S. HRG. 112–698

THE NATIONAL FLOOD INSURANCE PROGRAM: THE NEED FOR LONG-TERM REAUTHORIZATION AND REFORM

HEARING

BEFORE THE

SUBCOMMITTEE ON
ECONOMIC POLICY

OF THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

ON

EXAMINING THE NEED FOR LONG-TERM REAUTHORIZATION AND REFORM OF THE NATIONAL FLOOD INSURANCE PROGRAM

MAY 9, 2012

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C O N T E N T S

WEDNESDAY, MAY 9, 2012

WITNESSES

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

THE NATIONAL FLOOD INSURANCE PROGRAM: THE NEED FOR LONG-TERM REAUTHORIZATION AND REFORM

WEDNESDAY, MAY 9, 2012

U.S. SENATE,
SUBCOMMITTEE ON ECONOMIC POLICY,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Subcommittee met at 10:04 a.m., in room SD–538, Dirksen Senate Office Building, Hon. Jon Tester, Chairman of the Subcommittee, presiding.

OPENING STATEMENT OF CHAIRMAN JON TESTER

Chairman TESTER. I want to welcome everyone, and I call to order this hearing of the Economic Policy Subcommittee titled "The National Flood Insurance Program: The Need for Long-Term Reauthorization and Reform." Oh, how we long for the day.

I look forward to hearing from our witnesses this morning about the importance of long-term reauthorization and reform of the National Flood Insurance Program, which is vitally important to Montana homeowners and communities. Given the fast-approaching May 31st expiration of the Flood Insurance Program, the need to reauthorize and reform this program is imperative. Without an extension, in a matter of weeks policyholders and insurers will be in limbo; realtors and homeowners will be forced to put closings on hold contingent on reauthorization of this program.

We have been down this road before and have seen how unproductive and destructive lapses of this program can be. The unprecedented flooding in the Mississippi River basin last year further drove home the necessity of passing a long-term reauthorization that offers Americans and Montanans certainty in the face of risk.

Senator Vitter and I have been working together on this issue for quite some time now. He has been a great partner and dogged in his efforts to ensure that the NFIP program does not continue to suffer from the same lapses that we saw in 2010. I appreciate his sponsorship of S. 2344, a short-term extension of the program through the end of this year, which I joined as a cosponsor to ensure that we do not fall into a lapse on June 1 and that we can continue our work on a long-term reauthorization bill.

Teaming up on recommendations to improve the Senate Banking Committee draft, Senator Vitter and I worked with the Committee to incorporate critical provisions in the final bill. These provisions include a requirement that the Army Corps and FEMA work together to develop common standards that would allow existing Corps certification activities to meet FEMA levee certification criteria and a lengthening of the phase-in period for homeowners who must purchase flood insurance as a result of being mapped into a floodplain.

Unfortunately, too many Montana communities have experienced what happens when FEMA and the Army Corps do not work together. I am especially pleased to hear from Todd Klietz this morning, who will discuss his experience in Missoula with levee certification. In addition to these important provisions, the flood insurance bill also makes a number of important reforms to put the program on a more sound financial footing to protect taxpayers and to ensure long-term solvency of the program.

The bottom line is that we need a long-term reauthorization and reform bill and we need it now. The House and the Senate have never produced long-term reauthorization bills as closely aligned as the two that we have before us today. I am also not sure whether we have had the same strong, broad, industry-wide support that we have now, evidenced by our witnesses here today, and the efforts of the Flood the Hill Coalition, and I want to thank everybody who has been a part of that and will be a part of that.

And while we cannot take our focus away from passing a long-term reauthorization and reform bill, it is also clear that we will need a short-term extension in order to continue our work in getting the long-term reauthorization reform bill across the finish line.

I look forward to hearing from all of our witnesses about the importance of this program and protecting communities from national disasters and protecting taxpayers.

Senator Vitter is not here yet, so I think we will go right straight to the panel. When he shows up, we will get his testimony when appropriate.

So I would like to welcome our witnesses, two folks who have spent quite a bit of time in the field, and I want to thank them for their willingness to testify this morning. We will start with Mr. Klietz, a Montana floodplain administrator for the city of Missoula and Missoula County, a role that he has served in since 2003. He is also a past chairman of the Association of Montana Floodplain Managers. He is a certified floodplain manager and also previously served as a floodplain administrator for Ravalli County, a bit south of Missoula. I want to welcome you, Mr. Klietz.

We also have with us—and my French is not exceptionally good today, but I will do my best—Mr. Dwayne Bourgeois, executive director of the North Lafourche Conservation, Levee, and Drainage District, a role that he has served in since 2010. Mr. Bourgeois has significant experience in the area of emergency preparedness, developing new ways for employers and employees to communicate in the event of an emergency evacuation through his work developing Rally Point. Welcome, Mr. Bourgeois.

Each of our witnesses will have 5 minutes for oral statements, and your entire written testimony will be a part of the record. Mr. Klietz, I would like you to start.

STATEMENT OF TODD KLIETZ, MISSOULA COUNTY FLOODPLAIN ADMINISTRATOR, MISSOULA, MONTANA

Mr. KLIETZ. Thank you, Senator. On behalf of Missoula County, Montana, and the Association of Montana Floodplain Managers, I am honored to appear before you today to provide comment on the reauthorization of the National Flood Insurance Program. I respectfully urge this Committee to ensure that long-term reauthorization of the NFIP is enacted prior to May 31st.

Over the past several years, I have witnessed the results that delayed and uncertain congressional action on reauthorization has caused within my community and my State. Property values, already having fallen due to the economy, fall further in the floodplain due to buyers' uncertainty that Congress will provide homeowners with long-term flood insurance coverage. Real estate transactions have been delayed, and some have completely fallen through.

Homeowners, many of whom already must sell their property at a loss, are forced to reduce their sales prices further. The small pool of local insurers that are willing to process flood insurance policies dwindles further as they become increasingly frustrated with the ever changing uncertainty the last several years of delayed short-term reauthorizations have caused. Floodplain citizens need to know that you have their back by reauthorizing the National Flood Insurance Program for the long term.

This is not to say that we support reauthorization of the exact same Flood Insurance Program that has contributed significantly to our national debt. From my perspective, reform is correctly focused on the insurance side as the requirements for floodplain development within NFIP communities do work. Simply tour a participating community post-flood to see those results. My own community just experienced a 10-year flood last spring. Older homes built before FEMA mapping were destroyed while the newer homes right next door suffered virtually no damages.

The commonsense reforms, including those that the Montana delegation and this Committee have put forward, must be included in the long-term reauthorization. The American taxpayer is increasingly unwilling to provide financial support for those who have time and time again received handouts post-flood who then do absolutely nothing to prevent future damages as they know Uncle Sam will be there check in hand to quite literally bail them out again. Many repetitive loss property owners within my community received FEMA checks last year. None have voluntarily chosen to mitigate their homes.

Gone, too, are the days that the taxpayer will support those who knowingly choose to live in areas and in homes with severe flood risk. So we thank you for moving the NFIP away from overwhelmingly tax-subsidized premiums toward actuarially rated policies. I also want to thank you for your commitment to fund ongoing mapping so that communities in rural States like Montana will eventually be provided with detailed floodplain maps allowing our citizens to build homes constructed through means that minimize flood loss.

I further appreciate the efforts that are being made regarding levees. Although the issuance of new FEMA floodplain maps for my community has been on hold for several years due to inconsistencies with how FEMA is mapping properties behind them and behind levee-like structures such as railroad beds, roads, and even interstate highways, my community was fortunate that the Army Corps of Engineers certified their levees. This makes sense as the Corps designed, built, and inspects them on a regular basis. My community's experience with the Seattle District of the Army Corps of Engineers was exactly the way it should be. We asked, they came, and while we had some unexpected work that needed to be done, we did our job in maintaining those levees, and the Corps did their job in certifying them. Unfortunately, other Montana communities have been required to spend hundreds of thousands of dollars to certify the levees that the Corps designed, built, and already inspects. An unjustifiable burden on those communities and their residents, we are glad to see the Senate taking a proactive position to put the Federal responsibility for certifying Federal levees back where it belongs.

The positive reforms that have been put forward are long overdue, and I applaud your efforts to make them happen. However, there remains one very important issue: 500-year floodplains. You have heard testimony regarding the losses that the NFIP incurs—the taxpayer incurs—when homes within 500-year floodplains are damaged. The Senate bill will ensure property owners will now be notified of the risk of living in a 500-year floodplain. The problem is that FEMA does not map 500-year floodplains. These areas are identified as "Shaded-X" on the floodplain maps, and in small print, the corresponding legend states that these actually are "areas of 100-year flood" or "areas protected by levees from the 100-year flood" or "areas of 500-year flood." Until FEMA is actually required to map these Shaded-X areas based on actual topography, the maps simply cannot be relied on to determine if a building proposed in these locations is actually within the 500-year floodplain or will be inundated during lesser flood events. Last spring, I was in a Shaded-X 500-year home with a full walkout basement that was inundated during our 10-year flood. There are no Federal requirements for how that home should have been built, nor how that home should be mitigated to prevent future losses. There are no requirements that the property owner obtain flood insurance to ease the burden on the taxpayer. The property owners had received multiple checks prior to last year's 10-year flood event, and they did so again last spring.

I was in another flooded home. This one was built in the 100-year floodplain—with a basement. It should have never happened—and it did not happen on my watch—but it did. Although that home was not constructed in compliance with FEMA requirements, those property owners also received a check from FEMA.

I sincerely appreciate the opportunity to appear before you today and would like to leave you with my own top three requests:

Stop issuing subsidized flood insurance policies for new structures built after FEMA's floodplain designation. Fortunately, as addressed in the Senate bill, the taxpayer will no longer be forced to subsidize insurance for those that choose to build in designated floodplains.

Stop rewarding those who bring fill into the floodplain to protect their development at the expense of pushing those flood waters onto their neighbors. FEMA encourages this practice by issuing Letters of Map Revision Based on Fill which completely removes the owner's obligation to obtain flood insurance coverage and contribute to the National Flood Insurance Program.

Finally, stop issuing FEMA floodplain maps without providing written notice to affected property owners. FEMA has the audacity—and the budget—to send notices to widows on fixed incomes in Bozeman and Missoula and across the Nation whose homes are nowhere near the floodplain which scares them into buying flood insurance. At the same time, FEMA does not have the budget or desire to send such notices to people that are actually in the floodplain. Thankfully, notification is now addressed in the Senate bill. These scare tactics are not. Even Missoula City Hall, located nearly a half-mile from the 100-year floodplain, received such a letter from FEMA. Targeting extremely low-risk properties may be good for the bottom line but is not what citizens expect from their Government.

In closing, I sincerely thank this Committee and both Houses for pursuing significant reform and providing our citizens with long-term, confidence-restoring reauthorization.

Thank you.

Chairman TESTER. Thank you, Mr. Klietz, and I appreciate your testimony. We will get to some questions for both of you, but we will go to Mr. Bourgeois now for his testimony. Mr. Bourgeois?

STATEMENT OF DWAYNE BOURGEOIS, EXECUTIVE DIRECTOR, NORTH LAFOURCHE CONSERVATION, LEVEE, AND DRAINAGE DISTRICT, RACELAND, LOUISIANA

Mr. BOURGEOIS. Thank you, Senator Tester and Members of the entire Committee, for this opportunity to testify today. I am, as you mentioned, the executive director of the North Lafourche Levee District, a political subdivision of the State of Louisiana. However, I am here today representing a broader coalition of Government agencies, citizens, and businesses in the State of Louisiana who rely heavily on the National Flood Insurance Program.

We commend the Committee for addressing the long-term reauthorization and reform of the National Flood Insurance Program. Further, we appreciate the opportunity to provide to you details of our current circumstance. Though particulars may vary, the situation we face today is typical for many areas in South Louisiana and across our Nation.

Currently, we are working with FEMA—and I will add that the U.S. Senate and the House of Representatives have been actively working along with us—to reform a FEMA policy regarding the impact of nonaccredited levees during the Flood Insurance Study. We believe that you will agree that our issue clearly demonstrates the need for reform for the National Flood Insurance Program. However, we further believe that such reform is currently being complicated and made more difficult by the lack of a long-term reauthorization of the National Flood Insurance Program itself. Even the seemingly obvious need for reforms takes much effort and time in a program such as this. It is hard for everyone involved to work diligently through such a complicated issue with a looming expiration date set for the fate of the entire program.

Our issues began in mid-2009 when we received new flood maps in our area. It was immediately obvious to us that the maps could not possibly represent the true risk of flooding in our area because the flood zones shown in the maps had no correlation to any real world features. We began working through the appeals process with FEMA and were able to quickly identify the elements of the Flood Insurance Study that were causing the erroneous mapping as well as limitations of the process itself that would not allow the maps to more accurately reflect the threat of flooding in our area.

Realizing that complete resolution of our issues would have to come from a change in FEMA's policy and that this change would have to come from Washington headquarters of FEMA, we began to inform and work with our legislative delegation. In early February 2011, 27 Senators signed a letter to FEMA Administrator Fugate asking FEMA to discontinue the "Without Levees" policy. In March of 2011, Administrator Fugate announced that FEMA would begin developing a series of targeted modeling approaches to replace the "without levees" approach to identifying the risk of flooding behind uncertified levees.

In December 2011, FEMA released for public comment a draft of their proposed revised approach. About this same time, FEMA did reveal to us that they were still working on details on how to address coastal levee analysis. They realized that some of the riverine methods developed would not be appropriate for coastal levees. Most importantly, in a collaborative reform process, they also agreed to meet with us on these specific issues. A small group from our local coalition met with FEMA's technical staff in February of this year. When it came to producing more accurate flood maps, we were told by FEMA nothing was off the table. This was a very productive meeting, but we have a long way to go. As of today, FEMA has not released the results of their analysis of all the public comments they received. This is still very much a reform in process.

So today we find ourselves working hand in hand with FEMA on meaningful reforms to their policy only to be met by another pending expiration of a short-term extension of the National Flood Insurance Program. Yet, the details I have provided today are a tremendous effort to resolve but a single issue within the National Flood Insurance Program. There are many more issues that can be corrected through cooperative reform and a long-term reauthorization of this vital program.

The framework for some of the other required reform is already in the language of the bill. An example is the creation of a task force that will help local levee owners work more efficiently with the U.S. Army Corps of Engineers when trying to have their levees accredited for consideration in the National Flood Insurance Program.

In conclusion, I would like to point out that ours is a working delta, the fruits of which are enjoyed by and enrich our entire Nation. From our freight transportation on the Mississippi River to our oil and gas and petrochemical industry to our abundant fisheries, not to mention tourism, jazz, and Mardi Gras, we simply must work and live within this delta. As such, the availability of federally backed, affordable, and financially stable flood insurance is of vital importance to our region and the entire Nation. All of this can be provided with the long-term reauthorization and reforms being proposed.

We thank you for this opportunity to share both our situation and our views on this important issue. We look forward to working with all of you to continue making these changes to the National Flood Insurance Program.

Chairman TESTER. Well, I want to thank you for your testimony also, Mr. Bourgeois.

I think what we will do is we just go right into the questions, if I might. I am going to start with you, Mr. Bourgeois. One of the last statements you made was you have a working delta and how critically important it was to have a financially stable Flood Insurance Program. I do not know if you have had a chance to look at the bill in depth, but does it meet that criteria?

Mr. BOURGEOIS. I have not read it completely in total depth, but I am familiar with it and familiar with the fact that we have gone through a series of short-term reauthorizations and how difficult that was to us.

I will put this to you simply. Yesterday I had a revelation eating lunch at a deli, and I had a bag of chips that had the same expiration date as the National Flood Insurance Program. A program as important as this should not have the same expiration date as a bag of chips.

[Laughter.]

Mr. BOURGEOIS. It just floored me, and I wanted to bring it in because I did not think anybody would believe me. But those are the problems we are having. I mean, how can anyone make meaningful reforms, how can you plan long term, when we are faced with these constant short-term things? We need a solid commitment to the program so that everybody can move on and do what they need to do.

Chairman TESTER. And predictability comes with that long-term commitment.

Mr. BOURGEOIS. Absolutely.

Chairman TESTER. Yes, thank you.

Mr. Klietz, I want to thank you for being here this morning. We both know how long a trip it is from Montana to Washington, DC, so I appreciate your willingness to be here and to share your expertise on the program of flood insurance.

You mentioned in your testimony that flood maps are in the process of being remapped and that levees were certified by the Army Corps in your town. Could you describe the process of how that certification was handled and the division of cost and labor between the local levee sponsors, FEMA, and the Army Corps?

Mr. KLIETZ. Certainly. Missoula and Missoula County have three levees that were built by the Corps—one in 1949 and two more in the 1960s within the city of Missoula. When we first heard that the NFIP was going to be updating FEMA's floodplain maps for Missoula and Missoula County, I contacted the Army Corps of Engineers in Seattle, the Seattle District, who built our levees, and they readily agreed to come out and assist us with that process. It was their dime. They came out, and as they normally inspect our levees anyway, they were willing to certify that. They came out, saw the condition of our levees, saw that we had been maintaining them, but also saw some issues that had concerned them, mainly had to do with overgrowth of vegetation. So both the city and the county then had to spend several thousands dollars to bring those levees into compliance with the requirements for certification.

That certification, again, was primarily—the cost of doing the certification was done by the Army Corps of Engineers out of Seattle. FEMA's response basically was to review the certification papers that the Corps provided and to ensure that we had an ongoing maintenance and operation for those particular levees. So there was not a whole lot that FEMA had to do other than review the paperwork. And, again, the Corps did most of that work themselves.

Chairman TESTER. Bottom line, the local levee folks had the financial capacity to handle the cost?

Mr. KLIETZ. The cost and the obligation of maintaining the levees, not the financial resources if we would have been forced to certify those ourselves like some other Montana communities have.

Chairman TESTER. OK. As you know—and I was going to ask Mr. Bourgeois—coastal levees, does the Corps certify those?

Mr. BOURGEOIS. Yes, sir. They certify any levees that meet 65.10, so they will certify any levees that will have that requirement. Some of them are coastal and some of them are riverine in our area.

Chairman TESTER. OK. So in Louisiana, because I am not familiar with it, so this is an education point, what percent does the Army Corps certify now? I mean, they used to certify them all in Montana. They do not do any of them now.

Mr. KLIETZ. It is a relatively short number of levee systems. The mileage may be up there because they certify the main line Mississippi River levees, but a lot of the additional and ancillary levee systems are no longer certified by the Corps, and a lot of the levees that we have in our district—for example, we have no federally authorized levees, no Federal levees whatsoever. So none of our levees are actually certified currently.

Chairman TESTER. OK. So this is a question for both of you. Since the Army Corps has ceased providing levee certification services for flood mapping, my question is: Without the Corps performing the certifications, how is the process working in your respective States?

Mr. KLIETZ. Senator, in Montana it is not working at all. The town of Miles City has levees. They have not been able to certify those levees. The Corps has not certified those levees. The properties behind those levees are being mapped as being within the floodplain as if the levee does not exist.

The city of Livingston did, on their own dime, spend almost $300,000 to certify those levees that were built by the Corps. The Corps levees in Great Falls, Cascade County, Montana, were able to eventually get a 2-year provisional accreditation from FEMA, but that is just a 2-year stop gap, and when that 2-year period expires, the levee accreditation will expire. And without the Corps' ability to certify those levees, all those properties will go into the floodplain and require those individual property owners to now carry flood insurance.

Chairman TESTER. Could you give me a Louisiana perspective, if different?

Mr. BOURGEOIS. Well, it is somewhat similar. The actual process of certifying something is—certifying the levees is very difficult for an individual engineering firm to take on the responsibility. So it sort of all turns to the Corps, and I think in some cases the Corps would be willing, but they have their limitations on what they can do, and the funding and everything else also. So it does put everyone in a quandary.

Chairman TESTER. Well, it is interesting because Montana is a headwater State; you guys are where it goes into the ocean; and the challenges we have with levee certification obviously are concerning the whole river system.

Do the local levee sponsors—and this can be a pretty short answer because I think I know what it is. Do the local levee sponsors have the ability to certify those levees, even if they could get an engineering firm to do it?

Mr. BOURGEOIS. It would be very difficult and very costly.

Chairman TESTER. OK.

Mr. KLIETZ. The same in Missoula.

Chairman TESTER. All right. I want to talk a little bit about the 500-year floodplain. Mr. Klietz, you mentioned in your testimony the mapping of the 500-year floodplain and a move toward actuarial premiums. I want to flesh this out a little bit. Could you tell us a little bit about how these issues affect somebody in your position's ability to manage the floodplain and ensure the right kind of development is happening in the right place?

Mr. KLIETZ. In regards to the 500-year floodplains, the Montana Legislature actually back in the early 1970s went above and beyond the requirements of the FEMA mandates, and they do give local communities in Montana the ability to look at 500-year floodplains for development purposes. That is quite different than what happens at the national level, but we do have that specific legislative authority from the State of Montana.

For instance, in my community, when there is a proposed subdivision within a 500-year floodplain or when there is a proposed septic system that needs to be installed for a new home, we ensure that those properties are above the 100-year flood elevation and that they are constructed so that their lowest floors are 2 feet above the 100-year flood elevation, which is the standard for freeboard in the State of Montana.

Chairman TESTER. The last one, and then I will kick it over to my Ranking Member. And I may ask this question of the second panel, too. You guys touched on a little bit in your testimony about the consequences of the continual short-term extension versus a flood insurance program that is long term. Could you give me some real-life examples in your communities of what you have seen over the last few years, the impacts of those short-term extensions, problems that have arisen that would not necessarily have to arise if we could get a long-term extension passed? Mr. Bourgeois, go ahead.

Mr. BOURGEOIS. Well, as mentioned in my testimony, the whole process of reforms that we are working on to give credit or some consideration to nonaccredited levees in a Flood Insurance Study puts everything in flux. And I would think that even as complicated as the issue is, we could have gotten through this a lot quicker, but, you know, with a constant expiration date hanging over the whole thing, it is very difficult for everyone to work diligently toward solving such a complicated issue, thinking the whole thing could be ending fairly soon. And I know that that has had impacts on our development and impacts on—we still have flood maps that are in flux. Again, since 2009 and still working on this today, we do not have solid maps and things in place that we need for floodplain management.

Chairman TESTER. OK. Mr. Klietz, would you like to respond?

Mr. KLIETZ. The reduction of property values for property owners in the floodplain, their inability to sell their homes when flood insurance has lapsed, and the inability for buyers to want to buy a home in the floodplain when they do not know what is going to happen, if they are going to be able to pay for their mortgage on top of flood insurance and whether flood insurance is going to be provided. It has affected property values, and it has affected the sales of homes within my community.

Chairman TESTER. Well, thank you both. I appreciate your testimony, and I appreciate your frank answering of the questions.

Senator Vitter is here, and I will just turn it over to you because I am done with the first panel, David.

Senator VITTER. Thank you, Mr. Chairman, and thanks to both of you for being here, and a special welcome to Dwayne Bourgeois of the North Lafourche Conservation, Levee, and Drainage District. Thank you for your service and for being here.

