can not afford without taking a loan, a 10k a year premium paid up front. We could probably squeak by a few months if we were allowed to make monthly payments.

With our now completed elevation certificate I'm guessing our rate will jump to at least 20-25k

This will double our mortgage. No way we can afford to stay, no way we can afford to sell. (No one will buy when they get the flood quote... At least not at what we paid a year ago)

We put 20% down, our life savings is the house. We have a four month old baby and my wife has not been working so coming up with the extra 800 dollars for the elevation certificate was a challenge. Paying 2k a month in flood insurance will probably break us.

Our hail Mary is to borrow money and raise the home. This is what we are trying to accomplish now. The plans are being drawn and we are applying for loans as we speak. The question is of course can we complete this before Wells Fargo force purchases 2k+ a month insurance and we start defaulting on our loan. The notice they just sent us said we had 45 days from November 6th. We were hoping to squeak by on the tentative rate till we were done. Now that we have an elevation certificate and have lapsed, I'm not sure what we will have to pay until we can raise the home.

Hope this helps to explain our story. I'll send our elevation cert. and notice from NFIP.

Thanks for your help,

Austin Perez

From: Moe Veissi
Sent: Monday, November 18, 2013 7:34 PM
To: Austin Perez

Can u print out for me thx ROUGH NOTES

NOTES
Tim Clearwater
Wife & 4 mo old
Grad college Marine Transportation
Employed 8 yrs in merchant marine, earns 130,000 wife left child care job to be with child
After looking for a home for his new family for more Than a year they made an offer on a 3/1 under 1000sf on 5000 sf lot 1200 feet from water asking 650000 sold 610000 1950s house post and pillar construction tongue & grove
Used life savings to make the down payment
They anticipated a flood ins premium of under 2000 but at closing ~~or~~ got a bill for 2765
Soon the family ~~or~~ got a letter from Liberty Mutual the carrier advising a renewal would not be offered due to BW 2012
Followed by letter from Wells FARGO MTG advising that they would be compelled to purchase insurance at a probable ~~hiher~~ HIGHER rate from them if they did not provide proof of insurance
After several months of conversation a tentative policy was issued For 1 year at 9620 with the anticipation that the renewal rate would exceed 20000
They had secured a loan for 80% of the purchase price Wells Fargo 3.75% 30 yrs PI 2200/mo + hurricane 900 home owners 300 taxes1500t
They received an elevation cert Nov 5th reflecting 6' below flood plain cost of cert 800 cost for plans to elevate house 1000
Approx. cost to elevate house 60-70,000 rand parents may loan the money necessary to do the construction elevations
Cost doesn't Include the cost of housing the family while the house is elevated
With the repairs the insurance may revert back to 2760 but the cost of the house including the renovations may not et close to the needed value to sell and break even
In the condition today with the cost of ins the owners estimate the value to be about 150000 less than what they bought it for
And the only buyers would be someone who could buy all cash and go w/o flood
The owners words to explain their circumstances included "crushing, depressing, anxiety the
He has taken a part time job to help support the insurance

November 18, 2013

The Honorable Randy Neugebauer
Chairman
House Financial Services Subcommittee on Housing and Insurance
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Mike Capuano
Ranking Member
House Financial Services Subcommittee on Housing and Insurance
B301 C Rayburn House Office Building
Washington, DC 20515

Dear Chairman Neugebauer and Ranking Member Capuano,

The historic Brooklyn neighborhood of Red Hook, in New York City is home to many working and middle class families who have lived here for generations, as well as artists and small businesses which have contributed to the recent revitalization of this diverse waterfront community. Pioneer Street is one of the few preserved blocks in the neighborhood, comprised of nearly forty late 19th century brick row houses. These small, three-story buildings, each between only 1500 and 1800 square feet, are mostly primary residences. Many also include a rental unit on one floor, and this income helps keep the neighborhood affordable by reducing the expenses of homeownership in New York City. In turn, this affordability helps keep property values in the neighborhood stable.

