Testimony of Tom Woods

President, Woods Custom Homes

On Behalf of the

National Association of Home Builders

Before the

House Financial Services Committee

Subcommittee on Housing and Insurance

Hearing on

“Opportunities and Challenges Facing the National Flood Insurance Program”

January 12, 2016

Chairman Luetkemeyer, Ranking Member Cleaver, and members of the Subcommittee, thank you for the opportunity to appear before you to today on behalf of the National Association of Home Builders (NAHB) to discuss the National Flood Insurance Program. My name is Tom Woods and I am a builder from Blue Springs, Missouri and NAHB's 2015 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 more than 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.

NAHB has a long history of supporting the National Flood Insurance Program (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. NAHB commends the Subcommittee on addressing this crucial issue early in the year, and we look forward to working with you and your colleagues as you contemplate changes to the NFIP to ensure that federally-backed flood insurance remains available, affordable, and financially stable.

Background

Since 1968, the Federal Emergency Management Agency's (FEMA) 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. A strong national flood insurance program helps ensure that the housing industry can provide safe, decent, and affordable housing to consumers.

The NFIP provides flood insurance to more than 5.1 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.

The unprecedented losses suffered in 2005 and 2012, including the devastation brought about by Hurricanes Katrina and Sandy, have severely taxed and threatened the solvency of the NFIP. While these events have been tragic and sobering, resulting reforms must not be an overreaction to exceptional circumstances. Instead, reform should take the form of thoughtful, deliberative and reasoned solutions. A key step in this process is to take stock of where we are today, what has worked and what has not.

Legislative Fixes

Congress reformed the NFIP through the passage of the *Homeowner Flood Insurance Affordability Act of 2014* (HFIAA). This legislation repealed provisions of the *Biggert-Waters Flood Insurance Reform Act of 2012* (BW-12) that triggered increases to full-actuarial rates based on the sale of a home.

While NAHB supported passage of BW-12 to ensure the continuation of the NFIP program, the legislation created unintended consequences that resulted in dramatic flood insurance premium hikes that hurt the sale, construction and remodeling of homes in affected communities. The combination of inaccurate mapping into higher risk flood zones and the immediate shift to full risk actuarial rates for many homeowners resulted in increases that priced prospective buyers out of their developments and forced the cancellation of sales, harming several communities.

HFIAA fixed many of the problems associated with BW-12. HFIAA provided that those who were charged higher rates should be refunded for excess premiums, specified that properties would continue to pay their "grandfathered" rates and repealed the requirement that flood insurance premiums increase immediately to full actuarial rates upon the sale of a home. The return to grandfathered subsidized rates provided a more affordable rate structure for policyholders.

FEMA is now required to notify their congressional delegations before updating FIRMs. This is invaluable for pre-FIRM property owners who are selling their homes, who now will be informed if they have been remapped into a new floodplain and will be able to inform the home buyer of any additional NFIP requirements. Congress also created the Flood Insurance Advocate, an office within FEMA responsible for ensuring NFIP policyholders and property owners understood FEMA's process for appealing a preliminary FIRM maps.

NAHB has estimated that in 2014 because of HFIAA there was:

- $755 million more in new construction (from existing homeowners who wouldn't lose value when they sell, and therefore will have more to spend on their next homes, a share of which will be new), plus
- $361 million a year in additional remodeling (from eliminating the extra cost of increased insurance some homeowners would had to have paid on certain remodeling jobs).

Additionally, HFIAA increased the "substantial improvement" threshold to its traditional amount of 50% or more of the market value of a structure. If it were not for HFIAA, NAHB estimates that the move from the 50% to the 30% threshold in BW-12 would have placed up to $8.5 billion in annual remodeling activity at risk because it would have deterred property owners from making necessary and appropriate renovations for fear of triggering exorbitant premium increases. This change will help existing homeowners stay in their homes and make necessary repairs and upgrades without the fear of triggering unsustainable insurance rate hikes.

Challenges Moving Forward

It is equally important to discuss the accuracy of FIRMs. 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).

FEMA has a long history of inaccurate flood mapping. There have been reported cases of FEMA drawing in rivers or streams where none exist or 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 appeals process for the community and homeowner, as well as forcing the payment of escalated premiums until the problem is resolved.

Through the strong leadership of both chambers, FEMA has been directed to implement a number of mapping initiatives. During the map modernization effort, FEMA was able to digitize, update, and modernize many of the nation's aging flood maps. While FEMA was successful in digitizing most of the FIRMs, not all were based on updated hydrologic data. As a result, a National Academy of Sciences report faulted some of the maps because of a lack of reliable topographical data. Because of these data deficiencies, there are large discrepancies between what was mapped in the 100-year floodplain decades ago, what areas may be reflected as falling within the 100-year floodplain on the newer maps and what the actual 100-year floodplain is today.