I apologize for being late, but it was only because I was on the floor talking about the absolute need to pass a long-term reauthorization now before May 31st, so talking about the same thing. But thank for being here.

Mr. Bourgeois, I just wanted to underscore what I understand to be one of your significant points, which is that a lot of important improvements and reforms can be done administratively, but all of these very short-term extensions really get in the way of that, and a long-term full reauthorization would allow that to happen in a much more effective way. Is that fair to say?

Mr. BOURGEOIS. Yes, sir, absolutely. That is the best way to put it. And we know it is happening to us here. We are working with you guys. FEMA is trying to work with us, I feel, working through these issues. The legislators in the House and the Senate put pressure on FEMA to do so. They have agreed. We are all in step. But we keep hitting the deadline.

Senator VITTER. Right. And, again, perhaps the best example from our Louisiana experience is this so-called without-levee issue, and we want to work through that.

Mr. BOURGEOIS. Absolutely, and I think we are making headway, but we need to be able to do this before June 1st.

Senator VITTER. Right. Well, of course, the Chairman and I completely agree, and that is why we are pushing hard for that long-term reauthorization. Of course, we do not want to let the program expire, but we need to get beyond this Band-aid approach, too. We need a real long-term reauthorization for all the reasons you have both talked about, so thank you.

Mr. KLIETZ. Thank you.

Mr. BOURGEOIS. Thank you.

Senator VITTER. Thank you, Mr. Chairman.

Chairman TESTER. Thank you, Senator Vitter. I appreciate your support on this issue. You are right. We are trying to get this thing done, and I want to thank the panel for their testimony because I think it helps contribute to the fact that there are issues out there we need to deal with, and continuing to deal with them on a short-term basis is not really getting the job done. So I want to thank you, and we will bring up the next panel.

The next panel consists of Dr. David A. Sampson, Mr. Jon A. Jensen, Maurice "Moe" Veissi, and Sarah Murdock. You guys can all come up, and we will get the proper name tags.

What we will do, before we start on this panel, is I would like to give Ranking Member Vitter the opportunity to say a few words.

STATEMENT OF SENATOR DAVID VITTER

Senator VITTER. Thank you again, Mr. Chairman, and I will be very brief. I just wanted to underscore really my last point. Today is May 9th. The entire program expires after May 31st, 22 days, slightly over 3 weeks, and we really, really need to act for the good of the country and the economy. And we need to act in a longer-term way, not just another Band-aid, another short-term extension which creates and continues an unhealthy level of uncertainty. And I appreciate the Chairman feeling the same way and working very closely with me and others in this regard.

I am going to be doing two things this week that I hope get widespread support. I will be passing around a new letter addressed to Senators Reid and McConnell urging this to be put on the floor absolutely as soon as possible. Senator Tester and I had that same sort of plea in a letter dated February 14th. That was 3 months ago. So it is even more urgent now.

Second, I am going to be proposing as a floor amendment to the next bill on the floor after the present one, whatever that is, the Senate reauthorization bill with some noncontroversial perfecting amendments that have been worked out since Committee. So it looks like that next bill on the floor will either be an FDA user fee reauthorization or a small business tax bill. Neither of those is highly partisan or highly controversial. So whichever of those comes up, I will be proposing as a floor amendment the Senate bill with the perfecting amendments incorporated into it, and I hope we can get bipartisan cooperation and effort to get that attached to that bill as a means of pushing this forward.

Thank you, Mr. Chair, for the couple of minutes, and I look forward to our second panel.

Chairman TESTER. Absolutely, and I do not think flood insurance should be controversial or partisan either. It impacts everybody.

I want to get started with our next panel, representing broad, cross-industry support for reauthorization and reform of NFIP. I want to thank you all for being here ahead of time.

Dr. David A. Sampson is the president and CEO of the Property and Casualty Insurers Association of America, otherwise known as PCI, which represents more than a thousand homeowners, autos, and business insurance companies that write over 30 percent of this Nation's property and casualty insurance. Dr. Sampson also served in the George W. Bush administration as Deputy Secretary of the U.S. Department of Commerce and Assistant Secretary of Commerce for Economic Development. Welcome, Dr. Sampson.

STATEMENT OF DAVID A. SAMPSON, PRESIDENT AND CHIEF EXECUTIVE OFFICER, PROPERTY AND CASUALTY INSURERS ASSOCIATION OF AMERICA

Mr. SAMPSON. Thank you, Mr. Chairman and Ranking Member Vitter. It is a pleasure to be with you today. I appreciate your leadership on this issue and the invitation to be here. PCI and its members, who write about 52 percent of all the flood insurance as partners with the NFIP through the Write-Your-Own Coalition Program, believe that the NFIP is vitally important to our Nation and the economy. It does not just affect one part of the Nation. Flooding occurs all across the country. And we fully support your efforts to pass bipartisan legislation that includes a long-term reauthorization and meaningful reforms.

I would like to just briefly emphasize three key points in my testimony today.

First, it is vitally important to avoid another lapse in the NFIP as lapses have real-world negative consequences for consumers and the economy.

Second, as confirmed by the Government Accountability Office, the program needs meaningful structural reforms.

And, third privatization of the Flood Program is not feasible under current conditions.

Let me just expand on those a little bit.

The first priority, of course, is to avoid a lapse in coverage. You have already documented your concern about that. More than 5.6 million American homeowners, renters, and businesses are NFIP policyholders and rely on this program to protect their property. You have already discussed the 12 short-term extensions of the program since September of 2008 leading to lapses in coverage when Congress has failed to act. In 2010 alone, the NFIP lapses for a total of 53 days, and during these lapses flood insurance policies could not be issued or renewed. And each time the program lapses, a cumbersome and expensive series of special bridging transactions is required from insurers and consumers and the NFIP to set aside policy purchases, collect funds, and advance claim payments. And all of this creates significant friction costs for the marketplace and certainly for Americans who rely on this important protection.

Second, while it is critical for Congress to reauthorize the NFIP before May 31st, the program as it stands now needs essential structural reforms which are addresses in the Senate Banking Committee bill. The NFIP is deeply in debt and must transition to a more sustainable path. I would point out that if a private insurance company held no surplus and carried $18 billion in debt on a $4 billion annual revenue stream for 6 years running, regulators would immediately shut it down and the CEO would be fired, and yet that is the situation that we face with the NFIP program.

Two PCI studies on flood risk pricing revealed that the NFIP is providing Government-subsidized flood policies at roughly one-third of what the full load risk costs would be in the private sector.

The subsidies for repetitive loss and high-risk policies are even greater. One percent of the properties insured by the NFIP have accounted for over a third of the claims on an ongoing basis, and the previous panel spoke of that so eloquently.

The third point I wanted to make is that while the program needs to be reauthorized and must be reformed, it is important to note that discussions on privatizing the program are unfeasible under the current conditions. The current NFIP rates would need to be closer to true market rates before any meaningful discussion related to the private industry taking on flood risk can take place.

A 2011 PCI study estimated that if the private market were to underwrite the flood peril, policyholders in floodplains could see rate increases of up to 200 to 300 to 400 percent. Proposals to end the NFIP are unrealistic given the current steep subsidies and the unwillingness of many homeowners to purchase coverage in high-risk areas even when mandated at these subsidized risks.

So we applaud your efforts, and PCI certainly stands willing to work with this Committee to do anything we can to help this overwhelmingly bipartisan piece of legislation make it through the Senate in time to avoid the lapse and to pursue the structural reforms that you have proposed.

Thank you, Mr. Chairman.

Chairman TESTER. Well, thank you, Dr. Sampson. We appreciate your testimony, and we will have questions after we get done with the testimony of the other panelists. But thank you for your perspective and for your testimony.

Next we have Mr. Jon A. Jensen, who serves as Government Affairs Committee chairman of the Independent Insurance Agents and Brokers of America and as president of Correll Insurance Group. He is currently the South Carolina national director for Independent Insurance Agents and Brokers of America. He is a past chairman of the Independent Insurance Agents and Brokers of America's InsurPac Board of Trustees. I want to welcome you today, Mr. Jensen. You may proceed with your testimony.

STATEMENT OF JON JENSEN, GOVERNMENT AFFAIRS COMMITTEE CHAIRMAN, INDEPENDENT INSURANCE AGENTS AND BROKERS OF AMERICA, AND PRESIDENT, CORRELL INSURANCE GROUP

Mr. JENSEN. Thank you very much. Good morning, Chairman Tester and Ranking Member Vitter. I am pleased to be here today on behalf of the Independent Insurance Agents and Brokers of America—or the Big "I"—to present our association's perspective on extension and reform of the NFIP. We commend the Subcommittee for looking at this very important issue. I am president of Correll Insurance Group, which is an agency with 132 associates in 12 locations, including offices in both Myrtle Beach and Hilton Head Island. We also write nearly 3,000 NFIP policies. Since 2011 I have served as chairman of the Government Affairs Committee for the Big "I."

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. Many of these agents serve as the sales force of the NFIP, working with Write-Your-Own companies. It is from this vantage point that we understand the capabilities and the challenges of the insurance market when it comes to insuring against flood risks.

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, virtually the only financial remedy available to consumers after floods was Federal disaster assistance. Since then, the NFIP has filled the private market void and created a reliable safety net for people whose properties have suffered damage.

With this said, we do recognize that the program is far from perfect, which was made all the more clear by the devastating 2005 hurricane season. The current $17.2 billion dollar debt reveals some of the deficiencies of the program, and it is clear that Congress should shore up the NFIP's financial situation.

For this reason, the Big "I" is very encouraged by Chairman Johnson's legislation, the Flood Insurance Reform and Modernization Act of 2011. I want to be very clear: The Big "I" strongly supports a long-term extension and reform legislation. There are important reforms that must happen to the program in order for it to be put on stable footing.

In particular, the Big "I" for many years has asked Congress to begin phasing out subsidies found in the program. We are pleased that Chairman Johnson's legislation contains proposals to do just that for many properties.

Additionally, the Big "I" welcomes the legislation's proposal to increase the amount FEMA can raise premiums in any given year. Currently, FEMA can only raise premiums by 10 percent on any property. The legislation would propose to increase this to 15 percent, which would allow the program to become more financially sound.

I would also like to comment on some recent discussions aimed at finding ways to privatize the program. The Big "I" would always prefer to utilize the private market. However, we have yet to see evidence that the private marketplace is any more prepared or capable of underwriting flood risk today than they were in 1968. That said, we welcome the study on privatization options found in the legislation, and we would be happy to discuss any ideas for increasing the private market's role going forward.

Finally, I would like to touch on one of the most important things found in the reform legislation, and that is the long-term extension. As you know, for the past 6 years, Congress has not passed a long-term extension of the program and instead has opted to pass numerous short-term extensions. This has been done mainly so that Congress could continue efforts at reform legislation. While the Big "I" fully appreciates the passage of each of these short-term extensions, it should be noted that there is increasing frustration both in the marketplace and among our consumers with the program and its complete lack of stability.

A 5-year extension of the NFIP, as found in S. 1940, is of more importance than I can stress. We strongly urge the Senate leadership to secure floor time for a full debate of S. 1940. In fact, as you know, this week a number of organizations from various industries are taking part in a Flood the Hill Week to urge the Senate to finally pass S. 1940. I am happy that three panelists here today—the realtors, PCI, and Nature Conservancy—are part of that effort. Hopefully we can make some progress this week.

I thank the Committee for giving me the opportunity to express the views of the Big "I" on this important issue, and I look forward to any questions you may have. And on a separate note, I would like to thank you, Mr. Chairman, on behalf of our entire membership for introducing NARAB II. We look forward to working with you on this commonsense agent licensing reform legislation.

Chairman TESTER. Well, thank you, Jon. I appreciate the kudos, and it is good to see a guy who spells "Jon" right. So thank you. [Laughter.]

Chairman TESTER. I appreciate your testimony.

Mr. Maurice "Moe" Veissi is president of the National Association of Realtors representing 1.1 million members involved in all aspects of residential and commercial real estate industries. He was elected president of the Florida Association of Realtors in 2001 and was named Realtor of the Year in 2003.

I want to welcome you here today, Mr. Veissi, and proceed with your testimony, please.

STATEMENT OF MOE VEISSI, 2012 PRESIDENT, NATIONAL ASSOCIATION OF REALTORS

Mr. VEISSI. Thank you, Chairman Tester, Senator Vitter, and Members of the Subcommittee. Thank you for the opportunity to testify on this urgent need for a 5-year reauthorization of the National Flood Insurance Program. And I would be remiss if I did not bring you these salutations from Marbury Little, past president of the Louisiana Association of Realtors, and all the 5,000-plus Realtors in Louisiana who appreciate, Senator Vitter, your involvement and commitment to this issue; and from Betty Kissock and Ronda Tompers, who said specifically, Chairman, to tell you that they are very much pleased and very much committed to what you are trying to accomplish here on the Hill.

Chairman TESTER. Thank you.

Mr. VEISSI. My name is Moe Veissi. I am the 2012 President for the National Association of Realtors and the broker-owner of Veissi & Associates in Miami, Florida, a Realtor firm that has been in existence for over 42 years.

The National Association of Realtors represents more than a million members, as you have mentioned, involved in all aspects of the real estate industry. Long-term reauthorization and reform of the National Flood Insurance Program is a key priority to our members. As a matter of fact, on May 17th, here in Washington, DC, we will have over 15,000 Realtors at the Washington Monument, and one of the five key issues that we will be speaking to the folks on the Hill about is just this issue.

Ensuring access to affordable flood insurance is critical. It creates certainty in the real estate market, and certainty is required for this real estate market to recover. Home prices are still enormously fragile across the United States, and more than a quarter of a million of existing home sales are distressed properties. Tight lending standards remain a problem, and we do not want to give a lender another excuse not to approve a loan.

Stopgaps or shutdowns exacerbate this market uncertainty. There have been 17 stopgaps since 2008. Twice, failure to act led to program shutdowns, and the latest is set to expire, of course, as you know, on May 31st of this year.

The National Flood Insurance Program stopgaps and shutdowns have broader implications for the U.S. economy. NFIP is essential to 500,000 home sales annually; 1,300 sales nationally can be delayed per day if we do not have this program—intact. More than 47,000 real estate transactions were stalled in June 2010 for the 33 days that this act was not in service.

Over 16,000 homes are in the floodplains in Montana. Over 660,000 homes are in the floodplains in Louisiana. But more than the homes are impacted by this. The commercial, multifamily, and refinancing of properties all are impacted by the uncertainty in the National Flood Insurance Program.

The 5-year National Flood Insurance reauthorization offers broad advantages, and the first one is the important bipartisan win for Congress, which in my humble estimation is so much needed right now.

Two, this has passed unanimously out of Committee, and the House has passed this bill by over 400 votes. Crucial reforms are lost if the 5-year bill is not adopted: enhancing FEMA communications with communities, greater notification of floodplain mapping, reimbursement of flood map and appeal expenses for NFIP errors, streamlining of the mapping appeals process, additional time for the resolution of appeals, and review of flood mapping standards and procedures. The number of States that are affected are enormous. This is no longer a coastal issue. Places like West Virginia, Tennessee, Kentucky, Alabama, New Mexico, Vermont, Kansas, Iowa, Nebraska, Missouri, Utah, Minnesota, Wyoming, North and South Dakota all have related Presidential disaster declarations, and there is more. Every time we slow this down, every time we create an uncertainty in this program, we slow down the process of a healthy real estate recovery in this country.

If there is one thing that is enormously important to this country's economic and social and cultural background, it is the resurgence of a strong and healthy housing market and peripheral industry.

So I would encourage you to continue to do the good work. You have the National Association of Realtors who believes and understands your commitment. Thank you very much.

Chairman TESTER. Moe, thank you for your testimony, and I could not agree more. The real estate recovery is critically important to get our entire economy back on track. Thank you for your testimony.

Next we have Sarah Murdock, senior policy advisor for climate change policy with The Nature Conservancy, a leading conservation organization working to protect ecologically important lands and waters. Ms. Murdock handles climate change adaptation strategies and Federal hazard risk reduction policy for The Nature Conservancy. She has also worked here in the Senate, working for Senator John Kerry.

Welcome, Ms. Murdock, and you may proceed with your testimony.

STATEMENT OF SARAH MURDOCK, SENIOR POLICY ADVISOR, THE NATURE CONSERVANCY

Ms. MURDOCK. Thank you, Mr. Chairman and Members of the Subcommittee. Thank you for the opportunity to present The Nature Conservancy's views on the timing and nature of reforms to the National Flood Insurance Program. My name is Sarah Murdock, and I am a senior policy advisor for the Conservancy. The Nature Conservancy is an international, nonprofit conservation organization working around the world to protect ecologically important lands and waters for nature and people.

The Nature Conservancy continues to support a 5-year reauthorization of the National Flood Insurance Program through the passage of the Senate Banking Committee's flood insurance reform legislation. We ask that this legislation be brought before the full Senate for debate and consideration at the earliest opportunity.

The Nature Conservancy is also a member of the Smarter Safer Coalition, a diverse coalition of environmental organizations, taxpayer advocates, insurance industry representatives, and housing groups. Smarter Safer also strongly supports the Senate Banking Committee's flood insurance reform, and this week we are participating in this week's Flood the Hill activities. With this much diverse political support, it seems like passage of flood reform represents a win for all.

Contrary to congressional intent, the program as it currently functions is increasing risk from storms and flooded to people, property, and ecosystems, and the important services that those ecosystems provide to people. Enactment of the flood insurance reform legislation will phaseout subsidies that have undermined the financial stability of the program, will require FEMA to ensure that maps are updated and accurate so that people can understand and better prepare for their risks, and will streamline and strengthen the mitigation programs to help decrease flood risks and better protect flood-exposed communities, homes, and businesses.

I would like to focus the remainder of my testimony on our interest in this final provision—our support for strengthening the mitigation programs.

In 2011 alone, there were 58 Federal flood disaster declarations covering 33 different States and costing $8 billion and causing 113 deaths. Both the costs and the number of deaths exceeded the 30-year averages, and results from scientific studies indicate that changing climate has exacerbated and will continue to intensify extreme weather events, including flooding and coastal storms.

The proposed reform legislation is the most important single step we can take toward mitigating these risks. Currently, under the Flood Insurance Program, a dangerous feedback loop is in play.

Subsidized insurance rates facilitate development in coastal zones and freshwater floodplains, which not only puts people and property at risk, it simultaneously facilitates the destruction and degradation of the ecosystems that provide a natural defense to people and properties.

The traditional approach to flood protection and river floodplain systems has been to rely on dams and levees to contain flood waters and in coastal areas has been to build sea walls, bulkheads, and other "grey" infrastructure. While built infrastructure plays an important role in helping secure our communities, it requires substantial investments for both initial construction and ongoing maintenance.

Instead of relying solely on grey infrastructure, an alternative approach involves integrating the use of natural infrastructure—or so-called "green" infrastructure—with built infrastructure. This specifically involves maintaining and restoring the connectivity of rivers along with sufficient area of floodplain and conserving and restoring coastal natural infrastructure such as wetlands, reefs, dunes, barrier beaches, and islands.

In addition to flood control benefits provided, these ecosystems provide many services that support and protect humans and nature, such as filtering pollutants, erosion protection, production of fish and shellfish, and continued agriculture production.

The Nature Conservancy is working with diverse partners across the country to implement floodplain restoration projects and along the east and Gulf coasts, in Louisiana and Alabama in particular, we are restoring and building oyster reefs as a way of protecting against floods.

Due to our understanding of the benefits of investments in mitigating efforts, we stand ready to work with FEMA and Members of Congress to strengthen this aspect of the Flood Insurance Program.

Thank you for the opportunity to present The Nature Conservancy's recommendations on the need to pass the Senate's 5-year reauthorization of the Flood Insurance Program.

Chairman TESTER. Well, thank you, Ms. Murdock. I appreciate your testimony, as I do with the whole panel. We will start with questions now. I want to, before I start, though, thank each one of you for your commitment to a long-term reauthorization. I very much appreciate it.

I think the clerk can put on 7 minutes. We will probably have more than one round, would be my guess.

I am going to start with the most pressing issue that is facing us right now, and that is the danger of a lapse in the program. I understand—and this may be different today. I do not know, Senator Vitter, but the short-term extension has cleared my side of the aisle. I do not know if it has cleared yours yet or not. But we are working together to try to get this done. In some cases, I would rather just see us get this thing done rather than deal with the extension. I think that is what Senator Vitter talked about in his remarks.

I want to drill down on the point of the lapse because the clock is ticking. In your testimony, you all spoke of consequences which can be pretty severe if this program does lapse again. So what I would like is from each one of your different perspectives, describe the most damaging consequences of failing to extend this program. And at what point prior to the expiration do carriers and agents and realtors and homeowners need to start preparing for a potential lapse? Go ahead, Dr. Sampson.

Mr. SAMPSON. Well, while the costs of the lapse are hard to quantify, they are very real. And in answer to your question, Mr. Chairman, insurers are already in the process, now that we are this close to the expiration, of beginning to mail out those notices of the imminent lapse of the program. Now, the only one who wins by that may be the U.S. Postal Service because they get revenue, and I know you have been dealing with that recently, but those are embedded friction costs to insurers. And I think it is these repetitive lapses in the program that have caused a number of major participants in the Write-Your-Own Program to leave in recent years. We are down to 85 active participants in the program from 150 just a few years ago.

So that is giving you the indication that the frustration and the friction costs of these very complicated bridging transactions are making it not worth the participation from the insurers' perspective.

Chairman TESTER. OK. Jon, would you like to respond to that?

Mr. JENSEN. Yes, sir. As Dr. Sampson mentioned, the carriers are forced to start sending out these notices. The perspective from an agency, as I mentioned in my testimony, we have 3,000 flood insurance policies. That means we will get 6,000 calls from folks that say, you know, "What is happening? What is going on?"

I would also emphasize that it is truly important to the consumers. As a matter of fact, this morning on a cab ride over I was forced to share a cab with five other people due to some transportation issues, but one of the ladies had a home in Charleston, Structural, and asked me what I was doing here. And I explained to her, and she said, "My God, don't they understand that hurricane season is June 1st?" And this lapses May 31st. She said, "We get these notices all the time." And as we were leaving the cab, she said, "Would you do me a favor?" She said, "My name is Angie Davis. Would you please tell the Senate to do good work here. We need flood insurance. We cannot be without it."

Chairman TESTER. That is good. Thanks, Jon.

Maurice? Moe?

Mr. VEISSI. You know, six of the last eight recessions have come out because of a healthy housing and construction market. We know that every two houses sold generate one job, so even in the worst of times, we are generating about 2-plus million jobs a year when a housing market is on track. Without national flood insurance, we affect so many homes—not just coastal States but interior States today. And even those that have existing homes—not potential homeowners, not folks that are looking to either go out and sell their home or buy a new one, but those that exist—have clauses in their existing mortgage that simply say if there is a failure to renew flood insurance, the mortgage could be in technical default. So even those folks do not know how at risk they might be.

