"TWENTY COUNTIES...ONE VOICE"

The Detrimental Impact of the Biggert-Waters Flood Insurance Reform Act of 2012

The media has recently focused attention on the widening gap between the "haves" and the "have-nots." NC 20 would like to bring to this Committee's attention that group somewhere in the middle – the "trying to hold on to what we haves."

NC 20 strongly believes that the ever-increasing cost of property insurance is partly responsible for those in the middle - trying to hold on to their largest investment - slipping further and further behind. The total cost of property insurance – Fire & Liability, Wind and Flood coverage, mandatory when you have a mortgage – impacts the affordability of housing and ultimately discretionary income. This in turn greatly impacts our overall economy - economic development, re-development and investment in our communities.

Last year Congress passed the Biggert-Waters Flood Insurance Reform Act (BW-12) with great intention of reforming a program billions of dollars in debt. The National Flood Insurance Program was on the verge of being eliminated and with each lapse in the program tens of thousands of mortgages hung in the balance, unable to close. The good news is that BW-12 reauthorized the NFIP for five years. The bad news is that the rate and premium structure reform measures included in BW-12 may have the following unintended consequences for many property owners with structures located in a flood zone:

- Cause flood insurance premiums to be unaffordable;
- Prohibit buyers from qualifying for a mortgage or owners from refinancing;
- Force homeowners into foreclosure;
- Force businesses to close;
- Lower property values;
- Create a "cash-only" market in special flood hazard areas;
- Lower local tax revenues;
- Cause coverage to be cost-prohibitive thus discouraging those without a mortgage to purchase flood insurance. The fewer NFIP policyholders ;
- Eviscerate our economy!

NC 20 has heard from many homeowners that have shared personal stories that reflect the above.

What Can We Do? Congresswoman Maxine Waters, co-sponsor of the Biggert-Waters Act, released a public statement two weeks ago announcing that bi-partisan legislation was being introduced to delay provisions of the Act until an Affordability Study was completed. Waters stated, "Over the last several months, I have felt the harm and heartache that many Americans have already experienced as a result to the National Flood Insurance Program. From the start I have made it clear that I would lead the effort to fix the unintended consequences of the Biggert-Waters Flood Insurance Reform Act."

NC 20 supports a fiscally sound, actuarially responsible and cost-efficient NFIP that communicates to citizens their true flood risk. We support flood hazard mitigation efforts and programs. We do not support perverse incentives for building in harm's way, nor do we support the continued subsidization of severe repetitive loss properties. However, we must protect property owners who have played by the rules and built as the government told them. We must also ensure we are informed and communicating factual information – not conjecture or opinion – as we move forward and work together to strengthen the sustainability of the Program.

We need to collectively voice our support for H.R. 3370 and S.B. 1610 – Flood Insurance Affordability Act of 2013. Senators Burr and Hagan need to co-sponsor the Senate version of the bill.

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Biggert-Waters Flood Insurance Reform Act of 2012

Affordability of Coverage: The cost of property insurance (homeowners, wind and hail, flood, etc.) affects housing affordability, market values, financing and investment in communities. The NFIP is mandated to be widely available and affordable. Due to BW-12 changes to the rate, premium and coverage structure, flood insurance premiums could increase up to 1000% or more for some policyholders. This huge increase could force policyholders to sell their homes – if they are even able to find a buyer that can afford flood insurance. BW-12 has the potential to force homeowners into foreclosure. We are in the midst of a housing recovery and provisions in BW-12 will cause banking/mortgage institutions to once again become owners of vast amounts of property. Property values decline when the cost of insurance becomes so high thus impacting local tax revenues. Homeowners without a mortgage will not participate in the program due to the high cost of coverage, thereby negatively impacting market penetration and the long-term sustainability and affordability of the program. For policyholders without a mortgage, FEMA aid is seen as de facto flood insurance. There is no incentive to participate in the program when the cost is prohibitive.

Loss of Grandfathering: The grandfathering provision should remain. If a structure is built to the NFIP standards in place at time of construction, then a homeowner should not be penalized if map revisions cause a significant change to the zone or Base Flood Elevation of a structure. This will cause an increase in flood insurance premium thus impacting mortgage payments. BW-12 will create situations where homeowners would not have originally qualified for their mortgage if the lender considered future flood insurance premiums increases. This reform measure is unfair and excessive considering other BW-12 reform measures that will have a greater impact in reducing future flood hazard risk and increasing premium revenues.