Pioneer Street itself is approximately seven and a half feet above sea level, and even though it is located well inside New York Harbor, and not subject to any wave action or moving water, the flooding that resulted from Super Storm Sandy did inundate the lowest, "garden-level" floors of all of our homes, which are a few steps down from the street. This was the first flooding of this kind in well over 100 years, if ever. The damage from this stillwater flooding was significant, but not crippling. Mostly, it was mechanical equipment, electrical service, insulation and finishes that needed repair. Only a few homes had any structural damages, and this was typically minor. Almost all of these homes were fully repaired within six months, and most homeowners were able to continue to live in their homes during the repairs. Although the storm was devastating, its effects were relatively short-lived.

This will not be the case with the Biggert-Waters Flood Reform Act, which threatens long-term and irreversible damage to our homes, our neighborhood, and our community. This so-called reform act, which was passed months before Sandy, calls for dramatic and unprecedented increases in flood insurance premiums for policies administered through the National Flood Insurance Program (NFIP). These premiums will be set primarily according to the elevation of a home relative to a base flood elevation, which is approximately twelve feet above sea level on Pioneer Street, regardless of when the homes were actually constructed. This is a departure from the previous regulation, which did distinguish between pre-existing houses and new developments. **As a result, Red Hook homeowners may see premiums rise as much as sixty times their current rates, from as little as $1,600 per year to as much as $36,000.** According to

FEMA, the only way to afford these crippling rates would be to literally raise our homes by as much as 8 feet.

The 19th Century, joisted-masonry construction of our houses makes them impossible to elevate. In order to avoid these new premiums, our only option would be to tear down our entire block – forty Civil War Era houses – and rebuild from scratch, which is not financially feasible for any of us because like most Americans, most of our net worth is in our homes, and subject to mortgages which we work very hard to pay off.

Our intimate knowledge with the flooding caused by Sandy, and our associated experience filing flood insurance claims through the NFIP, uniquely qualifies us to evaluate the proposed changes to this program. To be blunt, we are confused as to how the new, unsubsidized premiums can be justified as "actuarial". **These yearly premiums represent, on average, somewhere between 33% and 200% of the actual settlements paid out by the NFIP to Red Hook policy-holders following Sandy.** This for an event with a probability of occurrence of 1/100, according to FEMA's own flood maps (in truth, Sandy is likely the worst flood in 500 years of recorded NYC history, arguably making it less likely). Even if we were to assume that the frequency of these events will increase twofold over the next fifty years, and factor in generous allowances for overhead and administration, the numbers don't come close to adding up. In fact, the premiums would be unjustifiable even if these policies had paid out 100% of their value ($250k) following Sandy, which they did not.

No rational homeowner would participate in this program at these rates, since it would be vastly cheaper to self-insure. This will deplete the insurance pool, leading to more deficits for the NFIP. In addition, those of us who are required by their mortgagees to carry such insurance will be caught between a rock and hard place; unable to afford their homes as result of these crippling flood insurance premiums, yet also underwater on their mortgages and unable to sell and relocate because of the effect mandatory insurance at unjustifiable prices will have on property values.

Fortunately, there are many alternatives to Biggert-Waters' "reforms" which can improve the solvency of the NFIP without victimizing homeowners. A team of New York City experts under the Special Initiative for Rebuilding and Resiliency (SIRR) proposed several such alternatives. For example, offering homeowners the option of lower cost, high deductible policies would help mitigate some of the severe affordability issues that Biggert-Waters threatens, would continue to protect homeowners from catastrophic loss, and would ease future demands on the NFIP by reducing smaller, non-catastrophic repetitive claims. Similarly, the NFIP could offer credits – substantial enough to serve as an effective incentive – against insurance premiums for proven flood design improvements, such as elevating sensitive equipment and electrical service, avoiding the use of permeable construction materials like BATT insulation or drywall, and employing flood vents to equalize hydrostatic pressure across structural walls in the event of severe flooding to prevent serious structural damage. These design improvements alone would have reduced the Sandy flood damage experienced in Red Hook by upwards of 66% for most properties.

Biggert-Waters tries to balance the flawed design of the NFIP on the backs of innocent, hardworking homeowners in neighborhoods such as ours. This is an outrage, especially because so many good alternatives exist. Biggert-Waters needs immediate and dramatic reform along with an affordability study that accurately reflects the repercussions the removal of these subsidies will have on average working class Americans. We implore you to get to work.