This is a fledgling, recovering real estate market. As important to this market as any other aspect, as important to the recessionary period that we have had is a healthy real estate market both from the economic standpoint for America and from the social and cultural standpoint. And when you do anything—anything—to affect that fledgling real estate recovery, you are literally affecting the economic recovery and the social and cultural aspects of America. I cannot tell you how important this piece of legislation is and, Senator Vitter and Senator Tester, how important your efforts are to get it extended for the 5 years. That is enormously important not just to Realtors but to American homeowners.

Chairman TESTER. Just a real quick follow-up, Moe. You may not know this on a national basis, but you may know it on a southern Florida basis. If this thing were to expire, what kind of impact as far as percentage of homes would it have, say, in southern Florida?

Mr. VEISSI. Well, I cannot be specific about that, although I will get you those——

Chairman TESTER. Is it a big number? I just want to get an idea.

Mr. VEISSI. As I quoted to you, nationally the lapse stalled about 1,300 a day, or 47,000 during June 2010. But in Florida, where we would be specifically impacted because the entire State, for all intents and purposes, is a floodplain, it would impact every one of those sales and even the existing mortgages. Percentage-wise, I am going to guess at least one out of every two.

Chairman TESTER. Thank you very much.

Ms. Murdock, from your perspective, from The Nature Conservancy's perspective, if we just keep doing extensions or if it is to expire, how does that impact the mitigation efforts?

Ms. MURDOCK. Clearly, we are seeing more frequent and more intense storms, which is causing more and more damage. And the mitigation efforts are long-term efforts. They are not something that can happen overnight. So you need that long-term certainty of the program, the backing of the program and the grants that they provide in order to really plan for an implement some of these mitigation efforts.

Chairman TESTER. Thank you.

Senator Vitter.

Senator VITTER. Thank you, Mr. Chairman. And I certainly strongly support a short-term extension if we need it, if we cannot do anything else before May 31st. In fact, I think technically it is my bill, so I will certainly be trying to clear that if it is necessary.

I am just concerned about two things. Number one, patience is running really thin among some members about doing all these short-term extensions, so we may not be able to clear it. "Clear it" means get unanimous consent, every Senator on our side has to agree. And, you know, the more these Band-aid extensions we do, the less patience members have because they want reform, which is needed.

Second, a short-term extension avoids a lot of negatives, but it does not accomplish the positives that the full reauthorization does, and I think that was one of Moe's points. So I am for it if we can only do that between now and May 31st, but I am also trying, as Jon and others are, for the full reauthorization.

May 31st is 3 weeks and a day away. When do concrete negative actions, notices, letters, other things, start going out compared to that date? Is it now, Dr. Sampson?

Mr. SAMPSON. They have already started.

Senator VITTER. Why don't you describe some of that and when that starts?

Mr. SAMPSON. Sixty days out from the expiration of the program, insurers are required to notify holders of policies that the coverage is going to be ending. And then as I say, it has a cascading—during the lapse, there is this whole cascading series of very complicated bridging transactions that add no value to the process but only cost to the carriers and uncertainty to the policyholders.

You know, we are in a bizarre situation where you have the National Flood Insurance Program actively advertising the NFIP on television to try to increase the take-up rate, which is the socially responsible thing to do. And yet everyone who has a policy knows the number of disruptions that we have experienced over the last several years. And so, you know, we are really sending cross signals here, and these lapses are causing companies to exit the program, and I am convinced that these continual lapses create such uncertainty in the policyholder that it reduces and suppresses the take-up rate and the renewal rate.

Senator VITTER. And I assume part of what you are saying is a near lapse, a near miss, is also negative. I mean, if you act the day before or 3 days before, that is also not a great situation.

Mr. SAMPSON. Well, we are within the period where negative activities are already occurring from the companies' perspective.

Senator VITTER. Right.

Mr. SAMPSON. But I would say, if you can get the short-term extension without letting it lapse, we are talking about here the least of the bad alternative. So certainly we are in the cone of negative activity, but it is not as negative as it will be if we get to May 31st and the program lapses for the 13th time.

Senator VITTER. Right, right. OK.

That is all I have. Thank you, Mr. Chairman.

Chairman TESTER. Senator Moran.

Senator MORAN. Mr. Chairman, thank you. I am not a Member of this Subcommittee, although I am a Member of the full Committee, and I appreciate you allowing me the opportunity to join you today, really only for the purpose to lend my support to the efforts of the two of you to see that we get this accomplished and to hear from the witnesses today so that I can have my arguments reinforced.

I still remain baffled by—at least I am unaware of a response to the letter that the two of you led to our leaders asking that the 5-year reauthorization be considered by the Senate. I just do not understand why this is something that cannot be accomplished based upon the nature of this legislation, its importance, its value to the country, and its bipartisan support. And so every once in a while, when we have to admit how dysfunctional this place is, this just seems to me to be the perfect example of dysfunction. And if there is something I can do, Senator Vitter, Senator Tester, to assist in your efforts to get the 5-year reauthorization bill to the Senate floor, I am your ally. And I appreciate the testimony that I read and heard expressing the value and importance of accomplishing that.

What Mr. Sampson just said I had not thought about, but it does make sense to me that the ability to continue to write these policies in this uncertain environment diminishes as Congress fails to act on so many occasions.

I appreciate you having this hearing to highlight the importance of this legislation, and I am pleased that you would allow me to join you for this brief period of time.

Chairman TESTER. I have got another question here. There are some that have suggested that a 2-year straight extension would be better than the reform of the existing insurance program. I think both Senator Vitter and Senator Moran alluded to it. I think we have an opportunity here to reform this program and put it on more firm ground with a long-term extension.

I would just like—and this is basically to Dr. Sampson or Mr. Jensen or Moe, either one of the three or two of the three or all of you can talk to this. But beyond improving the solvency of the program, could you discuss some areas where reform on this bill is important to the constituencies that you represent? What else does it provide?

Mr. JENSEN. Thank you, Senator. In addition to the reform, as you mentioned, there are some issues with increasing maximum coverage limits. Currently, the coverage limit on a home for flood loss is $250,000 as the maximum indemnity limit. That is increasingly becoming a problem and an issue as we see higher values in homes again.

As well, we are looking at business interruption. It is important to note that there is a study called for in the bill that talks about business interruption coverage within the commercial sector. We think that is very valuable as well.

Mr. VEISSI. In addition, you heard testimony on the previous panel of folks that were placed in areas that, in fact, were not in a floodplain. One of the bill's reforms would be to enable folks who were not in floodplain areas but were charged for flood insurance to come back and get reimbursed for their floodplain appeal expenses. So that would help us for the folks that have been incorrectly mapped into the floodplain.

Chairman TESTER. Thank you.

Mr. SAMPSON. Mr. Chairman, I would say that from the company perspective, the number one concern is the fiscal reforms, and I would not underestimate that at all. I think the bill also, though, does address the repetitive loss properties. I think it is absolutely essential, as the previous panelists talked about, that repetitive loss properties where you have 1 percent of the properties that account for 30 percent of all of the claims in the NFIP, the reform bill does address that. And I would say that that is a critical component.

The increase in the amount that FEMA can increase premiums to incrementally move toward an actuarially sound rate, while important, I would say what is even more important than that, though, is that FEMA has been unwilling to raise the premium prices even by the amount that they are currently authorized in legislation, which is 10 percent a year. And so even more important than raising the cap in legislation of what they could raise prices I think is a signal to the marketplace that they will actually do that in incremental steps. The longer you artificially suppress these rates, the greater the impact is going to be on the consumer down the road.

So in addition to what is in the legislation, this Committee and other committees of jurisdiction, encouragement of FEMA to use the authority that they currently have I think is critically important.

Chairman TESTER. Well, thank you.

Ms. Murdock, in your testimony you cite an interesting statistic that for every dollar spent on flood mitigation, $5 are saved. In your testimony you make the distinction between grey and green flood-related infrastructure investments. Could you just elaborate on the distinction between grey and green infrastructure investment and the relative costs of both?

Ms. MURDOCK. Yes. When we are talking about grey, we are talking about hard infrastructure like levees and dams, bulkheads, sea walls. An increased focus is now being placed on implementing projects where we allow natural systems—floodplains, wetlands, coastal wetlands, barrier beaches, oyster reefs—to also perform flood mitigation services. So we are doing a lot of projects like that both in floodplain systems focused on restoring floodplains. Some of that involves just setting back levees far enough from the river to allow floodplains to perform their natural function. And then along the Gulf coast, for example, where we have a goal of building 100 miles of oyster reefs along the Alabama coast.

The cost comparison compared to grey infrastructure is very new, and we are actually starting to work in partnership with some insurance companies to accurately compare the cost of grey versus green infrastructure. We have some preliminary figures on the oyster reefs, but it is very new, and I do not think it accurately yet reflects what the true cost/benefit of the green versus grey would be.

Chairman TESTER. Thank you very much.

Senator Wicker is coming here in just a second, and I want to make sure to get his perspective for his questions. In lieu of that, I just want to say this, first of all—and he will be here momentarily. I would just like to say thank you for your testimony—we are waiting for you, Roger. You are good to go. Go ahead and get organized while I talk for a second.

I want to thank you for your testimony. I can tell you that Senator Vitter and myself and Senator Moran and others want to make sure we get this thing considered and moved forward. I think, as you do, Moe, that this is a critically important piece of our economic recovery, and I think the longer we put this off, I think it is just a missed opportunity. So the coalition that has formed here and the work that you are doing on the Hill, do not underestimate it. It is critically important to put pressure on everybody that serves in the Senate to allow us to put pressure on leadership to take this bill up sooner rather than later.

And with that, Senator Wicker, you have comments, questions. Have at it.

Senator WICKER. Right, and thank you, Mr. Chairman. I have been back in my office watching the hearing while trying to get my desk cleared. I would not be surprised if some other Members of the Committee also were availing themselves of this opportunity. But I just had to rush down and add my support for what you are trying to do, Mr. Chairman, and to thank all of these Members of the panel for their excellent remarks.

I guess it was the representative from the realtors—I am not sure, but someone made a very cogent point. You know, Mr. Chairman, we need a bipartisan accomplishment in this Senate. And we have it in our grasp to do this on a very important issue. The American people are looking at us, they are looking to us. They expect us to come to Washington and actually engage in accomplishments, and this is an opportunity for us to do that. A good vote in the House, strong support in this Committee, and the opportunity is right there.

So for those Members of the leadership within the sound of our voices, I just had to rush down before we gavel to a close and say that I absolutely hope we can do this.

I would mention that the Committee leadership has been very generous in working with me and others on the so-called Coastal Act, which is a small step toward using science that is already out there to get us toward a resolution on this wind and water issue that is often a problem when a hurricane comes along. But you have made great points. This is not just a bill for people along the oceans and the gulf. This is a bill for the entire United States of America. It is a bill for the taxpayers, for heaven's sake. And so, Senator Tester, thank you for your leadership and that of Senator Vitter, and I appreciate Senator Moran coming, too.

I do not have questions because the questions I would have asked had been asked while I was listening. But thank you very much, and let us keep this up and let us redouble our resolve to actually get an accomplishment for the taxpayers and for the American public.

Chairman TESTER. Well, thank you, Senator Wicker. We certainly appreciate your long support and working on this bill has been critically important, and I think you are right—Moe brought it up—it is a good bipartisan win. It is something that we need to do that will help do a lot of good things for a lot of folks out there, and plus fix some fiscal problems that this program has.

So I just want to thank this panel, and I want to thank the previous panel for their testimony. The hearing record will remain open for 7 days for any additional comments that anybody might want to add for that, or any questions that folks want to submit for the record.

With that, thank you all very much, and this hearing is adjourned.

[Whereupon, at 11:21 a.m., the hearing was adjourned.]

[Prepared statements and additional material supplied for the record follow:]

PREPARED STATEMENT OF TODD KLIETZ

MISSOULA COUNTY FLOODPLAIN ADMINISTRATOR, MISSOULA, MONTANA

MAY 9, 2012

On behalf of Missoula County, Montana, and the Association of Montana Floodplain Managers, I am honored to appear before you today to provide comment on the reauthorization of the National Flood Insurance Program.

I respectfully urge this Committee to ensure that long-term reauthorization of the National Flood Insurance Program (NFIP) is enacted prior to May 31st. Over the past several years, I have witnessed the results that delayed and uncertain congressional action on reauthorization has caused within my community and my State. Property values, already having fallen due to the economy, fall further in the floodplain due to buyer's uncertainty that Congress will provide homeowners with long-term flood insurance coverage. Real estate transactions have been delayed—and some have completely fallen through. Homeowners—many of whom already must sell their property at a loss—are forced to reduce their sales prices further. The small pool of local insurers that are willing to process flood insurance policies dwindles further as they become increasingly frustrated with the ever-changing uncertainty the last several years of delayed short-term reauthorizations has caused. Floodplain citizens need to know that you have their back by reauthorizing the National Flood Insurance Program for the long term.

This is not to say that we support reauthorization of the exact same flood insurance program that has contributed significantly to our national debt. From my perspective, reform is correctly focused on the insurance side as the requirements for floodplain development within NFIP communities do work—simply tour a participating community post-flood to see those results. My own community just experienced a 10-year flood last Spring. Older homes built before FEMA mapping were destroyed while the newer homes right next door suffered virtually no damages.

The commonsense reforms including those that the Montana delegation and this Committee have put forward must be included in long term reauthorization. The American taxpayer is increasingly unwilling to provide financial support for those who have time and time again received handouts post-flood who then do absolutely nothing to prevent future damages as they know Uncle Sam will be there check in hand to quite literally bail them out again. Many repetitive loss property owners within my community received FEMA checks last year. None have voluntarily chosen to mitigate their homes.

Gone too are the days that the taxpayer will support those who knowingly choose to live in areas and in homes with severe flood risk—so we thank you for moving the National Flood Insurance Program away from overwhelmingly tax-subsidized premiums towards actuarially rated policies. I also want to thank you for your commitment to fund ongoing mapping so that communities in rural States like Montana will eventually be provided with detailed floodplain maps allowing our citizens to build homes constructed through means that minimize flood loss.

I further appreciate the efforts that are being made regarding levees. Although the issuance of new FEMA floodplain maps for my community has been on hold for several years due to inconsistencies with how FEMA is mapping properties behind levee-like structures such as railroad beds, roads and even interstate highways, my community was fortunate that the Army Corps of Engineers certified their levees. This makes sense as the Corps designed, built and inspects them on a regular basis. My community's experience with the Seattle District of the Army Corps of Engineers was exactly the way it should be. We asked, they came and while we had some unexpected work that needed to be done, we did our job in maintaining them—and the Corps did their job in certifying them. Unfortunately, other Montana communities have been required to spend hundreds of thousands of dollars to certify levees that the Corps designed, built, and already inspects. An unjustifiable burden on those communities and their residents, we are glad to see the Senate taking a proactive position to put the Federal responsibility for certifying Federal levees back where it belongs.

The positive reforms that have been put forward are long overdue and I applaud your efforts to make them happen. However, there remains one very important issue: 500-year floodplains. You've heard testimony regarding the losses that the National Flood Insurance Program incurs—i.e., the taxpayers incur—when homes within "500-year floodplains" are damaged. The Senate Bill will ensure property owners will now be notified of the risk of living in a 500-year floodplain. The problem is that FEMA does not map 500-year floodplains. These areas are identified as "Shaded-X" on the floodplain maps and in small print, the corresponding legend states these are actually "areas of 100-year flood" OR "areas protected by levees from 100-year flood" OR "areas of 500-year flood." Until FEMA is actually required by Congress to map these Shaded-X areas based on actual topography, the maps simply cannot be relied on to determine if a building proposed in these locations is actually within the 500-year floodplain or will be inundated during lesser flood events. Last Spring, I was in a Shaded-X "500-year" home with a full walkout basement that was inundated during our 10-year flood. There are no Federal requirements for how that home should have been built—nor how that home should be mitigated to prevent future losses. There are no requirements that the property owner obtain flood insurance to ease the burden on the taxpayer. The property owners had received FEMA checks multiple times prior to last year's 10-year flood event—and they did so again last Spring.

I was in another flooded home that was built in the 100-year floodplain—with a basement. It should have never happened but it did. Although that home was not constructed in compliance with FEMA requirements, those property owners also received a check from FEMA.

I sincerely appreciate the opportunity to appear before you today and would like to leave you with my own Top Three reform requests:

- Stop issuing subsidized flood insurance policies for new structures built after FEMA's floodplain designation. As addressed in the Senate Bill, the taxpayer will no longer be forced to subsidize insurance for those that choose to build in designated floodplains.
- Stop rewarding those who bring fill into the floodplain to protect their development at the expense of pushing those floodwaters onto their neighbors. FEMA encourages this practice by issuing Letters of Map Revision Based on Fill (LOMR–F) which completely removes the owner's obligation to obtain mandatory flood insurance coverage and contribute to the National Flood Insurance Program.
- Stop issuing FEMA floodplain maps without providing written notice to affected property owners. FEMA has the audacity—and the budget—to send notices to widows on fixed incomes in Bozeman and Missoula whose homes are nowhere near the floodplain which scares them into buying flood insurance—but FEMA does not have the budget or desire to send such notices to people that are actually in the floodplain?! Thankfully, notification is now addressed in the Senate Bill—scare tactics are not. Even Missoula City Hall located nearly a half mile from the floodplain received such a letter from FEMA. Targeting extremely low risk properties may be good for the bottom line but is not what citizens expect from their Government.

In closing, I sincerely thank this Committee and both Houses for pursuing significant reform—and providing our citizens with long-term, confidence restoring, reauthorization.

PREPARED STATEMENT OF DWAYNE BOURGEOIS

EXECUTIVE DIRECTOR, NORTH LAFOURCHE CONSERVATION, LEVEE, AND DRAINAGE DISTRICT, RACELAND, LOUISIANA

MAY 9, 2012

I would like to thank you Mr. Chairman and Members of the Committee, for this opportunity to testify today. I am the Executive Director of the North Lafourche Levee District, a political subdivision of the State of Louisiana. However, I am here today representing a broader coalition of agencies, citizens, and businesses in the State of Louisiana who rely heavily on the National Flood Insurance Program.

We commend the Committee for addressing long-term reauthorization and reform of the National Flood Insurance Program. Further, we appreciate the opportunity to provide to you today details of our current circumstances which are typical for many areas in South Louisiana and across our Nation. We firmly believe that our issues are being complicated and made worse by the lack of a long-term reauthorization of the National Flood Insurance Program. We also believe that our issues clearly demonstrate a need for reform, a reform that we are right in the middle of at this time.

Our issues began in mid-2009 with FEMA's issuance of Preliminary Digital Flood Insurance Rate Maps (DFIRMS) for our area. It was immediately obvious to us that the maps could not possibly represent the true risk of flooding in our area because the maps had no correlation to any real world features. The North Lafourche Levee District, along with the South Lafourche Levee District and the Lafourche Parish Government immediately began to prepare our appeals to FEMA. (A full copy of the

Appeal launched by the North and South Lafourche Levee Districts is included as Attachment A.)

The conclusion in our appeal was that FEMA's policy of removing noncertified levees before running the wave analysis part of their Flood Insurance Study was a scientifically unsound policy. This approach to mapping produces DFIRMS that indicate base flood elevation zones with boundaries that have no correlation to real world features. Such maps are not understood or acceptable to local residents and businesses. Further, and most importantly, we noted that intentionally ignoring the impact of noncertified levees on the propagation of floodwater necessarily yields results that overstate the risk of flooding in some areas and understates the risk of flooding in other area. We also noted that FEMA's Mapping Partners had insufficient information, familiarity and experience to realize the results of their mapping efforts were not a reasonable result of their study. Finally, we pointed out that the modeling and mapping results were not in even basic agreement with past flooding patterns and historical data.

Particularly in our appeal, we questioned how the preliminary DFIRMs could indicate that a small polder, with a ring levee system of only 8.2 miles in circumference, would possibly have a requirement for 7 different base flood elevations. (VE8, AE7, AE6, AE5, AE4, AE3, and X) This entire polder is surrounded by a single levee of the same elevation and the ground elevations inside this sub-drainage district were virtually at the same elevation throughout. The results were nonsensical. In the South Lafourche Levee System, the Preliminary DFIRMS had similar unbelievable results. In some areas these maps indicated there were 5 different base flood elevation requirements within 800 feet all over perfectly flat ground. Literally, if the DFIRMS were to be believed in expressing the risk of flooding, two people standing on level ground, a mere 800 feet apart could be in two different flood zones and there would be three additional base flood elevations between them. This simply could not be.

We began working through the appeals process with FEMA and were able to quickly identify the elements of the Flood Insurance Study that were causing the erroneous mapping as well as the limitation of the process that would allow the maps to more accurately reflect the threat of flooding in our area. In short, two items primarily caused the mapping problems. First, was the FEMA policy to NOT consider the impacts of nonaccredited levee in their Flood Insurance Study. This would become known as the "without levees" policy. The second problem was in the application of the wave model FEMA was using as part of the Flood Insurance Study for coastal levees. This model, known as the Wave Height Analysis for Flood Insurance Studies (or WHAFIS) had serious limitations when applied to long transects such as would be required in south Louisiana.

We found that the appeals process was also limited in its ability to produce accurate DFIRMS. We learned these limitations as we took our appeals on these issues to FEMA including FEMA's Region 6 office in Denton, TX. All along this process, we encountered cooperative and sympathetic FEMA employees who were powerless to make any changes that were not part of the official FEMA policy. Realizing that complete resolution of these issues would have to come from a change in FEMA's policy, and that this change would have to come from Washington, we began to inform our Legislative Delegation of our quandary. In early February of 2011, twenty-seven (27) U.S. Senators signed a letter to FEMA Administrator Fugate asking FEMA to discontinue the "Without Levees" policy.

In March of 2011, Administrator Fugate announced that FEMA would begin developing a series of targeted modeling approaches to replace the "without levees" approach to identifying the risk of flooding behind uncertified levees. In one of the first publications that FEMA released to answer questions as to how they were going to go about making and implementing such a change, FEMA stated that it was "engaged in a systematic effort to reform the national Flood Insurance Program (NFIP), and we view a change in the manner in which we map levees that do not meet the criteria for accreditation as a step toward a long-term solution." (See Attachment B for a full copy of that document.)

FEMA began working on the change to their policy. By the end of July 2011, FEMA had put together enough of their revised policy to host a Community Roundtable Forum here in Washington. Approximately 20 people from various stakeholder agencies across the country were invited to participate in this forum. This was a very welcomed step and I can truly say that FEMA was working earnestly on the issues at hand. The main points that I was able to take away from attending the Forum was first and foremost, the "without levees" approach was history. Next, FEMA made it clear that the substitute process was going to be collaborative with the local stakeholders, flexible yet technically sound, and feasible in that the approach must be cost effective and not overly burdensome on a community. (A full copy of our press release after this event is included as Attachment C.) But, the forum focused most of its efforts on the process and the basic revisions to the policy. We started to see that FEMA was still working on the technical side of the approach and we remained concerned for FEMA's ability to develop a suitable approach for both Riverine and Coastal flood protection levees.