Rate Structure: BW-12 includes the provision that "catastrophic loss years" be included to calculate the average historical loss year. The NFIP was self-sustaining for over 30 years. In 2005, Hurricane Katrina caused extreme catastrophic losses. Including these "outlier" event losses to determine NFIP rates will cause artificially high increases in rates. BW-12 also increases the annual rate increase cap from 10% to 20%. This is an arbitrary and capricious allowance and has nothing to do with risk. The maximum limit of coverage is only $250,000 for residential policies and $500,000 for commercial structures. NFIP primary residence policies offer replacement cost coverage; second home policies offer only actual cash value (depreciated) coverage however, while coverage is vastly different the rates are the same

Administrative Costs: While BW-12 includes reforms that put the burden of raising program revenues and reducing flood hazard risks on individual policyholders, it does not address the overall administrative costs of the program. Over one-third of NFIP premiums are paid to Write-Your-Own (WYO) companies through expense allowances, commission, bonuses and a percentage on the settlement of claims. FEMA does not know how much of what is paid to these companies is used to cover expenses or how much is actually profit. The expense allowance paid to administer the program should be based on a per policy cost, not a percentage of premium. When premiums rise, the expense allowance of 15.6% and the commission rate of 15% also rise. The passage of BW-12 creates a windfall for the 90 WYO companies that service NFIP policies.

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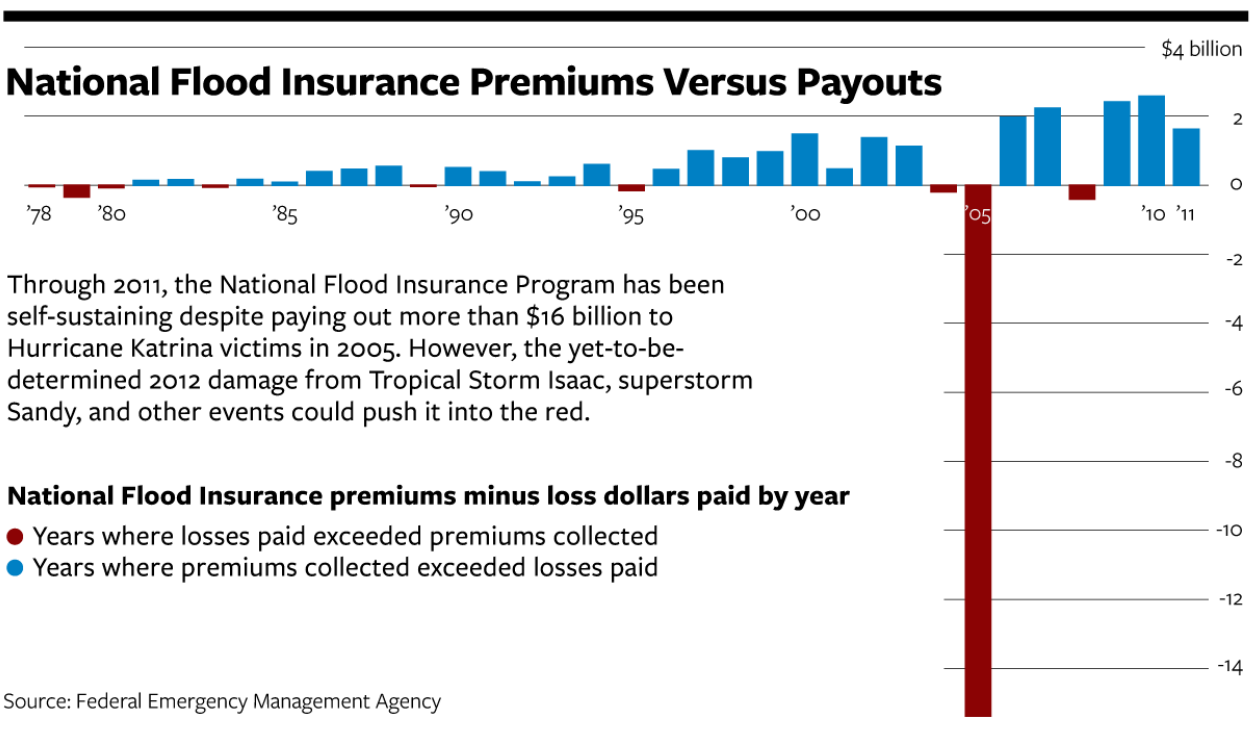
To foster transparency and a better understanding of the National Flood Insurance Program, we respectfully request that FEMA Administrator Craig Fugate share with Congress answers to the following:

QUESTIONS

1. How many structures in the United States are in a Special Flood Hazard Area?
2. How many structures are currently in V zones? A zones? X zones?
3. Of those structures in V zones, how many have an NFIP policy? A zones? The difference indicates that the structure was not in that zone when it was constructed.
4. What is the current NFIP total annual earned premium revenue?
5. What has been the average annual loss over the last 10 years? 20 years? 30 years?
6. What have been the total annual losses per year since 1978?
7. What percentage of premium are losses by year?
8. Of those losses, how many are repetitive losses? It has been reported that a large majority of losses in the program are from repetitive loss properties.
9. What percentage of annual total losses by year since 1978 are from repetitive loss properties?
10. Commercial properties may flood proof below base flood; residential properties are required to be elevated above base flood. What have been the total annual RESIDENTIAL losses per year since 1978? COMMERCIAL losses since 1978?
11. Since 1978, what is the average loss per residential structure? Commercial structure?
12. What percentage of annual losses since 1978 is for commercial property vs. residential property?
13. The NFIP was sustainable based on earned premium and losses for over 30 years. (See below FEMA graph.) With Hurricane Katrina and others in 2005, the NFIP could not cover losses from premiums earned within that year and had to borrow money from the US Treasury. What has been the total amount paid in interest to date on that debt?
14. Of the total Hurricane Katrina paid losses, how many of those were due to the failure/breach of the man-made levee in New Orleans?
15. With a large percentage of annual earned premium needed to pay Katrina debt interest, there have been fewer dollars to pay claims, thus resulting in the need to borrow more in catastrophic loss years. Does BW-12 cause current and future NFIP policyholders to pay more in rate/premium due to the debt and losses from Hurricane Katrina?
16. Were members of Congress presented a study showing the pre-Biggert Waters Act earned premium revenue versus the post-Biggert-Waters Act earned premium revenue prior to voting on BW-12?
17. Was there a study presented on the impact that huge premium increases could have on the mortgages of policyholders?
18. How many policyholders are not required (by a mortgage or otherwise) to have coverage?
19. Once FEMA aid is received, how long does a homeowner have to keep a flood policy?
20. What measures are in place to ensure that those who receive FEMA aid maintain a flood insurance policy?
21. Coverage limits are $250,000 for residential policies and $500,000 for commercial policies. How are the rates determined when limits are so low and coverage is minimal?
22. Is it true that primary resident policyholders have replacement cost coverage and second home policyholders do not?
23. Why are the rates for primary resident policies the same as second-home policies?
24. How can a second home policyholder have a $30,000 annual premium when coverage limits are so low and they do not have replacement cost?
25. On average, only 6 to 8% of all homeowners' insurance policyholders file an insurance claim within any given year. In the NFIP it is even less than 8% on average. On an annual basis since 1978, what is the percentage of policyholders that actually file a claim?
26. What are the total administrative costs of the NFIP?
27. What percentage of total earned premium are total administrative costs?

28. Are Write-Your-Own (WYO) companies that administer NFIP policies paid 15% commission based on premium?
29. Are Write-Your-Own companies that administer NFIP policies also paid a15.6% expense allowance based on premium?
30. Are claims adjusters/companies paid 3.3% on the settlement of claims?
31. How much of an increase in expense and commission cost payments can these companies expect to see due to the passage of BW-12?
32. BW-12 directs the FEMA Administrator to issue a rule to formulate revised expense reimbursements to WYO companies by July 6, 2013. Has this rule been issued?
33. Can your premium go up if you had flood damage but did not file a claim/receive any settlement from the NFIP?
34. Has the Technical Mapping Advisory Council's "Future Conditions Risk Assessment and Modeling Report" as outlined in BW-12 been submitted to FEMA? Is this report available to the public?
35. Will future sea-level rise rates be used to establish flood insurance rate maps?
36. What role/impact will future climate change scenarios have in determining flood insurance rate maps and corresponding rates?



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