While FEMA is currently addressing this oversight through its RISKMAP program, continued congressional oversight is necessary. Most recently, BW-12 established the Technical Mapping Advisory Council, a federal advisory committee that is charged with developing recommendations for updating the mapping process. The council is expected to issue its report by the end of 2016.

Additionally, the NFIP must continue to allow 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.

If a local government deems an area fit for residential building, flood insurance and mitigation standards allow homebuyers and homeowners the opportunity to live in a home of their choice in a location of their choice, even when the home lies in or near a floodplain.

Furthermore, a common misconception when discussing NFIP and mapping involves new construction of homes in floodplains. NFIP provisions require that all new construction and substantial improvements of residential structures within a Special Flood Hazard Area (SFHA) on the community's FIRM must have the lowest floor (including the basement) elevated to or above the BFE level. Additionally, new construction does not affect the solvency of the NFIP because homeowners of new construction units are required to pay full-actuarial rates and do not receive a subsidy. In many commonly flooded areas, such as the state of Florida, NAHB has been told that new construction that is built to the current building codes routinely outperform the older existing housing stock during storm events. There is also an opportunity for home builders or landowners to elevate plots of land out of the floodplain.

Letter of Map Change Appeals Process

Landowners and local governments can file letters requesting map changes (LOMC) on a case-by-case basis as they relate to particular projects. However, this process can be both costly and time consuming. There are six different types of FEMA recognized LOMCs that can be further divided into two broad categories.

The first category is conditional letters of map amendment or revision (i.e., CLOMA, CLOMR, and CLOMR-F). These are statements from FEMA on whether or not a project, as designed, would either be located outside a SFHA or result in modifying a floodplain as depicted on an existing FIRM. The important factor here is conditional letters represent FEMA's opinion on projects not yet constructed. Once these structures or actions have actually been completed, FEMA still needs to take a separate administrative action to revise the map.

The second category is letters of map amendment or revision (i.e., LOMA, LOMR, and LOMR-F) that represent FEMA's acknowledgment of structures already built that require revisions to an existing FIRM. These LOMCs are corrections to an existing FIRM, and become part of the public record for that map. Subsequently, whenever FEMA decides to update or replace the existing FIRM, these LOMCs are to be incorporated into the new FIRM for the particular area.

I engaged in the CLOMR-F process in a subdivision I built in Independence, Missouri. It took over 8 months and a quarter of a million dollars for FEMA to approve the map change. In some states with short construction seasons, going through the lengthy LOMC process could create devastating costs and delays.

Despite best efforts and ambitious plans to update the nation's 92,222 FIRMS, many outdated and inaccurate maps remain in place. Efforts to update these maps must be carefully designed and implemented to account for the very real impacts they can have on communities. Oftentimes the updated maps will show a drastic increase in the amount of land designated as being within the 100-year flood zone. The reason for the increase is that measuring equipment used today is more accurate than the equipment used during previous mapping projects, including more meteorological history to draw upon.

Because flood hazards are dynamic and usually increase over time as development occurs, old maps tend to understate actual, existing flood hazards. As a result, the updated maps will continue to include increased flood elevations and expanded SFHAs. This not only extends the obligation for those with financing provided by a federally-insured or licensed lending institution to obtain flood insurance, but also includes mandatory construction requirements.

NAHB Urges Caution

As Congress considers strategies to ensure the availability of insurance and to bolster the financial stability of the NFIP, NAHB remains concerned that some reform measures under consideration could result in far-reaching and unintended consequences that decrease housing affordability and the ability of communities to meet current and future growth needs.

Any revision of the SFHA would not only affect homeowners, but also home builders, local communities and FEMA. An expanded floodplain would likely result in an increased number of flood map amendments and revisions, placing additional burdens on federal resources to make these revisions and amendments in a timely fashion. Residents located in a newly designated SFHA would need to be notified through systematic outreach efforts. Communities would likely need to modify their floodplain ordinances and policies to reflect the new SFHA. In short, the entire infrastructure of flood management and mitigation practice and procedures institutionalized around the 100-year floodplain standard would need to change, all at a time when FEMA has admitted its lack of resources to provide current services.

Conclusion

I would like to thank the Subcommittee for the opportunity to share NAHB's views. Home builders have long-supported common sense changes to the NFIP, and we urge Congress to continue to support and protect small business owners and homeowners from the exorbitant rate hikes and inaccurate mapping we have seen in the past.