We continued to follow-up with our friends at FEMA who were working on the technical side of the policy changes. (Please see Attachment D.) We were hoping to get a better understanding on how FEMA was going to handle the differences in coastal versus riverine flooding; but, we were hampered by FEMA's desire to release the Proposed Approach for Public Review, which eventually came in December of 2012. After the proposed policy change was opened for a 45 day public comment period, FEMA did reveal that they were still working on how to address coastal levee analysis. Further, they realized that some of the riverine methods developed would not be appropriate for coastal levees. Finally, they also acknowledged the limitations of their use of the one dimensional WHAFIS model used for V zone determination was not appropriate in parts of coastal Louisiana. However, they stated that making changes to the use of WHAFIS was beyond their current study (the revised approach) and they were looking for ways to improve coastal analysis. They also agree to meet with us on these specific issues.

In order to answer the call for public comment on the revised approach, we broadened our coalition to include questions and comments agreed upon by the State's Coastal Protection and Restoration Authority, the Association of Levee Boards of Louisiana, the North Lafourche Levee District, the South Lafourche Levee District, the Lafourche Parish Government, the Terrebonne Parish Government, the St. Mary Parish Government and Coastal Oceanographer Dr. Joseph Suhayda. (Please see Attachment E.) Again, most of these comments centered on the difference between coastal levees and riverine levees. The draft, revised policy included pages of technical details on how riverine-based flood protection systems would be analyzed; but, it certainly lacked detail in how reasonable maps would be developed for coastal levees. As you can imagine, the flood source for coastal levees, typically a short duration tropical event, is broadly different than the flood source for riverine levees which is primarily driven by the timing of rainfall and snowmelt. Further, the arrangement of riverine levees, basically along the river, is different than coastal levees which intend to provide protection from backwater flooding. The two types of systems are so different that there is little opportunity to create one methodology that can be used for both.

Following up on FEMA's offer to meet with us further on coastal levee issues, FEMA helped facilitate a meeting with a small group from our local coalition in February of this year, the topic of which was centered on coastal levee issues. I must state that each time we have met with FEMA we have encountered a group of individuals that were cooperative in trying to produce the best product that they could, given the confines of their operational policies. I could sense that the recent proposed changes were giving them a better opportunity to produce a better product and they were enthusiastic about the new possibilities to produce a more accurate DFIRM. The most import points that our group took away from the meeting are as follows.

1. When it comes to producing more accurate DFIRMS, no methods of analysis are "off the table" as far as FEMA is concerned.
2. The process is not going to be black or white any longer. The process is now "intentionally gray" in order to allow the utmost flexibility in producing accurate results.
3. Where in the past, when trying to work with FEMA, we encountered a series of well intending people whose hands were "tied" by existing regulations; we will now be able to meet with FEMA personnel who are no longer encumbered.
4. We can hope to see released coastal levee guidance independent of riverine guidance to draw a clean distinction in the differences to better assist FEMA mapping partners in handling Coastal Levees.

(A full copy of the press release for this meeting is included as Attachment F)

Overall, it was believed by all to be a very productive meeting. Yet we have a long way to go and as of yet, FEMA has not released the results of the analysis of all the Public Comments received.

So, today, we find ourselves working hand in hand with FEMA on meaningful reforms to their policy only to be met by another looming expiration of a short-term extension of the National Flood Insurance Program. These are reforms that from our point of view began in mid-2009, were enhanced by Legislative intervention and a commitment by FEMA to improve the process in 2011 and are still being worked on today. Obviously, changes to a process such at this takes time. And yet, the details I have provided today are the efforts to resolve but a single issue within the National Flood Insurance Program. There are so many more issues that can be corrected trough cooperative reform and a long-term reauthorization of this vital program.

In conclusion, I would like to point out that ours is a working delta, the fruits of which are enjoyed by and enrich our entire Nation. From freight transportation on the Mississippi River to our oil and gas and petrochemical industry to our abundant fisheries, not to mention tourism, jazz and Mardi Gras, we simply must work and live within this delta. As such, the availability of federally backed, affordable and financially stable flood insurance is of vital importance to our region and the entire Nation.

We thank you for this opportunity to share both our situation and our views on this important issue. We look forward to working with all of you to continue to make these changes to the National Flood Insurance Program.

Appeal of Proposed Flood Elevation Determinations

(Preliminary DFIRMS)

In accordance with:

44CFR, Chapter I, Part 67

and

Section 110 of the Flood Disaster Protection Act of 1973

By:

North Lafourche Conservation, Levee and Drainage District
PO Box 230
Raceland, LA 70394

and

South Lafourche Levee District
PO Box 426
Galliano, LA 70354

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I Introduction

General:

The North Lafourche Conservation, Levee and Drainage District (NLLD) and the South Lafourche Levee District (SLLD) are both political subdivisions of the State of Louisiana formed by Louisiana RS 38:291. Both the NLLD and the SLLD were organized "for the purpose and charged with the duty of constructing and maintaining levees, (also drainage f/ NLLD) and all other things incidental thereto within its territorial limits" as defined by Louisiana RS 38:281.

Territorially, the NLLD's district includes all of Lafourche Parish north of the Gulf Intracoastal Waterway (GIWW), which bisects Lafourche Parish. The SLLD's district includes all of Lafourche Parish south of the GIWW. As such, and jointly, the NLLD's and the SLLD's districts make up 100% of Lafourche Parish and this appeal is on behalf of the residents and businesses within the entire Parish as may be affected positively or negatively by the proposed DFIRMS. Further, the NLLD and the SLLD are each making this appeal as owners of real property which has been adversely affected by the proposed determinations.

It is important to note that it is not the intent of this appeal to necessarily reduce or increase the final Base Flood Elevation at any specific location in the Parish. The intent of this appeal is to have the maps corrected so that the actual risk of flooding is accurately indicated on these maps without overstating the risk of flooding in some areas while simultaneously understating the risk of flooding in other areas.

Approach and Methodology:

According to 44CFR, which addresses the Appeal of Preliminary revised DFIRMS the Parish (or an individual) can only make an appeal based on FEMA's DFIRMS being either technically or scientifically incorrect.

44CFR

§ 67.6 Basis of appeal.

(a) The sole basis of appeal under this part shall be the possession of knowledge or information indicating that the elevations proposed by FEMA are scientifically or technically incorrect. Because scientific and technical correctness is often a matter of degree rather than absolute (except where mathematical or measurement error or changed physical conditions can be demonstrated), appellants are required to demonstrate that alternative methods or applications result in more correct estimates of base flood elevations, thus demonstrating that FEMA's estimates are incorrect.

An appeal based on either of these two directions (Technical or Scientific Error) has different burdens of proof and each requires different documentation. For a Technically Incorrect Appeal, the detail and burden of proof is substantial and must be quantified. The Lafourche Parish Government has hired independent consultants and engineering firms to appeal the proposed DRIRMS based on technical errors independent of, but obviously related to this appeal.

This appeal, filed by the NLLD and the SLLD is based on Scientific Error. The NLLD and SLLD appeal is made on a much broader basis identifying a problem in methodology resulting in incorrect maps and suggesting an alternative approach. This appeal will address all of the following.

44CFR
§ 67.6 Basis of appeal.
(3) If any appellant believes the proposed base flood elevations are scientifically incorrect, the appeal must demonstrate scientific incorrectness by:
(i) Identifying the methods, or assumptions purported to be scientifically incorrect.
(ii) Supporting why the methods, or assumptions are scientifically incorrect.
(iii) Providing an alternative analysis utilizing methods, or assumptions purported to be correct.
(iv) Providing technical support indicating why the appellant's methods should be accepted as more correct and
(v) Providing documentation of all locations where the appellant's base flood elevations are different from FEMA's.
[48 FR 31644, July 1, 1983]

The basis of our appeal is as follows:

This scientific appeal is based on the obvious problems in mapping caused by FEMA's decision to allow **FEMA POLICY** to override **FEMA SCIENCE** in the production of the preliminary DFIRMS.

Typical of most CFR regulations, the requirements found in 44CFR pertaining to the development of Flood Insurance Rate Maps, Flood Insurance Studies, Mapping of Special Hazard Areas, Mapping of Areas protected by Levee Systems, etc. tend to be more descriptive than prescriptive. In order to provide a more prescribed approach to implementing these regulations for its mapping partners, FEMA, as part of its Flood Hazard Mapping Program, published *Guidelines and Specifications for Flood Hazard Mapping Partners.* These documents are collectively referred to as the "Guidelines" and they reflect FEMA POLICY as intended in the basis of our appeal as found in the previous paragraph.

In addition, these same published FEMA policy Guidelines provide great technical guidance on the FEMA SCIENCE, also as intended in the prior paragraph as part of the basis of our appeal. That is, these Guidelines provide detail on how to apply the various models and other analytical tools used in the production of revised DFIRMS. This appeal does not take issue with the FEMA SCIENCE, not that it is necessarily correct; but, simply, beyond the scope of this appeal.

More specifically, it can be seen time and time again on the preliminary DFIRMS in Lafourche Parish that the POLICY decision found in the Guidance not to incorporate existing, noncertified levee systems into all parts of the Flood Insurance Study (SCIENCE) have resulted in erroneous boundaries between various flood zones on the preliminary DFIRMS. These erroneous boundaries between flood zones cannot possibly reflect the real risk of flooding in the indicated areas. Further, the POLICY decision to treat a non-certified levee system "as if the levee did not exist" will certainly result in the overstating of flood risk in some areas and the understating of flood risk in other areas. This is an unacceptable result.

Ironically, the same Guidance that allows an existing non-certified levee to be included in one analytical model (ADCIRC) producing Still Water Elevations precludes it from being used in another following analytical model (WHAFIS) considering the effects of waves. Further, the Guidance goes on to say that the mapping partner should use "**judgment and experience**", "**historical data**", and review the results "**from a common-sense viewpoint**" in producing the DFIRMS. We submit that these Guidance tidbits are diametrically opposed and, in our case have produced unacceptable results.

The following section provides more specific details on this appeal as well as real world examples of the problems caused by FEMA's POLICY decisions.

II Basis of Scientific Appeal:

The individual items in blue below are the issues that must be addressed if an appeal is going to be made on a scientific basis. These items are taken directly form part 67.6 of 44CFR which regulates the FEMA DFIRM appeals process. Following each of these items are details of our appeal.

44CFR
§ 67.6 Basis of appeal.
(3) If any appellant believes the proposed base flood elevations are scientifically incorrect, the appeal must demonstrate scientific incorrectness by:

(i) Identifying the methods, or assumptions purported to be scientifically incorrect.

Among other things, the process for producing a DFIRM includes using a model 100 year (1%) storm to produce 1% annual chance Still Water Elevations (SWEL) in a given area. In coastal areas, it is reasonably presumed that in addition to flooding caused by the SWEL, the same area may experience additional wave hazards at the same time. Thus, the Guidance includes *Appendix D: Guidance for Coastal Flooding Analyses and Mapping* to provide some prescribed policy towards assessing the risk caused by storm wave characteristics. Overall, these two steps seem to be a reasonable scientific process of determining compounded flood risk.

However, there exists a FEMA "policy" that interferes with this modeling process in producing DFIRMS. This policy requires the modelers to remove all noncertified levees from the wave analysis before proceeding.

From the Guidance:
Appendix D: Guidance for Coastal Flooding Analyses and Mapping

D.2.3 Evaluation of Coastal Structures [February 2002]

The purpose of the evaluation is to determine whether each individual coastal structure appears properly designed and maintained in order to provide protection from the 1-percent-annual-chance flood. If a particular structure can be expected to be stable through the 1-percent-annual-chance flood, the structure geometry may figure in all ensuing analyses of wave effects accompanying the flood: coastal erosion, runup and overtopping, and wave crest elevations. Otherwise, the coastal structure is considered to be destroyed during the 1-percent-annual-chance flood and removed from the transect representation before proceeding with analyses of wave effects.

This removal of non-certified levee systems prior to the analyses of wave effects is supported by other sections of the Guidance as well.

It is our contention that complete removal of existing noncertified levees, just because they are noncertified, corrupts the scientific process described above and this equates to a scientific error.

44CFR
§ 67.6 Basis of appeal.
(3) If any appellant believes the proposed base flood elevations are scientifically incorrect, the appeal must demonstrate scientific incorrectness by:

(ii) Supporting why the methods, or assumptions are scientifically incorrect.

Pretending, for the purpose of "policy" that a levee system does not exist, when it is in fact a substantial geographic feature is akin to loading the models with erroneous data. As in all such models, the old adage, "garbage in = garbage out" applies. All other forms of substantial geographic feature that impact the hydraulics in their vicinity are included in the FIS. Such features include certified levees; but, they also include natural ridges, highway and railroad embankments, sand dunes. etc. It is clear by looking at the DFIRMS that the lines which divide the various zone boundaries are not being influenced by these substantial geographic features (levees). As such, the required zones within a levee system are likely overstated in some areas and it is just as likely that the zones outside and adjacent to these features might be understated in some areas. This concern is expressed in the Guidance itself.

From the Guidance:

Appendix D: Guidance for Coastal Flooding Analyses and Mapping
D.2.3 Evaluation of Coastal Structures [February 2002]
Flood protection structures can have a significant effect on the flood hazard information shown on a FIRM, perhaps directly justifying the removal of sizable areas from the coastal high hazard area. The focus on flood protection structures in the FEMA memorandum cited above should not divert a recognition that similar considerations are appropriate in crediting the protection provided by structures in categories other than those named in the memorandum, and that such credit can be important. In contrast to flood protection, a breakwater primarily may act to limit wave action and a revetment primarily may control shore erosion, but any stable coastal structure can notably affect results of various hazard analyses for the 1-percent-annual-chance flood, and the Mapping Partner shall take these effects into account. The FEMA memorandum places the responsibility on local interests to certify new structures, but the primary consideration in a Flood Map Project must be that the structure evaluation yields a correct judgment based on available evidence. This is necessary for accurate hazard assessments, because a structure might decrease flood effects in one area while increasing erosion and wave hazards at adjacent sites. Of course, the greater the potential effects of a coastal structure, the more detailed should be the evaluation process.

As a result, the elevation zone boundaries shown on the maps in many areas of the Parish have no correlation whatsoever to real world features as you would expect a true scientific study to indicate.

One example of this obviously inaccurate DFIRM is found in Attachment A. This attachment is a collage of three DFIRM Panels (Map Numbers 22057C0350E, 22057C0355E and 22057C0365E) so that a real world example of erroneous mapping can be demonstrated. This attachment has been highlighted to include some real world features that appear to have been missed in the mapping process. Highlighted in red is the location of an 8.2 mile ring levee system originally constructed by the USDA and currently maintained by the Lafourche Parish

Government and the NLLD. Presently, the elevation at the centerline of this levee system is approximately 5.5 feet or greater throughout its length. This sub drainage district has a series of major internal drainage channels highlighted in blue leading all areas of the basin to its two pump stations as indicated. LIDAR mapping (See Attachment B) for the same area shows that the ground elevation in the area is nearly at the same elevation throughout the district.

Given these real world conditions, the wave run-up which centers and peaks on transect 5 just outside of the highlighted ring levee system indicates that the ring levee system was not at all considered in the wave analysis. Consequently, this small drainage sub district includes 7 different base flood elevation requirements. They include a VE8, AE7, AE6, AE5, AE4, AE3 and an X zone.

The lines separating these 7 base flood elevation zones have no correlation to any features in the real world. Pretty much anywhere in this area you could have two people, standing 500 yards or less apart from each other, looking at each other eye to eye, and there will be 2-3 different base flood elevation requirements between them. And the land between them is flat from one person to the other. This simply can't be.

Further, this obviously erroneous mapping process must have an effect on the adjacent ring levee systems, similar in makeup to the highlighted one, to the east and southwest of the highlighted system. But what effect might that be if the noncertified levees of all of these systems were simply ignored in the wave analysis? As a final demonstration of the nonsensical along this same transect, just southeast of the highlighted system is Lake Fields. Lake Fields is a significant, completely open body of water. However, the result of this mapping process is to reflect an AE7 Zone in the northern and southern parts of the lake with an AE6 zone in the center of the lake. No VE zones in the lake, just on the shore.

Attachment C shows a similar situation inside of the SLLD ring levee system. Here, the DFIRMS indicate a circular shaped VE16 Zone encircled entirely by an AE15, which is circled by an AE14 which is then circled by an AE13 centered along transect 13 as shown on the maps. At one point, there are 5 different base flood elevations within 800 feet of each other, again over perfectly flat land.

Common sense tells the mapping partner that if the levee is topped (or even breached) these flat basins, with large internal drainage features will fill up fairly evenly. As such, these maps should reflect far fewer required base flood elevations.

All of these obvious errors will be a pretty hard sell to the residents and businesses of these areas. Such errors will greatly reduce overall confidence in the DFIRM products throughout the Parish. Worst still is that this process almost certainly understates the risk of flooding in some areas. These obvious errors themselves are evidence that the policy of removing the non certified levees from the wave analysis is a scientifically incorrect process, dictated by a policy decision.

It would appear that FEMA's premise to have a policy decision corrupt a scientific study is to indicate concern on behalf of FEMA that they lack confidence in a noncertified levee to protect lives and improved property. That may be so and a valid concern at some level. However, the complete removal of the levee system would only occur in the real world if the entire levee system were topped and breached throughout its entire length. There are countless examples of these earthen levees being overtopped for miles without any or very limited breaching. Finally, it is a corruption of the scientific process to remove a levee from the wave analysis before it is topped just because it is not certified.

44CFR
§ 67.6 Basis of appeal.
(3) If any appellant believes the proposed base flood elevations are scientifically incorrect, the appeal must demonstrate scientific incorrectness by:

(iii) Providing an alternative analysis utilizing methods, or assumptions purported to be correct.

What we propose as an alternative is not really an alternative process. For the most part, we can agree with the process described in the CFR with the additional Guidance except for indiscriminately removing noncertified levees from the wave analysis. We propose that FEMA should complete the modeling portion of their FIS with all certified and uncertified man made levees included in all phases of the modeling and mapping process so that these features can be fully accounted for within the FIS at all locations. (i.e. Let the SCIENCE run its course.)

After the output of this modeling and mapping is complete, FEMA could then consider how to address the risk to property within those levee systems that are not certified. As such, a compromised elevation might be required even where the modeling shows no overtopping or limited overtopping and filling of the basin. The zones within such a basin could then be drawn along logical geographic features within the basin proportionate to the perceived threat. This will result in maps that the local residents and businesses can believe in.

It is easy to forget that the publication of these maps is not in and of itself about safety of the residents. They are published for insurance reasons and to establish building elevations that reduce the risk of flooding. Hopefully, if and when it occurs, this flooding is the flooding of an unoccupied building. It is only when the citizens have no confidence in the maps that they are likely to ignore the potential flooding indicated and remain in the buildings during a storm event.

However, this process of applying a policy decision (an adjustment in elevation) after the best science is allowed to run its course should not be arbitrarily made either. Historical data and common sense should factor in as well. This approach, along with local input is fully supported in the Guidance as described in the next section.

44CFR
§ 67.6 Basis of appeal.
(3) If any appellant believes the proposed base flood elevations are scientifically incorrect, the appeal must demonstrate scientific incorrectness by:

(iv) Providing technical support indicating why the appellant's methods should be accepted as more correct and

With the risk of being too curt, the appellant's approach is more correct because it does not ignore reality. Some of the non-certified levee systems which have been removed completely prior to the wave analysis have a foot print of 100 to 300 feet in width and an elevation of 5 to 15 feet above sea level. Many are massive structures by any measure representing 13 to 145 tons of material per linear foot. Most can be seen from space. Any such objects, be they man made, natural, certified or not certified should not be ignored at any part of the mapping process.

The Guidance document tends to indicate in many sections that after all the best efforts, historical data and common sense of what is a reasonable mapping result should prevail.

From the Guidance:

Appendix D: Guidance for Coastal Flooding Analyses and Mapping

D.2.3 Evaluation of Coastal Structures [February 2002]

..... Where complete information is not available for an existing structure, the Mapping Partner performing the analysis shall make an engineering judgment about its likely stability based on a visual inspection of physical conditions and any historical evidence of storm damage and maintenance.

..... The FEMA memorandum places the responsibility on local interests to certify new structures, but the primary consideration in a Flood Map Project must be that the structure evaluation yields a correct judgment based on available evidence. This is necessary for accurate hazard assessments, because a structure might decrease flood effects in one area while increasing erosion and wave hazards at adjacent sites. Of course, the greater the potential effects of a coastal structure, the more detailed should be the evaluation process.

D.2.7.1 Review and Evaluation of Basic Results [February 2002]

Prior to mapping the flood elevations and zones, the Mapping Partner shall review results from the models and assessments from a common-sense viewpoint and compare them to available historical data. When using these models, there is the potential to forget that the transects represent real shorelines of sandy beaches, rocky or cohesive bluffs, wetlands being subjected to extremely high water, waves, and winds. Familiarity and experience with the coastal area being modeled or similar areas should provide an idea of what is a "reasonable" result.

Use of the historical data is also very important in evaluating whether the results are reasonable...

... The main point to be emphasized here is that the results should not be blindly accepted. There are many uncertainties and variables in coastal processes during an extreme flood and many possible adjustments to methodologies for treating such an event. The validity of any model is demonstrated by its success in reproducing recorded events. Therefore, the model results must be in basic agreement with past flooding patterns, and historical data must be used to evaluate these results.

44CFR
§ 67.6 Basis of appeal.
(3) If any appellant believes the proposed base flood elevations are scientifically incorrect, the appeal must demonstrate scientific incorrectness by:

(v) Providing documentation of all locations where the appellant's base flood elevations are different from FEMA's.

As mentioned previously, besides the examples cited in this appeal, the problems of not including non certified levee systems in wave analysis appears on the DFIRMS wherever FEMA chose to utilize wave analysis in its mapping process.

III Conclusion

General:

FEMA's policy approach of removing noncertified levees before running wave analysis and producing DFIRM maps is scientifically unsound. This approach to mapping produces DFIRMS that indicate base flood elevation zones, the boundaries of which, have no correlation to real world features. Such maps will not be accepted by local residents and businesses.

Ignoring the impact of noncertified levees necessarily yields results that overstate the risk of flooding in some areas and understates the risk of flooding in other area.

FEMA's Mapping Partners had insufficient information, familiarity and experience to realize the results of their mapping efforts were not a reasonable result.

The modeling and mapping results are not in basic agreement with past flooding patterns and historical data.

Suggested Course of Action

In areas where FEMA Guidance suggests the need to run wave analysis to augment the SWEL risk of flooding, noncertified levee systems should be fully considered in the wave analysis and all parts of the DFIRM mapping process.

Areas affected by these noncertified levee systems (inside and adjacent) should be singled out for special consideration and potential adjustment to the results of the mapping process to compensate for the fact that the levees are in fact not certified.

The preliminary results of this analysis should be shared with local officials to impart additional information, familiarity and historical experience into the final mapping product.