Sincerely,

Homeowners in Red Hook, Brooklyn
Constituents of Senior Democratic
Member of the Subcommittee
Congresswoman Nydia Velázquez

Pioneer Street, Red Hook, Brooklyn NY

November 17, 2013

To:
The Honorable Randy Neugebauer
Chairman
House Financial Services Subcommittee on Housing and Insurance
2129 Rayburn
House Office Building
Washington, DC 20515

The Honorable Mike Capuano
Ranking Member
House Financial Services Subcommittee on Housing and Insurance
B 301 C Rayburn
House Office Building
Washington, DC 20515

From:
Andrea Kondaks Sansom
206 Richards Street
Brooklyn, New York 11231

Re: National Flood Insurance Program; Biggert-Waters Flood Insurance Reform Act of 2012; The Write Your Own Program; The Congressional Record and testimony regarding all of the above.

Dear Chairman Neugebauer and Ranking Member Capuano,

Thank you for your willingness to receive this written testimony regarding the NFIP and Biggert-Waters. I have chosen to offer this testimony in the hope that it may provide a concrete example of a recent and illuminating experience in filing a claim with the NFIP but, more importantly, how, as a result of this experience, I and all who have filed NFIP claims, may be able to shed some light on solvable problems within the administration of the NFIP.

Given the remarkable coincidence of the Biggert-Waters Flood Insurance Reform Act enactment coming just before Sandy hit our region and the attention and alarm these two events have brought to bear, it seems the optimal time to seek viable and long-term reform to the NFIP. I truly hope that, yes, there will be delays to the implementation of Biggert-Waters; that there will be an affordability study conducted which was to have been done as part of Biggert-Waters legislation; but, more critically, that these won't delay real and effective reform toward a sustainable NFIP which, according the FEMA/FIMA/NFIP persons I speak to on a regular basis, is well within reach. Indeed, according to those I speak with at FEMA, the NFIP is not a broken program in need of heavy-handed reforms such as Biggert-Waters delivers, but, rather, it requires sensible and achievable updating. These FEMA representatives were horrified to see Biggert-Waters enacted and they tell me that the NFIP was absolutely fiscally sound until Katrina and that much of the cost of Katrina was in the form of excessive payouts, excess administrative costs, poorly maintained levees and an essentially ill-prepared NFIP - ill prepared because things move too slowly within their agency. They tell me that the NFIP (considered the ugly stepchild of FEMA) has been neglected, needs more flexibility and an expedited regulatory process and that, with reasonable reform, rather than ruinous measures such as sections 205 and 207 of Biggert-Waters, it can be made solvent, effective and enduring.

I speak to these folks at FEMA often because the City of New York and its Special Initiative for Rebuilding and Resiliency (SIRR) has offered 10 initiatives which are aimed at sensible and fiscally sound NFIP reform. Indeed, these initiatives are, in great part, based on FEMA literature in the form of Technical Bulletins which publish "best practices" – mitigation measures to make properties more resilient. I await word as to how our own mitigation efforts and the 10 insurance initiatives may have bearing on the underwriting of our NFIP policy. I recently attended a meeting with Roy Wright from FEMA who said that these 10 initiatives are being seriously considered by FEMA. Were FEMA/FIMA/NFIP allowed to administratively effect their own best practices and offer commensurate credits for these, thereby encouraging mitigation in the forms of elevated mechanical equipment, wet flood-proofing methods, installing flood vents, etc., – all of which are reasonable and effective mitigation methods, especially for properties that cannot be elevated and are not Severe Repetitive Loss properties – many families and businesses would be incentivized to protect their properties in order to have lower NFIP premiums. Just these mitigation credits alone and the financial incentive that they would offer could contribute considerably to NFIP viability. For context, however, as to how mitigation is *discouraged*, I offer the following example:

After Superstorm Sandy, my husband and I began to study FEMA technical bulletins and I took a national training course called Hurriplan which teaches these best practices as well as ICC (International Code Council) building practices for storm regions. As a result of this learning and the empirical evidence of having our home flooded and observing how various mitigation efforts would have made a difference, we chose to rebuild differently. During the demolition of our first floor and before being visited by an independent adjuster from Fidelity Flood Insurance, we began to make those changes that would enable our home to withstand another such flood event. These included elevating our electric meters and electric generally; removing non-load bearing interior partitions on our first floor, sacrificing our first floor to storage based on FEMA best practices and guidelines, all of which make tremendous sense. We did the flood vent calculations, researched water-tolerant materials and began the process of mitigating our first floor and crawl space while working with an architect. All at a considerable cost and sacrifice of space. (Please bear in mind that we have chosen to do all of the above voluntarily and that these are site-specific solutions which many of my neighbors cannot utilize because they have basements, but would have other options were FEMA to be given the freedom recognize them through a more flexible policy which would take value into account so that if a homeowner was not insuring a costly suite, their policy would reflect that or they could choose a higher deductible. Also, we live in a 100 year flood plain so that the sacrifice we are making is actually a bit overboard and were we to have storm barriers where I live, we would possibly not need to sacrifice this space at all. Also, please understand that the housing stock where I live cannot be elevated – we have mostly attached row-houses here so that other mitigation efforts are what we turn to in protecting our homes.)

When the Fidelity independent adjuster came out and spent 10 minutes assessing the damage to our home, one of the first things he told me was that we would not be paid for raising our electric meters, which we had done already so as to have services, but, had we left them in the crawl space, below base flood elevation, we *would have* been reimbursed. This cost alone was $6,000.-

It took about 3 months for this damage assessment to be completed by the independent adjuster. Meanwhile, we continued to live with open joists, no heat, etc., on the first floor. When we finally got his estimate of loss, it was for @$40,000 whereas our damage was estimated to be $150,000. As we'd hired a Public Adjuster at the cost of 10% of our eventual payout, we proceeded to negotiate this claim for the next few months. Eventually, another inspection took place and we were told, again, that any deviation in repairs from what was there before would not be covered.

Essentially, the insurance company was insisting that we put things back as they were. We were flabbergasted and it was then that I reached out to FIMA for guidance, relaying to Melissa Anderson, who is a program specialist for the Federal Insurance and Mitigation Administration, that this private insurance company was not only causing untenable delays and untold waste in administrative costs; delays which not only continued to make our home vulnerable to further damage as well as hazardous to occupy· and also telegraphed waste and loss in that our lives were on hold and my husband couldn't run his company in his usual fashion as we remained vulnerable; our local economy, having also been storm-affected, was also stymied by such delays and all because of administrative misdirection and a seeming determination to drag this painful process out for as long as they may... the private insurance company was not only causing all of this but also *discouraging mitigation.*

I eventually got confirmation that private administrators of NFIP policies (SFIP's) cannot tell folks how to rebuild their homes, but this was too late in coming as I had to fight to secure this information for months, losing precious time to rebuild. My entire life was taken up in this fight. I cannot imagine how families with children, demanding careers, and homes damaged more than ours could possibly have had the time or energy to fight as hard as I was forced to. These stories don't get published. If you were to visit with these folks, you would certainly take great pause in observing the methods and consequences of the Write Your Own operators (WYO's).

I also came to learn that, indeed, these private insurance companies and their WYO participants practice something referred to in the insurance industry as "low-balling." This runs counter to the line that the WYO's receive a greater percentage the greater the loss, and yet it would seem that an entire industry in the form of Public Adjusters has resulted from chronic low payout and, additionally, there are prolonged lawsuits all over the country because of low NFIP payouts, all of which are, of course, costly to all involved. More generated cost.

Also, the metrics for determining the cost of repairs used by independent adjusters are based on a general standard which doesn't take regional costs into account: New York is a more expensive place to rebuild than Louisiana. Were local cost formulas to be applied, there would be less administrative work, less waste.

While these are important aspects to the overall picture of the NFIP, I refer to them mostly because of what they tell us in terms of a massive administrative waste and the resultant cost. But it's more interesting and heartbreaking when it comes to mitigation practices, the necessity, but also the discouragement of which, I will now speak to more thoroughly:

It took me 8 months to hash out our NFIP claim and another three to get our mortgage bank to agree to release our funds. They, too, initially refused to release our monies *because* we were mitigating our home. I hope you can appreciate the absurdity of that and, I hope you can recognize the implications:

If mitigation practices are promulgated by FEMA and yet discouraged by private insurance administrators and mortgage companies, the repeat losses - those very events that we are all saying we don't want to pay for – are being driven by these same private entities, the insurance companies and mortgage banks, right under FEMA's nose.