BAYOU FOLSE ROAD
ZONE AE
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(EL 4)
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66
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Mc Mahon Canal
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SERVICE ROAD
90
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Bayou Du Mar
VIOLET STR
Bayou Folse
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LAFOURCHE PARISH
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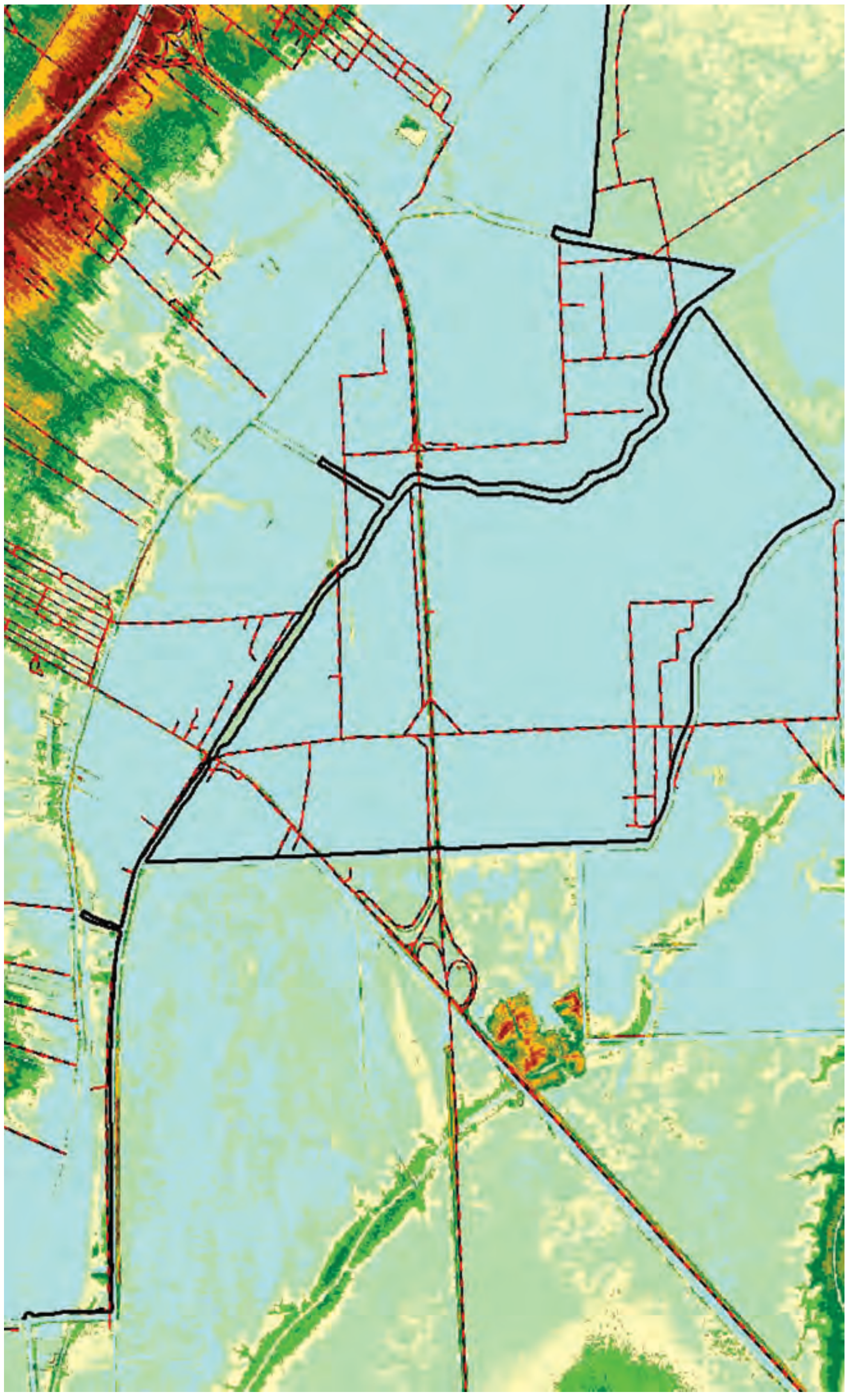

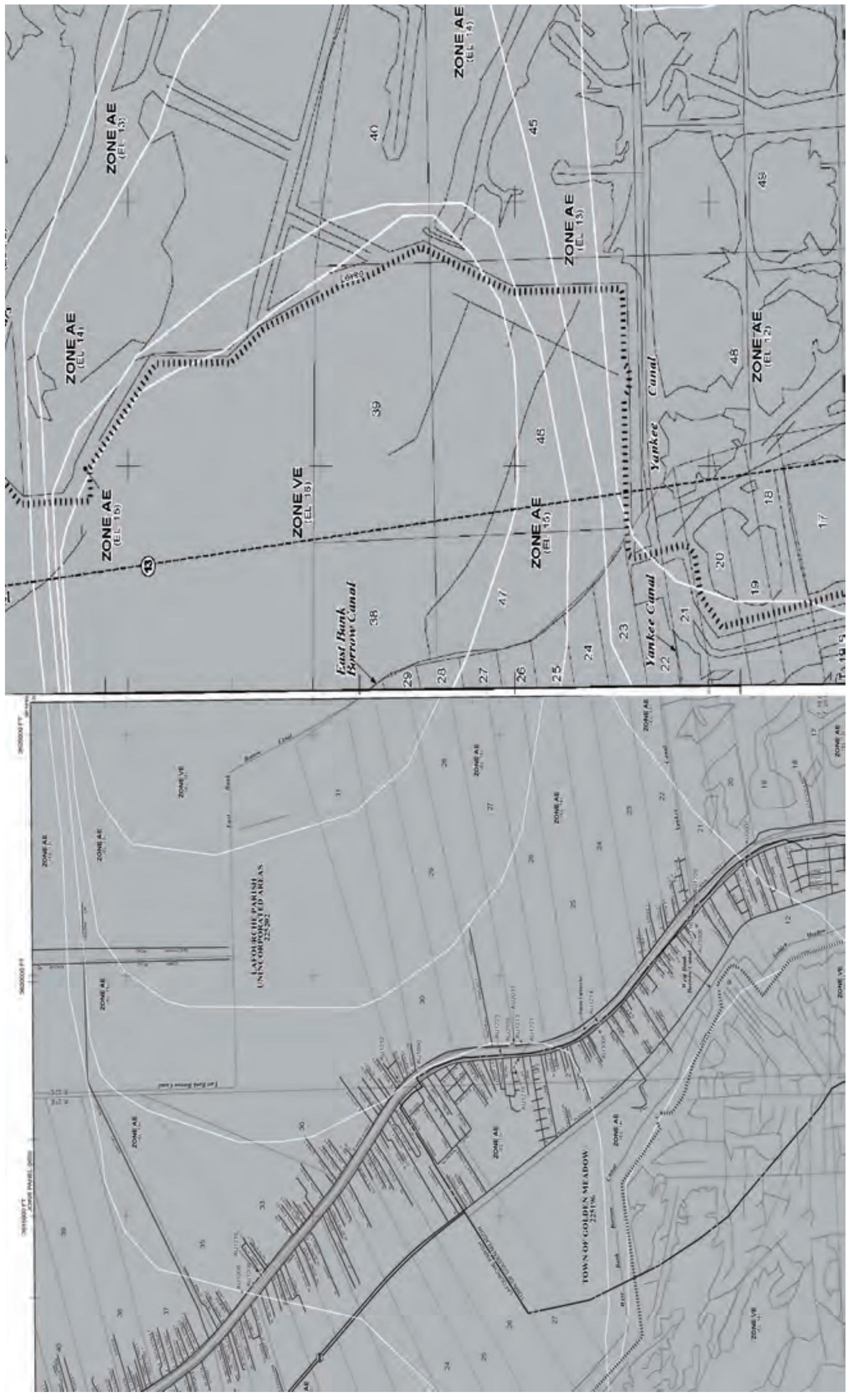
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ZONE AE (EL 12)
ZONE AE (EL 16)
ZONE VE (EL 16)
ZONE AE (EL 15)
East Bank Borrow Canal
Yankee Canal
Yankee Canal
LAFOURCHE PARISH UNINCORPORATED AREAS
TOWN OF GOLDEN MEADOW

FEMA

FEMA's Approach to Levees

Answers to Frequently Asked Questions

Q: Why is FEMA changing the way it maps levees?
A: The "without levee" approach is an effective tool to identify flood risk behind uncertified levees. FEMA recognizes, however, that advances can enable FEMA to use improved models and tools to provide more precise flood risk information, and we are committed to updating our mapping methodology. FEMA also is engaged in a systematic effort to reform the National Flood Insurance Program (NFIP), and we view a change in the manner in which we map levees that do not meet the criteria for accreditation as a step toward a long-term solution.

Q: What is FEMA doing to improve its analysis of levees?
A: FEMA is developing a series of targeted modeling approaches to replace the current "without levee" approach.

Q: Are FEMA and the U.S. Army Corps of Engineers (USACE) aligned in this effort?
A: FEMA and USACE have been and will continue to work as a team to develop the new approach.

Q: Will the public be involved?
A: Yes. FEMA will invite the public to review and comment on the new approach and subsequent guidance.

Q: What about maps already in effect?
A: The new approach will be applied to ongoing and future mapping projects. If a community has questions about existing Flood Insurance Rate Maps (FIRMs), it should coordinate with the appropriate FEMA Regional representative to discuss future map updates.

Levee Systems
Need more information on levee systems?Please visit the levee dedicated pages on the FEMA website at: www.fema.gov/plan/prevent/fhm/lv_intro.shtm.

Here you will find an array of guidance and information resources to better answer any questions you might have on levee systems.

The NFIP
Looking for more information on the National Flood Insurance Program? Visit: www.fema.gov/nfip.

You can also find information about your flood risk and how to find a flood insurance agent at: www.FloodSmart.gov.

FEMA Library
The FEMA Library is a database of publicly available FEMA resources. Many are available for download, including:

"NFIP and Levees: An Overview Fact Sheet" http://www.fema.gov/library/viewRecord.do?id=2609

"Living with Levee Systems: Information for Property Owners" http://www.fema.gov/library/viewRecord.do?id=2741

Requirements of 44 CFR Section 65.10: Mapping of Areas Protected by Levee Systems http://www.fema.gov/library/viewRecord.do?id=2741

RiskMAP
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Q: Will the new approach result in smaller Special Flood Hazard Areas (SFHAs)?
A: Not always. SFHAs may decrease, increase or stay the same size as a result of the new approach. The current approach may have overestimated or underestimated flood hazards to some extent. In some scenarios, the anticipated flood risk may be greater than previously identified using our current approach.

Q: Will this new approach impact insurance rates?
A: The rate will be based on the flood hazard identified through the new approach and other factors involved with the particular structure being rated, but the method for rating is not changing.

Q: Will FEMA consider levees with less than a 100-year level of protection?
A: Yes. FEMA is analyzing more precise ways to model flood risk behind levees that are not currently accredited to provide protection against a 1-percent-annual-chance flood (100-year flood). As FEMA continues work on NFIP reform, we will investigate ways to more accurately rate policies in areas behind levees with less than 1-percent-annual-chance flood protection.

Q: Why can't FEMA rate these types of insurance policies today?
A: Rating policies in areas behind levees with less than 1-percent-annual-chance flood protection may require new or modified flood risk zones that do not exist today. This and other considerations may require regulatory and legislative changes.

Q: How soon will the new approaches be developed and in place?
A: A date is not yet set for implementation, but FEMA is working to implement a new approach as soon as possible.

Q: Is the new approach going to be applied to every new mapping activity with unaccredited levees, or do communities need to request it?
A: It will be applied to all new and ongoing mapping activities.

Q: Will my community and/or levee owner still be required to provide FEMA data?
A: Yes. The data requirements for levee accreditation in 44 C.F.R. Section 65.10 will not change, and more precise modeling likely will require more levee data. Communities and/or levee owners still will need to provide data on their levees to enable FEMA to accurately assess the flood risk.

Q: If a community does not agree with the FEMA analysis used in its flood risk study, can it provide FEMA with additional or more detailed information?
A: Yes. As with any study performed by FEMA, local communities can provide additional information for consideration.

Q: Can a community still appeal the findings on the FIRM?
A: Yes. The administrative process currently in effect for flood hazard maps will remain unchanged. There will be an administrative appeal period following issuance of the preliminary FIRM during which a community can provide additional scientific and technical data.

Q: How will the new approach impact the cost of FEMA's flood studies?
A: We are anticipating additional costs for a deeper level of analysis. FEMA will evaluate the cost of applying additional analyses against the value added for a particular study or community based on the risk present in that area. Where there are high levels of risk, additional analysis may be appropriate.

Q: Will FEMA help pay for certification of levees?
A: No. FEMA's authority and mission are in the identification of risk and not in the assessment of the design, construction and maintenance of levees.

Q: Will FEMA finalize maps for communities using the "without levee" analysis?
A: No. FEMA will delay finalizing maps for communities where a levee cannot be accredited until the new approach is finalized.

RiskMAP
Increasing Resilience Together

Attachment C

North Lafourche
CONSERVATION / LEVEE & DRAINAGE DISTRICT

The North Lafourche Conservation, Levee & Drainage District

President:
George Broussard

Executive Director:
Dwayne Bourgeois

Commissioners:
Ronald Adams
Lonny Babin
Keith Barker
George Broussard
Ted Falgout
Cory Kief
Larry Maronge
Kenney Matherne
Rev Nolan Smith Sr.

PRESS RELEASE

For Immediate release:
3:00 PM 8/1/2011

Levee Analysis Mapping Project (LAMP) Community Roundtable Forum, July 26th 2011, Washington DC

Lafourche Parish President Charlotte Randolph and I were among 20 or so people from communities across the nation invited to attend the LAMP Community Roundtable Forum last week. LAMP is an initiative by FEMA, at the request of Congress and communities such as ours throughout the United States, to develop alternatives to FEMA's current policy of not considering non-accredited levees during a Flood Insurance Study (FIS) as used by FEMA to produce Flood Insurance Rate Maps (DFIRMS). DFIRMS set the elevations to which a structure must be built in order to receive the most favored Flood Insurance rates.

FEMA began the effort to revise their policy several months ago. In this meeting, FEMA revealed the basics of their revised policy process for giving some consideration to non-accredited levees during a FIS for a community. This change in process is vitally important to all parts of Lafourche Parish because none of our levees are currently Federally accredited.

To ignore the impact that our levees have on the movement of storm water by pretending they do not exist because they are non-accredited was simply bad science. Such was the old practice of FEMA in performing a FIS on non-accredited levees referred to as the "without levees" practice. FEMA now assures us that the "without levees" approach to mapping is going away. They also stated that key points of the new policy and process is that it will be:

<u>Collaborative</u> with the local community,
<u>Flexible</u> yet technically sound such that the mapping effort produces credible maps for the community behind levees, and
<u>Feasible</u> in that the approach must be cost effective and not overly burdensome on a community.

This in itself is a major step in the right direction. Additionally, they proposed the creation of a "Local Levee Advisory Committee" for each community to collaborate

North Lafourche
CONSERVATION / LEVEE & DRAINAGE DISTRICT

The North Lafourche Conservation,
Levee & Drainage District

directly with FEMA during the mapping effort. This Local Levee Advisory Committee will be able to help FEMA understand the particular circumstances that pertain to each community and produce credible maps based on a technically sound approach.

Most of this meeting was focused on FEMA's planned revisions to the FEMA policy and the process itself, as compared to changes in the technical evaluations side of a FIS. They were mainly looking to get feedback from this group as to the suitability of the change in process. However, they did suggest a few broad categories and circumstances by which a levee system might be analyzed for consideration. Unfortunately for us, the examples given were all for riverine type flooding and they, as of yet, did not reveal anything concerning their approach to coastal flooding. They did state clearly that a technically sound approach was being and must be developed for both riverine and coastal levee systems. But, the FEMA folks on hand could not provide additional details on how coastal levees would be handled when I asked them.

They have also introduced the word "reach" into their FIS vernacular indicating that they will consider levees not just in their entirety; but, over a defined reach or piece of a levee. This indicates a willingness to consider mapping in finer detail.

The meeting was set up to solicit and record the views of the participants through exercises of the revised FIS and DFIRM mapping process on mock communities. One such mock community was the South Lafourche Levee System. They used the SLLD system because they have such detail on this system. But, the drill did not reveal any true insight into potential mapping outcome. Instead, it was an example of just how the process will be different in the future.

In the end, the process should allow more discussion and oversight by the local community in the mapping process and is obviously better that the process currently in place. But, it leaves us in a position of still working with FEMA to decide just what is and is not technically sound. As such, we will still be in a position of "negotiation" and I'm not sure what dispute resolution would be worked out.

In addition to the huge pile of comments and suggestions we gave FEMA ourselves at this meeting, the entire group offered some very constructive suggestions in how they can improve their proposed process and policy. FEMA's next step is to take all of this information into consideration and put their updated policy out for public comment sometime within the next month. Overall, I think the suggestions by the group were very good. If FEMA incorporates at least the major points made at this meeting into their revised policy, I am cautiously optimistic that the revised policy will provided for reasonable and due consideration of our non-accredited levees in the future revised DFIRMS. We will continue to follow this process and the revised FEMA policy very closely.

Dwayne Bourgeois
NLLD Executive Director

Visit us online at:

WWW.NLCLDD.com

Dwayne

Sorry, I just realized that I hadn't gotten back with you yet now that we have in fact had the opportunity to issue our draft report for public comment.

I am enclosing a file that our coastal engineers developed to help specifically answer questions you may have relative to how this draft approach may be applied to coastal areas once finalized. In addition, our engineers also developed the below write-up based on their assumption that you would be interested in how the approach as currently drafted might be applied to the Larose to Golden Meadow Hurricane Levee System. I have included that discussion; however, this is still a draft approach and is subject to significant modification as the result of the public review process.

<u>(Possible application based on current version of draft approach)</u>

Because the interior of the Larose to Golden Meadow Hurricane Levee System exceeds 60 square miles, the Natural Valley Procedure may not yield a reasonable result under the draft approach. As a result, a detailed study of the entire levee system would probably have to be undertaken, where one or more specific failure locations could be explicitly analyzed, as described in the attached document. The floodplain resulting from the Structural-Based Inundation Procedure would be some composite of each of the scenarios analyzed.

In addition to the pending revisions to the levee analysis guidelines, we understand that there is wide interest in additional details of the coastal flooding analysis procedures. Unfortunately all other aspects of the coastal analysis process fall outside the scope of the current levee-related effort. One particular area of interest we would like to acknowledge relates to concerns about the application of the 1-dimensional Wave Height Analysis for Flood Insurance Studies (WHAFIS) model, the results of which yield the locations of coastal V zones. FEMA guidelines require that a steady, uni-directional wind be applied for analysis of wave growth along each WHAFIS transect. Both the cyclonic nature of hurricane winds, and the speed of most hurricanes, suggest that a single wind speed blowing in one direction along a transect that is tens of miles long does not accurately represent the nature of what occurs during a hurricane.

While this particular concern will not be addressed within the current study, please be assured that FEMA is presently looking for ways to improve our coastal analysis procedures, including this issue specifically.

Hopefully this dialog is helpful in envisioning how the new approach may be applied in coastal areas and your area specifically. If you would like to have more dialog on this issue, I will gladly pull together the right folks to talk with you directly that can answer your specific questions.

Thanks

Bill Blanton

From: Blanton, Bill
Sent: Friday, December 02, 2011 12:42 PM

To: 'Dwayne Bourgeois'
Subject: RE: Follow-up

Dwayne

Sorry for the delay, I want to get you a meaningful response to your question; however, as you can imagine we are struggling with how much detail we can get into without getting ahead of the official public release date. At this point, we are probably only days from issuing the draft document for public review. Once that is done, we can be much less sensitive about disseminating some of the proposed details. I hope it isn"t too much of a problem if I ask for a few more days before responding. That way I can sequence things more properly and not have to worry about the level of detail the guys were hoping to share with you.

Thanks for your understanding, and have a great weekend.

Bill Blanton

From: Dwayne Bourgeois [mailto:DwayneB@nlcldd.com]
Sent: Tuesday, November 29, 2011 11:10 AM
To: Blanton, Bill
Subject: RE: Follow-up

Hello Bill,

I hope that you had a great Thanksgiving.

I was wondering if you had gotten anything back from the "Coastal Guys" as mentioned?

Please let me know.

Thanks,

Dwayne Bourgeois

From: Blanton, Bill [mailto:Bill.Blanton@fema.dhs.gov]
Sent: Thursday, November 10, 2011 5:59 AM
To: Dwayne Bourgeois
Cc: Wright, Roy (Roy.E.Wright@dhs.gov)
Subject: RE: Follow-up

Dwayne

I have asked the coastal guys to write me up a quick paragraph to answer your question on the coastal levees. I am waiting to hear back from them.

From a local level, what we really need folks to do is to consider the draft approach once it is released and give us your comments. I am sure you are prepared to assist in that way, and that is what is going to be extremely valuable to us in meeting the needs of the nation in hazard identification.

Thanks

Bill

From: Dwayne Bourgeois [mailto:DwayneB@nlcldd.com]
Sent: Thursday, November 03, 2011 8:41 AM
To: Blanton, Bill
Cc: Wright, Roy (Roy.E.Wright@dhs.gov)
Subject: Re: Follow-up

Thanks for the update guys.

Are there any particulars on your approach to Coastal Levees that you can tell me?

Also, please let me know if I can help locally in any way. We want to be sure we have a good buy in to this.

North Lafourche Levee District
Dwayne Bourgeois

Sent from my iPhone

On Nov 3, 2011, at 6:27 AM, "Blanton, Bill" <Bill.Blanton@fema.dhs.gov> wrote:

Dwayne

Things are going well. As you can imagine, we got lots of good input during the Community Roundtable event. Since that time, we have been making some refinements to the draft proposal, routing it for concurrence with FEMA leadership, and getting it ready for public review.

Once these steps are complete, we will be scheduling briefings at the congressional level. After incorporating any additional necessary changes we will then be able to release the draft proposal for public review.

Something you may be interested in knowing, we were originally talking about providing a 30-day public review period. As the result of some initial congressional feedback, we are now leaning toward a 45-day public review period.

That is all I know at the moment. We are hopeful that we will be able to release the proposal for public review soon; however, there are still a couple very important steps we are continuing to work through as I mentioned above.

Thanks

Bill Blanton

From: Dwayne Bourgeois [mailto:DwayneB@nlcldd.com]
Sent: Wednesday, November 02, 2011 5:12 PM
To: Wright, Roy (Roy.E.Wright@dhs.gov); Blanton, Bill (bill.blanton@dhs.gov)
Subject: FW: Follow-up

Hello Again,

Is there anything you guys can tell me? Could you point me in the right direction to get some status information?

Anything would be appreciated.

Best Regards,
North Lafourche Levee District

Dwayne Bourgeois
Executive Director

North Lafourche Conservation, Levee and Drainage District
627 Jackson St.
Suite A
Thibodaux, La 70301
Phone: 985-537-2244
Fax: 877-272-4021

From: Dwayne Bourgeois
Sent: Thursday, October 27, 2011 10:48 AM
To: Wright, Roy (Roy.E.Wright@dhs.gov); Blanton, Bill (bill.blanton@dhs.gov)
Subject: Follow-up

Hello Guys,

I hope this email find you well.

Several folks have asked me if we have heard anything further since our Roundtable meeting back during the end of July. We had the initial distribution of the comments collected, which was fine; but, I haven't seen anything in quite some time.

Can you give me an update on this? What is the status and when do you expect it will be out for Public Comment, which I understand as the next step?

Also, during the Roundtable, there was considerable information available hinting at the approach towards riverine flooding of levees; but, no information on the approach for coastal levees. Although, it was made very clear that this was going to be developed as well.

Thanks again for your effort on this and I realize what a task it is. I try to explain that to folks; but, everyone is still looking for answers.

Best Regards,
North Lafourche Levee District

Dwayne Bourgeois
Executive Director

North Lafourche Conservation, Levee and Drainage District
627 Jackson St.
Suite A
Thibodaux, La 70301
Phone: 985-537-2244
Fax: 877-272-4021

Coastal Protection and Restoration Authority of Louisiana

State of Louisiana

BOBBY JINDAL
GOVERNOR

January 30, 2012

Mary Jo Mullen
Federal Emergency Management Agency
U.S. Department of Homeland Security
500 C Street SW
Washington, D.C. 20472

RE: FEMA Analysis and Mapping Procedures for Non-Accredited Levees
Proposed Approach for Public Review 12/9/2011

Dear Ms. Mullen:

As stakeholders, governing agencies, as well as residents of south Louisiana, please accept this letter as our official request to be involved in the further development of the revised policy for coastal levees. We strongly feel that the revised policy, while an improvement upon the former "without levees" policy with marked improvements for riverine issues, is neither fully developed nor fully applicable to our dynamic coastline and delta. We hereby request to be involved with the multi-disciplinary project team to incorporate our comments, existing research, as well as historical data to ensure the new policy is reflective of current and future conditions as we acknowledge that our landscape is unique and should be represented and modeled accordingly. The members of Association of Levee Boards of Louisiana feel very strongly that while riverine levee issues offer guidance there exists no proper and concise mechanism to guide coastal levee districts and stakeholders. This lack of completeness may cause undue expenses and wasted effort in data collection required to properly evaluate and clarify a policy beneficial to all involved.

In response to the Federal Emergency Management Agency's (FEMA's) "Analysis and Mapping Procedures for Non-Accredited Levees issued on December 9, 2011, the following comments are hereby submitted in writing as well as online:

1. **Context:** Sections 1.4 and 1.6 of the proposed approach reference various teams including the multidisciplinary project team, Independent Scientific Body (ISB), Community Roundtable, and the National Institute of Building Sciences (NIBS).

   Question: How do local stakeholders obtain the results of the work of the various teams referred to in Sections 1.4 and 1.6 of the proposed approach?

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2.	**Context:**	Figures 4-2, 4-4, 4-6, and 4-8 depict a horizontal dashed line.
	Question:	What is the meaning of the horizontal dashed line shown in the various figures in section 4 and how will its elevation be determined?
3.	**Context:**	The proposed approach references data collection, engineering documentation, as well as other cost-incurring efforts that seem to be the responsibility of the local governments to provide to FEMA in support of the proposed policy revisions.
	Question:	Will there be any financial assistance to the communities in providing the required data to FEMA?
	Question:	Will an opportunity exist for actual participation from local stakeholders to explain or review data collection?
4.	**Context:**	Proposed approach references changes to insurance rates, modeling procedures, interaction between FEMA and local stakeholders, among other cost-changing affects.
	Question 1:	Has FEMA completed an Economic Impact Study of the proposed change in policy?
	Question 2:	If not, will one be completed and if so, what is the expected timeframe?
5.	**Context:**	Much emphasis is placed in the establishment of D-Zones located behind non-accredited levees throughout the proposed approach.
	Question 1:	How do the insurance rates compare in a D zone versus a structure built one (1) foot above the required BFE in an A/AE zone?
	Question 2:	Could an actual example be provided?
	Question 3:	Are FDIC lending institutions required under separate Federal mandates to have their mortgages in D zones carry flood insurance?
	Question 4:	What is the basis or procedure for setting the insurance rates in the D Zones?
	Question 5:	What determines the inshore limit of the D Zone, i.e., as depicted in Figure 4-2?
6.	**Context:**	Section 3.2 beginning on page 3-3 states, "If FEMA determines that a structure is not a levee designed for flood control based on the regulatory definitions…then the analysis proceeds to Figure 3-1…"
	Question 1:	Why wouldn't the local stakeholders and government agencies be involved before the structures were designated by FEMA?
	Question 2:	Would it be possible to perform preliminary modeling **after** meeting with stakeholders and local officials?

7.	**Context:**	The proposed approach details the meeting process in section 3.7.4 and section 3.8 on page 3-7 and 3-8, respectively.
	Question 1:	How will the FEMA established Local Levee Working Group (LLWG) function - as a body or as individual members?
	Question 2:	Will FEMA provide any funding for the LLWG to function?
8.	**Context:**	Section 3.9 on pages 3-9 and 3-10 details mapping procedures and determining reaches.
	Question 1:	How much will the communities be involved in the decisions regarding which method(s) will be most appropriate for the particular levee reaches in question?
	Question 2:	Will FEMA solely select the procedures to be used and conduct the analysis, as implied in Section 3.9?
	Question 3:	Will it be decided with stakeholder or with stakeholders concurrence which type of mapping procedure will be used with each segment?
	Question 4:	Would it be possible to see more criteria of what constitutes a segment and why? Specifically for coastal levees.
9.	**Context:**	The Notice in the Federal Register, FEMA's website and the FEMA New Levee Approach in Development Pamphlet (12/19/2011) indicate the availability of three public on-line forums to address the proposed changes. The FEMA website and Pamphlet goes on to indicate that the webinars will be used to "present the approach and answer any clarifying questions".
	Question 1:	When will these questions be answered?
	Question 2:	How will the answers be published?
10.	**Context:**	Section 4.2.3.2 (page 4-9) references Factor of Safety.
	Question 1:	To which physical parameters should the Factor of Safety referred be applied?
	Question 2:	Do the parameters include still water level, wave height and run-up, and overtopping rates?
11.	**Context:**	Each of the 5 suggested approaches are delineated fairly clearly in section 3 and 4, however mostly for riverine flooding. Coastal levees are given small paragraphs of explanation
	Question:	Will more detail on how coastal flooding is modeled/layered be available for review prior to finalizing the suggested approach and guidance?

12. Context: Former DFIRM generation involved a substantial amount of "engineering judgment" as depicted in Appendix D of FEMA's *Guidelines and Specifications for Flood Hazard Mapping Partners*.

Question: What level of engineering judgment on behalf of FEMA's mapping partners will be used?

13. Context: Proposed Approach repeatedly mentions engineering documents that will need to be submitted by local officials prior to commencement of revised modeling efforts.

Question: Where can a template of information required be located?

14. Context: "FEMA must determine whether the identified structure is a levee and if it is designed for flood control (Section 3.2, page 3-1)."

Question: Why wouldn't this be discussed and decided with the stakeholders (and/or LLWG) and be based on historical evidence, structural stability, etc?

15. Context: "The initial levee stakeholder coordination and data collection steps will be required for all non-accredited levee systems. In some instances, the results of these steps...do not necessitate further discussion... (Section 3.7, page 3-5)"

Question 1: At what point is this decided?

Question 2: Who makes the final determination?

16. Context: On page vii of the Public Review Documents it states: "Once all comments are considered and the proposed analysis and mapping approach summarized in this public review document is refined based on the comments, FEMA will issue guidance for the FEMA Regional Offices and State and local mapping partners to implement the proposed levee analysis and mapping approach and procedures."

Question 1: Is there an estimated time frame for FEMA to "issue the guidance"?

Question 2: Given the current unknowns in the amount of and complexity of making changes associated with comments received, will FEMA issue an estimated date that guidance will be issued at some reasonable time after the close of the comment period?

17. **Context:** In the Public Review Document….
Comment: It appears that in every instance, consideration of the treatment of Coastal Levees is subordinate to the process or methods to be used for riverine levees. In each case, broad and explicit details are given for Riverine Levees / Systems and Coastal Levees are addressed in a couple of paragraphs following. It looks as if FEMA has addressed Coastal Levees in the format "and by the way, for Coastal Levees you can do this…" This format yields little confidence that FEMA truly understands and has considered the unique flooding parameters of Coastal Levees as compared to Riverine Levees. This is especially true when the Coastal Levees are located within a larger delta region.
Question 1: Can FEMA further demonstrate how these approaches will apply to Coastal Levees?
Question 2: Can the guidance ultimately issued for Coastal Levees be independent and not reflected as a sub-set of riverine levees techniques?

18. **Context:** Much of this new process hinges upon a very good understanding of the implications on receiving a Zone D designation. In the Public Review Document section 4.3.4.3, second paragraph, second sentence….
Question 1: It states: "*For post-FIRM structures, the rates for Zone D are similar* **(similar how? Structure? Rate?)** *to those for Zone AE if the structure's lowest floor* **(which structure? The Zone AE one or the Zone D one?)** *is at the BFE, but significantly more expensive than a Zone AE rate for structures* **(again, which structure? The Zone AE one or the Zone D one?)** *elevated 1 foot or more above the BFE.*"
Question 2: Is it possible to give a clear set of examples that compare the cost of flood insurance for the various SFHA Zones and Zone D for given circumstances.

19. **Context:** In the Structural-Based Inundation Procedure in section 4.2.4 (pg 4-13), there are no special considerations listed for Coastal Levees as compared to details provided for Riverine Levees. There are obvious and profound differences in how and when breaches might develop and in how long the breach might flood the landward side in Coastal Levees as compared to Riverine Levees.
Question 1: Does FEMA not intend to use this method for Coastal Levees?
Question 2: In the Sensitivity Analysis section on pg 4-16, what is the point of varying the breach width and initiation time if the "final parameters chosen will maximize the flood hazard area." as stated? Intent is unclear.

We would like to set up a stakeholder meeting to provide additional input at your earliest convenience per the reasons stated above. Please contact Nicole Cutforth, Shaw Environmental & Infrastructure, Inc., at (225) 302-3283 or Nicole.cutforth@shawgrp.com.

Sincerely,

John Monzon
Chief, Flood Protection Division
CPRA

Steve Wilson
President
Association of Levee Boards of Louisiana
And President, Pontchartrain Levee District

Charlotte Randolph
Parish President
Lafourche Parish

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North Lafourche Conservation, Levee, and Drainage District

Joseph N. Suhayda

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Parish President
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Paul P. Naquin, Jr.
Parish President
St. Mary Parish

Windell Curole
Executive Director
South Lafourche Levee District

Cc: Bill Blanton, FEMA
Roy Wright, FEMA

INFO RELEASE

For Immediate release:
6:00 PM 2/16/2012

Coastal Levee Issues with FEMA Proposed Revised Policy

To: US Senator David Vitter and US Senator Mary Landrieu
US Congressman Steve Scalise, US Congressman Bill Cassidy, US Congressman Jeff Landry &
US Congressman Charles Boustany, Jr. and
Whomever it may interest,

As many of you are aware, our local FEMA "without levees" Policy Revision Work Group has been tracking the development and eventual release of FEMA's "Analysis and Mapping Procedures for Non-Accredited Levees . The resulting FEMA Proposed Approach document was released for Public Comment on December 9th 2011. Locally, the Louisiana Coastal Protection and Restoration Authority, the Association of Levee Boards of Louisiana, The Parishes of Lafourche, Terrebonne and St. Mary, the North and South Lafourche Levee Districts and Dr. Joseph Suhayda, Neil Angelette, and Nicole Cutforth working with the Shaw Environmental and Infrastructure Group submitted joint comments concerning the draft document released by FEMA.

Many of our comments centered on the lack of detail in the consideration of non-accredited coastal levees. The document was reasonably detailed when it came to riverine levees, but it was very light on specifics for the processes that could be used for analyzing our coastal levees. Specifically, the document was lacking due consideration to the considerable differences in flooding sources for coastal as compared to riverine levees.

Just as the document comment period was closing, we received some long anticipated information that we had requested from FEMA. This information was concerning how their proposed techniques might give due consideration to the impact of non-accredited levees in coastal areas. In it, they concluded two basic points:

1) Some of these techniques they had developed would not be appropriate for large coastal levee systems especially, ring type levees. Other methods of analysis would have to be used for such systems.

2) Although outside of the current guidance revision process, they did realize the inadequacy of their current 1-dimensional Wave Height Analysis for Flood Insurance Studies (WHAFIS) model in accurately representing wind during a hurricane, especially for transects tens of miles long as we have in our deltaic region.

This information was confirmation of the problems we saw in both their current and proposed process regarding coastal levees. However, we did not see how FEMA would be able to treat our coastal levees under their current policy revision. In order to better understand all of this FEMA offered to host a technical meeting.

On the 9th of February, Bill Blanton, Stuart Rooney and Siaumak Esfanchary of FEMA, along with Mark Osler (Michael Baker, Inc) and Jim Murphy (URS, Corp) representing FEMA, met with John Monzon

(CPRA), Dr. Joseph Suhayda, Windell Curole, Julie Pellegrini Curole and Dwayne Bourgeois in Washington, D.C.

In this meeting, FEMA's expressed recognition that there is no 'one size fits all solution' when it comes to evaluating the level of risk reduction that non-accredited levees provide to communities gave us confidence that, in the end, and working together, we can and will produce DFIRMS that most accurately represent the risk of flooding in our coastal area. We offered to work with them on this change in their process without reservation.

The most import points that our group took away from the meeting are as follows.

1) When it comes to producing more accurate DFIRMS, no methods of analysis are 'off the table' as far as FEMA is concerned.

2) The process is not going to be black or white any longer. The process is now 'intentionally gray' in order to allow the utmost flex ibility in producing accurate results.

3) Where in the past, when trying to work with FEMA, we encountered a series of well intending people whose hands were 'tied' by existing regulations; we will now be able to meet with FEMA personnel who are no longer encumbered.

4) We can hope to see released coastal levee guidance independent of riverine guidance to draw a clean distinction in the differences to better assist FEMA mapping partners in handling Coastal Levees.

5) We will all get a better understanding of the use and impact of D zones.

Overall, it was believed by all to be a very productive meeting. Yet we have a long way to go.

Currently, FEMA could not offer any time frame within which they would release the final version of the change in policy. FEMA stated that the time frame was dependent on their reaction to the comments received and their actions taken as a result of the comments. Further, it was unclear how the important issue of the coastal flooding sources (eg, WHAFIS), not currently part of the revision process would be ultimately resolved.

Our Local FEMA 'without levees' Policy Revision Work Group asks our Legislative Delegation to continue to follow this issue closely and assure that FEMA uses our unique coastal expertise in further development of their revised policy as it impacts coastal levee systems.

We thank you for your interest in this matter.

Prepared by Dwayne Bourgeois, North Lafourche Levee District Executive Director

PREPARED STATEMENT OF DAVID A. SAMPSON

PRESIDENT AND CHIEF EXECUTIVE OFFICER, PROPERTY AND CASUALTY INSURERS ASSOCIATION OF AMERICA

MAY 9, 2012

Executive Summary

Good morning Mr. Chairman, Members of the Subcommittee. My name is David Sampson and I am President and Chief Executive Officer of the Property Casualty Insurers Association of America (PCI).

PCI and our members believe that the National Flood Insurance Program (NFIP) is vitally important to our Nation and the economy, and we are here today to support your efforts to pass bipartisan legislation in the Senate that includes a long-term reauthorization and meaningful reforms.

PCI represents the broadest cross-section of insurers of any national trade association. Our more than 1,000 member companies write approximately 38 percent of all home, auto, and business insurance in the country. PCI members write about 52 percent of all the flood insurance as partners with the NFIP through the Write-Your-Own (WYO) program. PCI also chairs the WYO Flood Insurance Coalition, a group that includes the more than 85 private insurers that actively participate in the WYO Program as well as all the other national property casualty trade associations. Thank you for the opportunity to appear before you today on behalf of PCI and its members.

PCI commends you for holding this important hearing. The NFIP is set to expire on May 31—the day before the official start to the Atlantic hurricane season—if Congress does not act. More than 5.6 million American homeowners, renters, and businesses are NFIP policyholders and rely on this program to protect their homes and their financial security. They are depending on you to act quickly to avoid another lapse in flood insurance coverage. In addition, the millions of Americans who intend to purchase or refinance homes with financing from federally regulated lenders will not be able to do so if they live in a flood plain and Congress fails to extend the NFIP. Finally, the U.S. Government, and ultimately taxpayers, will be forced to pay the tab for the next flood if consumers are unable to purchase insurance due to an expired NFIP.

The NFIP is also deeply in debt and needs long-term structural fiscal reform. If a private insurance company held no surplus and carried $17.75 billion in debt (on $4 billion in revenue) for 6 years, State regulators would immediately shut it down and the CEO would be fired. And yet the NFIP is both statutorily unable to charge adequate rates and often unwilling to raise prices by even the amount they are allowed, despite their massive accumulated debt.

Two PCI studies on flood risk pricing revealed that the NFIP is providing Government subsidized flood policies at roughly one-third the private sector comparable premium. A RAND study estimated that FEMA is underpricing policies by 20 to 50 percent, and even the Congressional Budget Office estimates that the NFIP's built-in deficit is at least $1.3 billion annually, with the Government Accountability Office (GAO) suggesting the true program subsidy is far higher. The subsidies for repetitive loss and high flood-risk properties are even greater, estimated by GAO at 40 to 45 percent of Government risk costs, with such explicitly subsidized policies actually growing in number and now representing over 22 percent of all Federal flood policies. The NFIP is fiscally unsustainable in its current path and must be reformed.

NFIP Reauthorization

The NFIP Should Be Reauthorized on a Long-Term Basis (e.g., 5 Years)

Congressional authorization for the NFIP program has been extended on a short-term basis 12 times since September 30, 2008, with the flood program scheduled to expire again on May 31, 2012. A long-term reauthorization will ensure that there will be no gaps in coverage, which occurred four times in 2010 alone, each lapse longer than the previous with increasing uncertainty and frustration among consumers and providers.

Gaps in flood insurance coverage cause significant disruption in the housing markets. Homebuyers in flood zones with a federally backed mortgage are required to purchase flood coverage before the property can be closed on. According to the National Association of REALTORS, in 2010, more than 40,000 real estate transactions were delayed because of lapses in the NFIP's authorization.

Gaps also cause policyholders and insurers to doubt the continued availability of the product. Each time the program lapses, or is extended for a short term, a cumbersome and expensive series of special bridging transactions is required. Insurers, consumers, and the NFIP must set aside policy purchases, collect funds and advance claims payments. This creates significant costs and bureaucracy for the marketplace and uncertainty for Americans who rely on this important protection. This uncertainty has been one of the reasons that several Write-Your-Own carriers have exited the program.

With the next NFIP expiration deadline scheduled for the day before the upcoming hurricane season, Congress and consumers face a potential economic nightmare in both public and private markets if a major storm occurs during a lapse—something that is so easily preventable.

First and foremost to protect Americans and our economy, a long-term reauthorization of the national flood program is needed.

Reforms

Fixing the Rate Structure

The NFIP heavily subsidizes consumer rates across the board, unlike rates charged in the private sector. High flood-risk properties are particularly and explicitly subsidized, as part of a grandfather clause established at the NFIP's inception in 1968 that was expected to shrink over time but has instead morphed into an ever-growing subsidy. Even while carrying tens of billions of dollars in ongoing debt, the NFIP has allowed these subsidies to grow in recent years as it has struggled to impose updated flood maps. Rate increases during that time have been minimal despite increasing predictions of storm loss by catastrophe modelers. While Write-Your-Own carriers have little direct interest in the NFIP's rates, as taxpayers who help facilitate the program, we encourage Congress to consider phasing out NFIP subsidies over time. Government insurance subsidies can create a moral hazard by encouraging overbuilding and discouraging consumer risk mitigation. This results in greater ultimate costs to taxpayers.

The long-term NFIP reauthorization bill passed by the Senate Banking Committee last year includes reforms raising from 10 to 15 percent the ceiling for annual rate increases that the NFIP can establish. Insurers believe that insurance premiums should reflect the risk of loss, and we support this initial improvement. The bill also increases the minimum deductibles for flood losses to reduce program costs and more appropriately reflect prevailing practices in the private insurance market. Increasing the loss deductible should also improve the NFIP's solvency and allow more resources to be reallocated towards loss mitigation and protecting consumers from financial ruin. PCI also supports congressional proposals to establish an NFIP reserve fund, setting aside a percentage of the potential loss exposure. This would better protect consumers and taxpayers, though it would still be a fraction of the surplus that would be required for private insurers.

Increasing the rates is the first step, but the program must also begin to further offset the significant Government subsidy (which FEMA states is 40–45 percent for pre-FIRM properties). The rates need to be closer to true market rates before any meaningful discussion related to the private industry taking on flood risk can take place. PCI estimates that flood insurance premiums would need to double, and in some cases triple, if the private insurance market were to write this business on a primary basis. Proposals to end the NFIP's primary flood underwriting are unrealistic given the current steep subsidies and the recognized unwillingness of many homeowners to purchase coverage in high risk areas and at highly subsidized rates, even when mandated.

Address Mapping Issues

The certification of levees and ongoing flood map modernization has continued to be controversial, particularly for consumers who are now required to purchase flood insurance, often at higher-than-average Federal rates, as a result of map revisions. While PCI believes that insurance rates should always appropriately reflect the cost of risk, a phase-in for these purchasers as well as the reestablishment of the Technical Mapping Advisory Council are important measures to ameliorate the impact of these changes for consumers, communities, the States and policyholders. PCI and members of the Write-Your-Own coalition would ask that our industry be represented on that Council by a representative of a flood insurance servicing carrier (a "Write-Your-Own" company).

PCI encourages the extension of the Flood Insurance Reform Act of 2004 program for Severe Repetitive Loss Properties. These properties account for just 1 percent of NFIP's insured properties but are responsible for 25 to 30 percent of claims. It is time to buy-out, or otherwise charge the appropriate premium for these properties that continually flood and are rebuilt time after time.

PCI also supports the inclusion of nationally recognized building codes in the floodplain management criteria. This would require FEMA/NFIP to work with the building code councils to include this information. It would provide for better construction of properties and help minimize damage from a variety of perils, including flood, as well as reduce the number of repetitive loss properties over time.

Address Servicing Issues

The "Write-Your-Own" (WYO) program, established in 1984, has been very successful in increasing consumer participation in the NFIP, but it has also been the subject of legislative discussion over the past few years. There have been issues related to loss settlement, expense reimbursement, and participation in the NFIP by WYO insurers.