I fully agree that Severe Repetitive Loss properties should be subject to full actuarial rates once an affordability study has been conducted. But, based on my experience, I have to ask: who has created the vicious cycle of severe repetitive loss? Why are homeowners being punished for a loss-cycle not of their making?

From what I have observed, much of this is due to administrative mishandling at the level of the private insurance administrators who receive 30% fees per year, per policy, even in renewal years, and 70% in an event period, I've been told. Were Biggert-Waters to continue unchecked, these same companies would stand to gain exponential amounts in fees, fees that are already high, for doing the same administrative tasks – tasks which they have conducted so woefully as to cause families to become homeless due to reckless claim handling and unforgivable but seemingly purposeful delays: I've been told it is their agenda to "wear insureds down" so that they give up on the claim – claims on policies these families have diligently maintained and now have to fight tooth and nail over, for pennies on the dollar.

That these companies are also insisting that families put things back as they were, to potentially be destroyed all over again and after they've waited a year or more for loss coverages is a reprehensible practice which FEMA is taking the brunt for, causing groups such as Stop FEMA Now to emerge. After witnessing such practices by WYO operators over and over again in my community post Sandy, I can't blame anyone for then being outraged by Biggert-Waters which is not insult-to-injury for all of us who are still recovering from a natural disaster, but far worse: it's the cure that kills the patient as it renders our homes – these same homes we've painstakingly put back back together, under the guidance of the insurance companies and the banks –*valueless*.

The full accounting of this unbelievable but actual vicious cycle is not addressed by Biggert-Waters in the least and the ramifications of all of these practices are unfathomable as they have in great part led to NFIP insolvency and the reactive measures of Biggert-Waters which are, at this very moment, causing property values across the country to plummet. And yet, this incredible destruction of a family's single greatest asset, their home, is needless, in my opinion, based on all that I have tried to illustrate.

I hope the telling of my experience shows how much of this is a question of administrative practices and a lack of education on the part of private insurance companies and mortgage banks. Indeed, one of the 10 initiatives put forth by the Special Initiative for Rebuilding and Resiliency calls for education on all fronts as to how the NFIP functions. The Standard Flood Insurance Policy itself is an opaque document which does not allow insureds to grasp the essential limitations of an SFIP. Education for policy holders, mortgage banks and insurance companies would enable all of these to be prepared ahead of time to deal with claim's losses, thereby avoiding much of the administrative waste and excessive cost therein. The simple step of guiding independent adjusters to learn about mitigation credits and encourage these rather than insisting folks put things back as they were, would manifest as tremendous NFIP fortification.

If mitigation is central to FEMA's mandate, let mitigation be the guiding principle to NFIP reform. Allow FEMA greater flexibility in administrating their own best practices and promote these through incentive programs. Enable inter-agency communication for large-scale mitigation so that the Army Corps of Engineers and FEMA work together to maintain levees and seawalls and advocate for the further building and maintaining of such protective infrastructures.

At the same time, discourage reckless and destructive administrative waste within the WYO program. Put a cap on the amount a private insurance company can receive per policy so that they are not incentivized to not only maintain the failing status quo but, incredibly, actually profit from its "reform", via Biggert-Waters, in untold ways.

We are barely recovering from the worst recession in decades. Were Biggert-Waters to continue uncorrected, the economic, sociological and psychological toll on this country would be incalculable and all because of the "unintended consequences" of a reform act that was not carefully thought through – not because of a natural disaster.

Let us prepare for such natural and not administratively driven disasters through careful, integrated measures such as mitigation and administrative reform. Then we will surely see a solvent and viable NFIP, such as FEMA itself sees as wholly within reach.

I remind you, now, that the damage estimate for our home after Sandy was $150,000. Were we to be flooded by the identical storm after mitigating our home, I would venture the cost to clean up – not demolish and rebuild – would be @ $2,000.- My husband and I intend to never file an NFIP claim again and, could we afford to pay off our mortgage for the sole purpose of avoiding the projected premiums as well as the cruelty we experienced at the hands of the private insurance company, we would do so in a heartbeat. Indeed, Biggert-Waters is such a terrifying proposition that it will cause wholesale abandonment of the NFIP one way or another, unless reasonable and not ruinous reform is enacted.

Thank you.

Andrea Kondaks Sansom