Following Hurricane Katrina, there were significant issues related to the settlement of wind and water losses. Most of these issues would have been addressed by the application of the NFIP appeals process that was included in the Flood Insurance Reform Act of 2004. Unfortunately, that process was not implemented when Katrina hit, but it is in place now. Thus, the rare occurrences of wind-water disputes are already effectively dealt with by existing reforms and no new reporting requirements (such as providing the NFIP with wind claims information) or other legislation is needed to address these issues.

Questions sometimes also arise about the WYO claims expense reimbursement for insurers. Following Katrina, the NFIP worked with the WYO participating insurers to revise the claims expense reimbursement when significant catastrophes occur. Indeed, the NFIP reduced the amount of the claims expense reimbursement where the number of losses are significant and insurers and the NFIP can benefit from some economies of scale. However, the marketplace has now proven that existing claims reimbursement payments are not overly generous. If they were, the number of insurers willing to participate in the WYO program would not have continued to decline. Thus, to the extent any further changes are proposed, we urge careful consideration of the potential effect on WYO participation.

Eliminate Outdated Commissions

Past Senate bills have included provisions establishing a natural catastrophe commission to examine insurance market conditions following the 2005 hurricanes. PCI suggests that the marketplace, its regulation, and the sophistication of catastrophe modeling have advanced significantly over the past 7 years, eliminating the need for such a commission.

Conclusion

A long-term extension of the flood program with fiscal rate reforms is supported by consumers, insurers, environmental groups, taxpayer groups, the real estate industry, and the overwhelming majority of both parties in Congress. At a time when the American economy is struggling to move forward, housing values are still mired in recession, and hurricane season is rapidly approaching, a fiscally sound long-term reauthorization of the NFIP is absolutely critical before another lapse occurs.

PCI applauds your efforts to encourage the Senate to take up this issue and to pass a long-term reauthorization and reform bill before May 31. PCI stands ready to be of any assistance in this effort.

Thank you.

PREPARED STATEMENT OF JON JENSEN

GOVERNMENT AFFAIRS COMMITTEE CHAIRMAN, INDEPENDENT INSURANCE AGENTS AND BROKERS OF AMERICA, AND PRESIDENT, CORRELL INSURANCE GROUP

MAY 9, 2012

Good afternoon Chairman Tester, Ranking Member Vitter, and Members of the Subcommittee. My name is Jon Jensen, and I am pleased to be here today on behalf of the Independent Insurance Agents and Brokers of America (IIABA or Big "I") to present our association's perspective on efforts to reform the National Flood Insurance Program (NFIP). I am president of Correll Insurance Group, an insurance agency based in South Carolina with 12 offices and 132 associates. Since 2011 I have served as Chairman of the Government Affairs Committee for the Big "I".

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 percent of the commercial property/casualty market. It is from this 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. The current $17.2 billion dollar debt, incurred in 2005, reveals some of the deficiencies of the program and has strained Government resources. While IIABA is confident that the NFIP will recover, it is important that Congress shore up the NFIP's financial foundation and use this opportunity to enact needed reforms to ensure the long-term sustainability of the program.

For this reason, the Big "I" strongly supports S. 1940, the "Flood Insurance Reform and Modernization Act of 2011," by Chairman Tim Johnson, which the Senate Banking Committee reported out unanimously last year. The Big "I" thanks the Committee for its action on this legislation and urges the full Senate to consider the legislation on the floor at the earliest opportunity.

The Big "I" also supports H.R. 1309, the "Flood Insurance Reform Act of 2011," similar legislation which passed the House of Representatives with over 400 votes last year. We believe that while there are some differences between the Senate and House bills, these minor differences could be overcome by policy makers with a modest amount of effort.

Long-Term Extension

As you know, the NFIP is a Congressionally authorized program that requires periodic extensions. Traditionally these extensions have been for multiple years (often for 5-year periods) but in recent years Congress has not passed a long-term extension of the program and instead has opted to pass numerous short-term extensions. In 2010 alone the NFIP expired three separate occasions only to be retroactively extended by Congress each time. Each expiration of the program led to concrete damage to the real estate market and the country's economy. During one month-long expiration in June 2010, for example, the National Association of Realtors estimated that as many as 50,000 new home loans were either significantly delayed or canceled. While the IIABA appreciates each of the retroactive extensions, we strongly believe that in order to provide certainty to the marketplace as well as avoid damage to our fragile economy, Congress should pass a long-term extension.

Even the short-term extensions passed over the last several years, while thankfully staving off expiration of the program, caused their own economic damages. Every time the program is set to expire, WYO companies send notices to their consumers about the pending expiration, agents must then communicate to their clients about what the ramifications of an expiration would be (as well as oftentimes providing real time legislative updates on extension legislation), banks must prepare for how and if to enforce the mandatory purchase requirement of an expired program, and realtors and mortgage bankers must discuss with their customers how and if to proceed with home loan closings. While not nearly as damaging as an actual expiration, the uncertainty and the increased work-load caused by short-term extensions justifies a long-term extension of this critical program.

It is for these reasons that IIABA strongly supports the 5-year extension found in the Senate reform bill.

Moving Towards More Actuarial Prices

The Big "I" has for many years asked Congress to explore phasing out subsidies in the NFIP altogether. We are pleased that the Senate legislation contains proposals to phase out subsidies for many properties. Almost 25 percent of property owners participating in the NFIP pay subsidized premium rates. These subsidies allow policyholders with structures that were built before floodplain management regulations were established in their communities to pay premiums that represent about 35 to 40 percent of the actual risk premium. The subsidized rates were deliberately created by Congress in 1968 in order to help property owners during the transition to full-risk rates. However, after 43 years the Big "I" believes it is time to start phasing out this significant subsidization.

In addition to the fact that subsidized rates torpedo any hope that the NFIP could ever be actuarially sound, FEMA estimates that subsidized properties experience as much as five times more flood damage than structures that are charged full-risk rates. Customers that are paying a full actuarial rate have a vested interest to take measures to reduce the economic damages associated with floods. In contrast, those with subsidized rates have less incentive to mitigate. The Big "I" welcomes and supports the Senate legislation's phasing out of subsidies for commercial buildings, second and vacation homes, homes experiencing significant damage or improvements, and repetitive loss properties.

Finally, the Big "I" welcomes S. 1940's proposal to increase the "elasticity band" with which FEMA can increase premiums in any given year. Currently the annual elasticity band for premium increases is a maximum of 10 percent on any property. S. 1940 would propose to increase this band to 15 percent which would allow the program to move even more properties towards actuarially priced rates.

Privatization of the NFIP

Some observers have argued that the program should be eliminated or completely privatized. These arguments center on the assumption that the private market could step in and offer flood insurance coverage. However, the IIABA has met with many insurance carriers who categorically state that the private market is simply unable to underwrite this inherently difficult catastrophic risk, especially in the most high risk zones where it is needed. IIABA would always prefer to utilize the private market, and our members would almost certainly prefer to work directly with private insurance carriers rather than a Government agency. However, where there is a failure in the marketplace, as there is in the case of flood insurance, we believe it is imperative that the Government step in to ensure that consumers have the protection they need. This was the reason the NFIP was first created in 1968, because the private market could not offer flood insurance and a series of high profile floods had consumers turning to direct Federal disaster assistance as their only recourse. We see no evidence that the private marketplace is any more prepared or capable of underwriting flood risk in 2011 than they were in 1968.

We do not, however, oppose the study on private market capacity as called for in the Senate bill. We believe that this study will likely show that the private market cannot properly underwrite flood risks, but if it can be demonstrated that a private market could emerge in some way, we would welcome that discussion.

Repetitive Loss Properties

Repetitive loss properties—currently defined as those that have had two or more flood insurance claims payments of $1,000 or more over 10 years—continue to put a significant drain on NFIP resources. These properties account for about 1 percent of all policies but are estimated to account for up to 30 percent of all NFIP losses. The Big "I" is encouraged that the Senate legislation would phase out subsidized rates for these repetitive loss properties, and in the future would urge the Committee to consider taking further measures to combat this difficult issue. For example, if a repetitive loss property continues to experience a certain number of losses within a specific timeframe, Congress could require that property to either take stringent mitigation measures or to be disqualified from participating in the NFIP altogether.

While Congress has previously made efforts to tackle the repetitive loss issue, according to GAO the number of repetitive loss properties has actually grown over the last decade. Dealing with repetitive loss properties is of the utmost importance not only because of the financial strain that they place on the program, but also because of the obvious lack of fairness that these properties highlight to other program participants and the general public.

May 31st Expiration

As you know, the NFIP is set to once again expire on May 31, 2012, barring Congressional action. While some stakeholders believe that short-term extensions are helping to add a sense of urgency for the passage of the long-term reform and extension bills, the Big "I" is very concerned about the messages that these continual short-term extensions are sending to NFIP consumers, the WYO companies, and the agents that drive consumers to the program.

While the most important message the Big "I" would like to share with this Subcommittee is to urge you to not allow the NFIP to expire, it is also important to reiterate the increasing frustration felt in the marketplace concerning the continual short-term extensions. The NFIP protects 5.6 million consumers across the country, and after 6 years of short-term extensions it deserves some long-term certainty.

Conclusion

The IIABA is very pleased that the Subcommittee is conducting today's hearing on comprehensive flood insurance reform and we strongly urge the Senate to quickly consider the Flood Insurance Reform and Modernization Act so that work can start immediately on resolving differences between S. 1940 and H.R. 1309. Reforming and extending the NFIP is essential to ensure the long-term stability of the NFIP. It is our sincere hope that agreement can be reached soon on the reform and long-term extension legislation, but we also feel that the time is approaching to consider abandoning the chaotic practice of short-term extensions and to finally provide some stability for the program and the marketplace—regardless of the status of the reform bills.

I thank the Committee for giving me the opportunity to express the views of the IIABA on this important program. I hope very much that this hearing will contribute to additional action taken by Congress to pass long-term flood insurance reforms and to ensure the stability of the NFIP.

PREPARED STATEMENT OF MOE VEISSI

2012 PRESIDENT, NATIONAL ASSOCIATION OF REALTORS

MAY 9, 2012

Introduction

Chairman Tester, Senator Vitter, and Members of the Economic Policy Subcommittee, the 1 million members of the National Association of REALTORS® (NAR) thank you for this opportunity to testify on the urgent need for long-term reauthorization and reform of the National Flood Insurance Program (NFIP).

My name is Moe Veissi, and I am NAR's 2012 President. 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 State association president, to Regional Vice-President, and now on the national stage as NAR 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.

Thanks to your continued leadership, the Senate Banking, Housing, and Urban Affairs Committee has already taken a critical step toward providing that certainty, by unanimously approving the Flood Insurance Reform Act (S. 1940) last year. One of the most important next steps the Senate could take right now is to pass this bill and keep the legislative process moving forward. The House has already passed similar legislation (H.R. 1309) by an overwhelming margin (406–22). This is a level of bipartisan support few bills have received in any Congress, and it is testament to the careful and painstaking work by you and many other members over multiple sessions. The bill would not only reauthorized but reform and strengthen NFIP long-term, and we are confident that any remaining issues can be resolved through the amendment process on the floor. This bill is ready for Senate consideration. It is a bipartisan opportunity. It deserves a vote.

As the Committee is well aware, for some time now, the NFIP has been operating under stopgap extensions of authority to issue flood insurance. The latest one is set to expire on May 31, 2012. There now have been a total of 17 extensions since 2008 (appended); twice, failure to act on an extension resulted in a multiweek lapse of NFIP authority. According to NAR research, this stalled more than 1,300 home sales per day during the 53-day lapse in 2010. Each sale meant jobs and growth to the U.S. economy. There were unquantified losses to property owners and taxpayers beyond homes sales—not to mention 17 missed opportunities for reforms which would help pay down the outstanding loan for Hurricane Katrina. A stopgap approach to NFIP reauthorization is not a responsible way to run a Federal program—let alone one upon which 5.6 million taxpayers in 21,000 communities depend. We urge the Senate to bring up and pass the Flood Insurance Reform Act, immediately.

Background

Floods are a national problem requiring a Federal solution. As detailed in our prior testimony before this Committee, there is not a single State in the Union that has escaped a presidential flood disaster declaration in the past two decades.[1] Since May 1, 2011, disasters have been declared in more than half the States, including Wyoming, New Mexico, Oklahoma, Utah, Nebraska, North and South Dakota, Iowa, Kansas, Ohio, and Missouri. Tomorrow, it could be Michigan or New York. Floods are inherently unpredictable. They can occur anywhere—along rivers, wherever snow melts or rain falls. We simply do not know when or where they will strike next.

Because of their unpredictable nature and high cost, there has never been an adequate private market for flood insurance. The lack of predictability would force insurers to charge unaffordable rates that few States would be willing to approve.[2] Already, few property owners will buy flood insurance at the more affordable NFIP rates; short of imminent threat, most question the need. However, allowing the rate to rise to reflect this "adverse selection" (i.e., those most likely to buy are also most likely to flood) would guarantee that few could afford flood insurance in a purely private market.

Given this, and the widespread devastation floods cause, the Federal Government will step in, one way or another. In the past, the Federal response took entirely the form of appropriated disaster relief where taxpayers were 100 percent "on the hook" for rebuilding flooded communities and properties. Then Hurricane Betsy struck in 1965, and the Federal Government could no longer afford to ignore the cost to the Federal Government and taxpayers. A HUD commission, authorized by Congress and convened by President Johnson, had demonstrated how creation of a Federal insurance alternative could reduce the cost. Rather than relying on Government assistance after the fact, those at risk of flooding could assume a measure of responsibility and control upfront by purchasing federally backed insurance and essentially prepaying to cover future flood damage. Every insured property would mean one fewer to be rebuilt with taxpayer dollars. Insurance would pay for the damage, so taxpayers would not. The NFIP was the result in 1968.

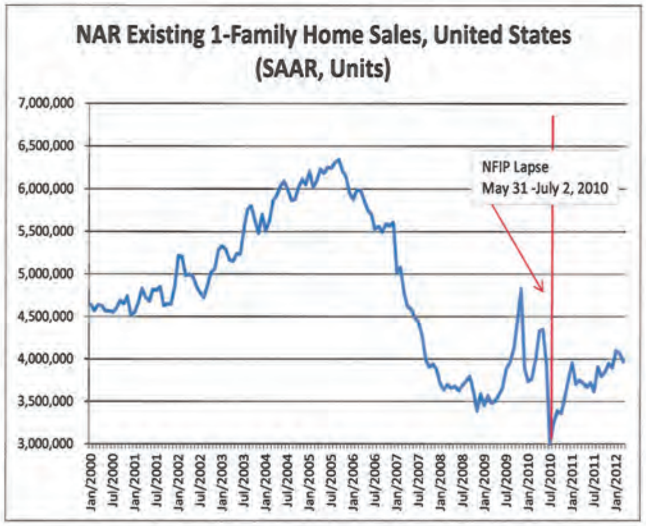
Since then, the NFIP has been reauthorized multiple times, but the Bunning-Bereuter-Blumenauer Flood Insurance Reform Act of 2004 (P.L. 108-264) was the last reauthorization bill to become law. Congress returned to the subject last session, but the 110th Congress came closer to a subsequent reauthorization, when both houses passed similar versions of the Flood Insurance Reform Act, the predecessor to this Committee's S. 1940. That bill passed the Senate by 92 votes and was headed to a conference with the House when attention turned to the U.S. financial crisis. S. 1940 is virtually unchanged from what passed the Senate in 2008. And while there were not many bill differences to begin with, the House has since adopted many of the Senate provisions. Now 17 stopgaps and two shutdowns later, NFIP authority is again set to expire on May 31st of this year.

Real Estate Markets Have NOT Rebounded

The housing market continues to recover from one of the longest economic downturns since World War II. While fewer property owners are reporting as many major problems as they have in the past and some markets are even starting to trend upward, surveys show real estate prices remain weak as the distressed properties still make up a significant portion of home sales. Many home buyers, who bought during the peak of the market and saw their homes values drop precipitously, continue to be underwater and many of those face foreclosure. Below is NAR's chart of existing home sales.

[1] NAR Statement to the U.S. Senate Committee on Banking, Housing, and Urban Affairs, regarding the hearing "Reauthorization of the National Flood Insurance Program," June 9, 2011, pp. 9 and 20.

[2] Id, pp. 4–5.



Data show a concomitant drop in sales around the time of the last multiweek lapse. As the chart illustrates, sales were dropping before and during June 2010 but rebounding afterward. The lapse was not the only or even the driving factor for this, but as this suggests, it contributed. By Federal law, buyers and property owners may not obtain a federally related mortgage loan without flood insurance in 21,000 communities, where there is a 100-year floodplain. These days, the bulk of financing is federally related, and private insurance is not an option, except for the highest value property owners.[3]

Commercial real estate markets are similarly struggling. Property values have plummeted across the board since 2007. Small business owners—the engine of job creation and innovation and backbone of the local community—have suffered the most. Compounded with $2 trillion in commercial real estate loans coming due over the next decade and a limited capacity to refinance, sales and leasing of commercial properties have been dismal. The failure to reauthorize the NFIP has only exacerbated the situation for commercial property owners, who are already struggling to stay afloat amid the liquidity crisis, high vacancy rates, and lower net operating incomes. In many cases, this held up commercial sales, contributing to the economic instabilities.

NFIP Stopgaps Exacerbate Market Uncertainty

For some time now, the NFIP has operated under stopgap extensions of authority to issue flood insurance. Since 2008, there have been a total of 17 extensions, with the latest one set to expire on May 31, 2012. Twice in 2010, failure to act on an extension turned into a multiweek shutdown, resulting in the delay or cancellation of any property sale to be financed with a federally related mortgage in the 100-year floodplain.

NAR surveyed its membership to assess the impact of the shutdown and found that the NFIP is essential for successfully completing half a million home sales annually. Further analysis confirmed that each day of a lapse stalls more than 40,000 sales per month or 1,300 daily. Nationwide, about 8 percent, or 10 million homes,

[3] Id, p.4.

are located in the 100-year floodplain or Special Flood Hazard Areas (SFHAs). Table 1 presents the daily impact in SFHAs by census region.

Table 1: NFIP Lapses Jeopardize Home Sales

	A	B	C
CENSUS REGION	Annual Existing Home Sales (2008-2010 Average)[4]	Percent in SFHAs[5]	Daily Number of Transactions Impacted ((A x B) ÷ 365 Days)
South			
Existing Residential Sales	1,899,800	14.1%	732
New Residential Sales[6]	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**

Source: NAR Research Team.

Economic Impact of Home Sales

A stopgap approach to NFIP reauthorization not only affects home sales but also has a ripple effect throughout the economy. Each sale provides jobs and income to real estate agents, construction workers, building contractors, mortgage service providers, home inspectors, home appraisers, and many others. There is an annual impact to the community as there is less income to spend on goods and services.

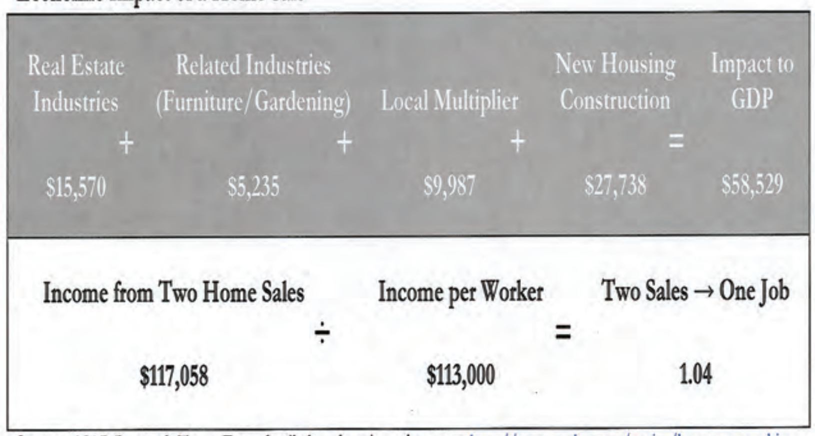
NAR estimated the contribution of each home sale to Gross Domestic Product (GDP). In 2010, real estate and related industries added $58,000 in income per sale, accounting for the multiplier effect. Using a conservative earnings assumption, this translates into two jobs generated for each sale.

[4] NAR estimated annual existing home sales by taking the 2008–2010 average. Using an average ensures that any year-to-year variability (such as the first-time home buyer credit) is smoothed out and 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. Adding 2011 data would not significantly change the results.

[5] NAR estimated the percentage of the existing sales in SFHAs by using GIS software to overlay spatial layers of block-level data from the latest American Housing Survey (ACS 2005-2009) with the map of SFHAs from FEMA.

[6] 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.

Economic Impact of a Home Sale



Source: NAR Research Team. For a detailed explanation, please see: http://www.realtor.org/topics/home-ownership-matters/jobs-impact-of-an-existing-home-purchase

Additional Economic Impacts

Each NFIP lapse affects +1,300 home sales daily, each of which has the potential to generate jobs and contribute to the annual growth of the economy. But this home sales impact is not the full impact of a lapse. While NAR has quantified the loss of those sales with a federally related mortgage in the 100-year floodplain, as well as the multiplier effect, this does not account for:

- *Property Sales Other Than Single Family Homes and Rentals.* The mandate to purchase flood insurance applies to multifamily and nonresidential properties, too.
- *Refinancing.* During the lapse, Write Your Own companies (which partner with NFIP to process insurance policies) are unable to renew or modify a policy, either. Existing property owners could be in technical default of a mortgage for failure to renew flood insurance after the 30-day grace period.
- *Financing BEFORE Lapses.* Some banks, when faced with the prospect, often weeks in advance, preemptively suspended lending in the floodplain. Federal regulators attempted to address this through guidance that loans could still be made where buyers took steps, though due to the lapse, were unable to obtain flood insurance; nevertheless, anecdotal reports were that most of these lenders did not find the guidance persuasive and instead, erred on the side of protecting their interest in the property, by choosing not to lend.
- *Insurance Outside of Federally Designated Floodplains.* According to NFIP, 25 percent of flood claims come from properties located outside of areas where flood insurance is required but where the owner chooses to purchase coverage.

Finally, there is also the consequence to taxpayers. Again, a property without flood insurance is a property one flood away from Federal disaster relief—at taxpayer expense. Owners of a property facing a 1-percent chance of flooding in a given year (or a 26-percent chance over the life of a 30-year mortgage) would most likely turn to the Federal Government after flooding. Compared to the number of NFIP policies, the following table bounds the impact of uninsured residential structures for the United States.

Table 2: Homes in Special Flood Hazard Areas (SFHAs) versus Flood Insurance

	A	B	C
CENSUS REGION	Homes in SFHAs[7]	NFIP Policies[8]	Percentage of Homes with Insurance ((B ÷ A) x 100)
South	6,759,684	3,978,185	59%
Midwest	1,463,845	229,637	16%
West	1,638,471	491,823	30%
Northeast	1,706,485	529,076	31%

Source: NAR Research Team.

Bipartisan Opportunity for NFIP Reform

We appreciate NFIP's many program innovations over the years, including employing advanced flood mapping technologies (e.g., satellite imaging and LIDAR), working to replace its "without levee" policy with a more precise approach, and instituting independent review of map appeals. While there have been many great strides, REALTORS® have helped identify a number of areas for further improvement, including:

- Enhancing FEMA notifications and communications with communities.
- Providing reimbursement of flood-map appeal expenses where NFIP erred.
- Providing additional time for communities and homeowners to work through appeals.
- Reviewing mapping standards and procedures, and streamlining the process.
- Undertaking more accurate insurance pricing, particularly behind dams and levees to account for the protection provided by flood control structures.
- Indexing and expanding coverage to include business interruption and living expenses.

We applaud the Committee for addressing virtually every one of these recommendations in S. 1940. These reforms will greatly improve the accuracy of floodplain mapping and increase participation. They will help property owners better understand the flood risk and make more informed decisions that protect their homes and businesses as well as taxpayers. But unless the Senate takes up this bill and soon, the many years of hard work and collaboration on these reforms will be lost, and we will have to start again. We will not only have lost these important reforms but also missed yet another opportunity to fiscally strengthen the program for the long run.

Conclusion

Thank you again for the opportunity to share the REALTOR® community's views on the NFIP and the urgent need for long-term reauthorization and reform. All stopgap extensions do is maintain an uncertain status quo while shut downs risk homes, businesses, communities, and the U.S. economy. NAR urges the Senate take up and pass the Flood Insurance Reform Act, immediately, and keep the legislative process

[7] NAR estimated the percentage of these in SFHAs by using GIS software to overlay spatial layers of block-level data from the latest American Housing Survey (ACS 2005-2009) with the map of SFHAs from FEMA.

[8] The 5-year ACS offers a rolling average of housing units at the lowest geographic level available. NAR calculated the comparable 5-year average of NFIP policies, based on data provided by FEMA.

moving forward. NAR stands ready to work with you and the Senate to pass meaningful reforms to the NFIP that help protect property owners and renters and help them prepare for and recover from future losses resulting from floods.

APPENDIX: FLOOD INSURANCE EXTENSIONS SINCE 2008

17) H.R. 2055: Consolidated Appropriations Act, 2012 (Extension through May 31, 2012; signed December 23, 2011.)

16) H.J. Res 95: Making further continuing appropriations for fiscal year 2012, and for other purposes. (Extension through December 23, 2011; signed December 17, 2011.)

15) H.J. Res 94: Making further continuing appropriations for fiscal year 2012, and for other purposes. (Extension through December 17, 2011; signed December 16, 2011.)

14) H.R. 2112: Consolidated and Further Continued Appropriation Act, 2011. (Extension through December 16, 2011; signed November 18, 2011.)

13) H.R. 2608: Small Business Program Extension and Reform Act of 2011. (Extension through November 18, 2011; signed October 5, 2011; note 1-day gap – 5th lapse.)

12) H.R. 2017: Continuing Appropriations Act, 2012. (Extension through October 4, 2011; signed September 30, 2011.)

11) S. 3814: National Flood Insurance Program Re-extension Act of 2010. (Extension through September 30, 2011; signed September 30, 2010.)

10) H.R. 5569: National Flood Insurance Program Extension Act of 2010. (Includes extension through September 30, 2010; signed July 2, 2010; note 33-day gap – 4th lapse.)

9) H.R. 4851: Continuing Extension Act of 2010. (Contains extension through May 31, 2010; signed April 15, 2010; note 19-day gap – 3rd lapse.)

8) H.R. 4691: Temporary Extension Act of 2010 (PL #111-144). (Extension through March 28, 2010; signed into law March 2, 2010; note 2-day gap – 2nd lapse.)

7) H.R. 3326: Department of Defense Appropriations Act, 2010 (PL #111-118; Division D). (Extension through February 28, 2010; signed December 12, 2009.)

6) H.R. 2996: (No Title) (PL #111-088). (Extension through December 18, 2009; signed October 30, 2009.)

5) H.R. 2892: Department of Homeland Security Appropriations Act, 2010. (Extension through October 31, 2009; signed October 28, 2009.)

4) H.R. 2918: (No Title) (PL #111-068; Div. B). (Extension through October 31, 2009; Signed October 1, 2009; note 1-day gap – 1st lapse.)

3) H.R. 1105: Omnibus Appropriations Act, 2009 (PL #111-008; Div. J) (Extension through September 30, 2009; signed March 11, 2009.)

2) H.J. Res 38: A resolution making further continuing appropriations for the fiscal year 2009, and for other purposes. (Extension through March 11, 2009; signed March 6, 2009.)

1) H.R. 2638: Consolidated Security, Disaster Assistance & Continuing Appropriations Act, 2009 (PL #329; Div. A). (Extension through March 6, 2009; signed September 30, 2008.)

PREPARED STATEMENT OF SARAH MURDOCK

SENIOR POLICY ADVISOR, THE NATURE CONSERVANCY

MAY 9, 2012

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to present The Nature Conservancy's views on the timing of and nature of reforms to the National Flood Insurance Program. My name is Sarah Murdock and I am a Senior Policy Advisor for The Nature Conservancy. The Nature Conservancy is an international, nonprofit conservation organization working around the world to protect ecologically important lands and waters for nature and people. Our mission is to conserve the lands and waters upon which all life depends.

The Nature Conservancy continues to support a 5-year reauthorization of the National Flood Insurance Program through passage of The Flood Insurance Reform and Modernization Act of 2011 currently being considered by the United States Senate. We believe this legislation brings significant reforms which we consider critical to begin to address areas of the Program that are currently broken. Contrary to Congressional intent, the Program as it currently functions is increasing risk from storms and floods to people, property and ecosystems, and to the important services that those ecosystems provide to people.

Enactment of The Flood Insurance Reform and Modernization Act of 2011 will phase out subsidies that have undermined the financial stability of the program; will require the Federal Emergency Management Agency (FEMA) to ensure maps are updated and accurate so that people understand and can better prepare for their risks; and will streamline and strengthen mitigation programs to help decrease flood risks and better protect flood-exposed communities and homes and businesses. We ask that this legislation be brought before the full Senate for debate and consideration at the earliest opportunity.

The Nature Conservancy is also a member of the Smarter Safer coalition, a diverse coalition of environmental organizations, taxpayer advocates, insurance industry representatives and housing groups. Though the groups span the political spectrum, the coalition works together on insurance, natural disasters and mitigation. Smarter Safer also strongly supports the Senate Banking Committee flood insurance reform bill which will help ensure that the flood program can continue to provide needed insurance to Americans in harm's way while making commonsense reforms.

Why Reform Is Needed Now

Waiting to implement reforms will continue a policy that results in increased risk, destruction of homes and infrastructure, and cost to people, property and the natural resources upon which we depend. The National Flood Insurance Program (NFIP) is currently over $18 billion in debt.

Without significant reform, the NFIP will not be economically sustainable and American taxpayers will continue to be asked to bail out the program and subsidize public and private development in flood risk areas.

Extreme Weather Events Predicted To Increase

Results from scientific studies indicate that a changing climate has exacerbated and will continue to intensify extreme weather events including flooding and coastal storms. Over the last 50 years, Americans have seen a 20 percent increase in the heaviest downpours. In addition, newly published research demonstrates that proportion of category 4–5 hurricanes has doubled from 20 percent to 40 percent in only 35 years.[1] Coastal storm surge and storm impacts will only intensify as sea levels continue to rise the predicted 0.6 and 2 feet globally in the next century.[2]

A published study conducted by Nature Conservancy scientists and others examines the impacts of storm surge to people and property on Long Island, NY and in particular examines the likely added effect of sea level rise to these impacts. Just a little bit of sea level rise (just 1.6 feet) increases predicted impacts of storms to people and property by nearly 50 percent and 75 percent respectively.[3]

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[1] Holland and Bruyere (2012).

[2] International Panel on Climate Change (2007).

[3] Shepard, C., V.N. Agostini, B. Gilmer, T. Allen, J. Stone, W. Brooks, M W. Beck. 2011. "Assessing Future Risk: Quantifying the Effects of Sea Level Rise on Storm Surge Risk for the Southern Shores of Long Island, New York". Natural Hazards. DOI: 10.1007/s11069-011-0046-8.

Associated Costs Are Increasing

In the first decade of the new millennium, floods and flood damage associated with extreme rainfall events have increased, with damages rising from $6 billion to $10 billion over this time period, despite the billions of dollars invested in flood control. In 2011 alone, there were 58 Federal flood disaster declarations, covering 33 different States. The 2011 flooding damages cost over $8 billion and caused 113 deaths; both the costs and the number of deaths exceeded the 30-year averages. Clearly, these trends all speak to the immediate need to decrease risk and allow implementation of mitigation measures that decrease risks. The proposed reform legislation is the most important single step we can take toward decreasing flood risks.

Maximizing Our Return on Investment by Integrating Built and Natural Infrastructure

Under the current National Flood Insurance Program (NFIP), a dangerous feedback loop is in play. Subsidized insurance rates facilitates development in coastal zones and in freshwater floodplains which not only puts people and property at risk, it simultaneously facilitates the destruction and degradation of ecosystems that provide a natural defense to people and properties. Left in place, coastal marshes and sand dunes and inland wetlands and floodplains serve important flood- and storm-control purposes.

The overall benefits of flood mitigation efforts implemented has been studied and found that for every dollar spent on flood mitigation 5 dollars are saved.[4] Other recent studies[5] show that one of the most cost-effective solutions to protect people from the impacts of increased extreme precipitation and coastal storm intensity will be to preserve, enhance and restore the natural systems that already deliver critical protection from sea level rise, storm surge and coastal and inland flooding. Scientists from the Nature Conservancy recently published a review of all papers that measured the role of salt marshes in protecting coastlines from waves and erosion. They found that salt marshes have a strong and significant role in the United States and globally in providing coastal defense and shoreline stabilization.[6]

In addition to flood control benefits provided by protection and restoration of floodplains and coastal wetlands, these ecosystems provide many services that support and protect humans and nature such as filtering pollutants, erosion protection, habitat that supports fish and shellfish populations. These services provide real economic benefits that can be measured through reduced cost of water quality protection, increased revenue from fishing and increased value to personal property.

The traditional approach to flood protection in river-floodplain systems has been to rely on dams and levees to contain flood waters and in coastal areas has been to build sea walls, bulkheads and other “grey” infrastructure and to “nourish” beaches with additional sand to slow erosion and diminish the impact of storms. While built infrastructure plays an important role in helping to secure our communities, it requires substantial investments for both initial construction and ongoing maintenance. Moreover, an over-reliance on built infrastructure in the United States during the 20th and early 21st centuries has encouraged extensive land development in areas particularly susceptible to flooding and storm damage, and catastrophic flooding when infrastructure fails. And fail it has. Despite many billions of dollars in taxpayer investment in flood protection, flood damages continue to increase and now average more than $6 billion annually.[7] If left unaddressed, as the Nation’s water and coastal protection infrastructure continues to age we should be expecting that these economic losses will continue to increase—including the taxpayer’s obligation under the National Flood Insurance Program—along with the risk faced by tens of millions of Americans who live and work behind levees[8] and tens of millions more living along the coast.

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[4] Multihazard Mitigation Council, “Natural Hazard Mitigation Saves: An Independent Study To Assess the Future Savings From Mitigation Activities”, Multihazard Mitigation Council, *http://www.floods.org/PDF/MMC_Volume1_FindingsConclusionsRecommendations.pdf*, and Rose, A., et al. 2007. “Benefit-Cost Analysis of FEMA Hazard Mitigation Grants”. *Natural Hazards Review* 8, 97.

[5] Examples include a report on the effect climate change will have on Caribbean economies, by the Caribbean Catastrophe Risk Insurance Facility; and a study by Entergy Corporation and Swiss Re on disaster risk along the Gulf Coast.

[6] Shepard, C., Crain, C., Beck, M.W. 2011. “The Protective Role of Coastal Marshes: A Systematic Review and Meta-Analysis”. PLoS ONE 6(11): e27374. *http://bit.ly/vfAHvT*

[7] U.S. Army Corps of Engineers (USACE). (2009). “Flood Risk Management: Value to the Nation”. (*http://www.corpsresults.us/docs/VTNFloodRiskMgmtBro_loresprd.pdf*).

[8] Freitag, B. S., Bolton, F. Westerlund, and Clark, J.L.S. (2009). “Floodplain Management: A New Approach for a New Era”, Island Press, Washington, DC, USA.

Simply investing to renew the Nation's over-reliance on built flood control infrastructure poses a daunting challenge. There are more than more than 110,000 miles of levees across the country,[9] the average of which is well over a half century and which the American Society of Civil Engineers estimates would require $100 billion to repair and rehabilitate.[10] The challenge also exists for coastal infrastructure. In Massachusetts alone, there are about 140 miles of publicly owned sea walls or other structures along the coast designed to protect billions of dollars of property. Most were designed to last a half century but are older than that now. The estimated price tag to repair and fortify all of them against rising seas is more than a billion dollars. I happen to live in the coastal town of Scituate, Massachusetts, where the sea walls are crumbling and in disrepair. During a nor'easter on Dec. 27th, 2010, a break in the sea wall occurred, flooding dozens of homes. Two homes caught fire and burnt to ground as firefighters could not access them through the five feet deep freezing water. All of the residents living in those homes were displaced for many months and some were forced to permanently relocate. Yet the town does not have the financial resources necessary to adequately repair the town's sea walls. The town is seeking State and Federal resources to maintain the sea walls, yet those funds are becoming scarcer and more difficult to secure. Unless significant repairs are made, residents living behind these sea walls continue to be at significant risk. This is but one example of similar incidents occurring throughout our Nation.

Instead of relying solely on grey infrastructure, an alternative approach involves integrating the use of natural infrastructure (or so-called "green infrastructure") with built infrastructure. This specifically involves maintaining and restoring the connectivity of rivers along with sufficient area of floodplain and conserving and restoring coastal natural infrastructure such as wetlands, reefs, dunes, and barrier beaches and islands.

An example of this approach is the Yolo Bypass in California's Central Valley. It is a 60,000-acre engineered area of the Sacramento River floodplain that was reconnected to the river in the 1930s. The system is designed such that when the Sacramento River rises during major floods and exceeds the elevation of weirs built within the levee, additional floodwater flows over the weirs into the Yolo Bypass and away from the City of Sacramento and its suburbs. Since its construction, Yolo has been an integral part of the valley's flood management system, conveying as much as 80 percent of large floods. The Yolo Bypass not only protects Sacramento and the surrounding area, it does so at a small fraction of the cost of would have been necessary to construct and maintain traditional built infrastructure for a similar level of protection. Moreover, because of the episodic and seasonal nature of floods, Yolo has continued to act as economically valuable and productive farmland while providing additional benefits such as critical habitat for fish and water fowl.[11]

On the Gulf Coast, The Nature Conservancy is focusing efforts on restoration of sea grass and oyster reef habitat both of which serve to greatly diminish coastal erosion and mitigate impacts from storms and flooding. Over the past 100 years, the oyster reef habitat has severely diminished and this has contributed to increased coastal erosion and vulnerability to storm impacts. In Alabama and Louisiana, The Nature Conservancy has created 5 miles of shoreline—protecting oyster reefs and directly supported 227 jobs through the work to create these reefs. Working with partners, our goal is to develop 100 miles of oyster reef breakwaters/living shorelines in Alabama that will in turn promote the growth of more than 1,000 acres of coastal marsh and sea grass.

The Nature Conservancy and dozens of diverse partners across the country recognize the long-term effectiveness and cost-efficiency of connected river-floodplains and in conserving and restoring coastal wetlands and reef habitats in helping to reduce flood risk, while providing other economically important benefits such as continued agricultural production, enhanced water quality, and improved fish and wildlife habitat and associated recreation. Floodplain restoration projects such as Mollicy Farms in Louisiana, Emiquon and Spunky Bottoms in Illinois, and Hamilton City in California are further demonstrating the many values of this approach and un-

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[9] National Committee on Levee Safety. (2009). "Draft Recommendations for a National Levee Safety Program: A Rep. to Congress From the National Committee on Levee Safety". <*http://www.nfrmp.us/ncls/docs/NCLS-Recommendation-Report__012009__DRAFT.pdf*> (Jan. 15, 2009).

[10] ASCE. (2009). "Facts About Water and Environment, Levees", 2009 Infrastructure Fact Sheet, (*http://www.infrastructurereportcard.org/sites/default/files/RC2009__levees.pdf*) (Mar. 25, 2009).

[11] Sommer T., Harrell B., Nobriga M., et al. (2001). "California's Yolo Bypass: Evidence That Flood Control Can Be Compatible With Fisheries, Wetlands, Wildlife, and Agriculture". *Fisheries* 26: 6–16.

derscore the commitment of the Conservancy and its partners to implement these projects and realize the associated high returns on investment.

Nature Conservancy Supports Legislative and Administrative Reforms

Enactment of The Flood Insurance Reform and Modernization Act of 2011 will accomplish several policy objectives. It will put the program on a path of financial sustainability, will improve communication of risk through more accurate, higher quality maps, and finally will streamline and strengthen mitigation programs to help decrease flood risks and better protect flood-exposed communities and homes and businesses. In addition to passage of the legislation, there are additional policy changes that support the legislative goals that are needed and could be achieved administratively that would support, amplify and run parallel to the legislative reform efforts.

The Nature Conservancy supports the following three key provisions of the Senate Flood Insurance Reform and Modernization Act of 2011 and corresponding administrative reforms:

Scientifically Accurate Mapping of Current and Future Risk

Providing scientifically sound data and information related to flood risk, land use, and natural resources is essential to communicating the actual flood risk to people and properties. Information on future changing climate conditions must also be incorporated to enable individuals, communities, and regional and State Government entities to sufficiently plan to mitigate their flood risks. The Senate NFIP bill accomplishes this by requiring the incorporation of the most accurate science on current conditions and future conditions by assessing the best available climate science related to flood risks including the impact of sea level rise and other future conditions. The bill also requires outreach and education to property owners to ensure sharing of this new risk based information.

Charging Rates That Accurately Reflect Flood Risk

Only if rates reflect the true risk to people and property will people understand the true risk of living in or developing certain areas and act to discourage development in the most risky areas. Additionally, the current Program allows and subsidizes redevelopment in flood risk zones, not properly incentivizing retreat of structures and restoration of the important natural systems. It is the American people who are currently supporting the subsidization of this Program through our tax dollars, and this subsidization occurs regardless of the economic status of those benefiting from it. The National Flood Insurance Program will never be financially sound until actuarial sound rates are charged. Currently there are 1.2 million NFIP properties (20 percent) that are charged premiums well below the actuarial value of the insured liability. On average (including subsidized and unsubsidized policies) NFIP premium collections cover approximately 70 percent of the actuarial value of the insured liability. The Senate bill makes a number of needed reforms to put the flood insurance program on sound financial footing by eliminating subsidized rates and allowing for rates to be adjusted reflecting true risk, taking into consideration future conditions. Charging actuarial sound rates for properties in flood hazard areas will greatly improve the public's understanding of the true risk of living in such areas. Such understanding should drive better decisions related to development and implementation of mitigation measures.

We recognize that increase rates for flood insurance will place an economic burden on people of lower economic means living in flood prone areas. The Senate bill does not and should consider the affordability of increased flood insurance through implementation of a voucher system or some similar means tested assistance. At a minimum a thorough study of the issue of affordability of flood insurance needs to be conducted to determine the extent to which this is an issue.

Ensuring Nature-Based Solutions Are Properly Incentivized and Funded in All FEMA Programs

The Senate bill will accomplish improvements related to the use of hazard mitigation grant funds and the ability to use grant funds to accomplish conservation and restoration of freshwater and coastal ecosystems by consolidating, streamlining and making more efficient the existing programs and clarifying that voluntary buy out of properties are an allowable use of these funds.

As discussed above, preserving and restoring natural ecosystems like floodplains and coastal wetlands can provide cost-effective protection against some of the threats that result from current natural disasters which will be exacerbated by climate change. For example, coastal ecosystems like wetlands, mangroves, coral reefs, oyster reefs, and barrier beaches and intact freshwater floodplains all provide natural protection from storms and flooding in addition to their many other benefits such as habitat for fish populations, water quality improvement, economic development from recreation and tourism. Incentives to protect and restore floodplains in the Mississippi River valley could substantially contribute to reducing the dead zone in the Gulf of Mexico. The Conservancy supports greater emphasis placed on use of hazard mitigation funds for the purpose of conservation and restoration of natural systems like floodplains and natural coastal ecosystems.

While the legislation begins to make more efficient the mitigation programs of the NFIP, more changes need to occur to enable, facilitate, and encourage floodplain and coastal protection and restoration. Doing so will play a significant role in returning the National Flood Insurance Program to solvency, thereby making a relatively modest—yet important—contribution to Federal debt reduction. Overall greater emphasis should be made to improve these programs which as cited before, return $5 in reduced cost for every $1 invested. Improvements should include overall increased funding for the mitigation programs and increased effort to link the FEMA mitigation programs to programs with similar goals of other Federal agencies, including FEMA's other mitigation programs that fall under the Stafford Act. Several important administrative changes should also be considered that will additionally facilitate use of the mitigation funds for floodplain and coastal restoration. Such changes involve changes to how FEMA calculates the cost and benefit of mitigation activities. Currently, clear economic benefits such as water quality improvements, flood reduction benefits, and fisheries revenue enhancement are currently valued or considered.

These policy changes will better protect American communities from the threat to life and livelihood of future flooding, improve the quality of our drinking water, and help restore the health and productivity of the Nation's rivers and estuaries.

Summary

Thank you for the opportunity to present The Nature Conservancy's recommendations on the need to pass the Senate's 5-year reauthorization of the National Flood Insurance Program and why we implore immediate reform to begin to fix aspects of the Program that are currently financially and environmentally unsustainable.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

PREPARED STATEMENT OF THE AMERICAN INSURANCE ASSOCIATION

American Insurance Association

STATEMENT OF

THE AMERICAN INSURANCE ASSOCIATION

The National Flood Insurance Program: The Need for Long-Term Reauthorization and Reform

UNITED STATES SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
SUBCOMMITTEE ON ECONOMIC POLICY

May 09, 2012

The American Insurance Association (AIA) appreciates the Subcommittee's attention to this important issue and is pleased to submit this statement on the need to reform and reauthorize the National Flood Insurance Program (NFIP).

AIA represents nearly 300 major U.S. insurance companies that provide all lines of property and casualty insurance to U.S. consumers and businesses, writing $100 billion annually in premiums. AIA and several of its members are also members of the —Write-Your-Own Flood Insurance Coalition (WYO Coalition), a group that includes private insurers that participate in the NFIP Write-Your-Own program.

The NFIP's current authorization expires on May 31, 2012. The next day is the official start of Hurricane season. As these two events draw near, it is critical that the NFIP be reauthorized for the sake of our economy, our communities and the program's 5.6 million policyholders.

BACKGROUND

Prior to its current extension, the NFIP has experienced repeated short-term extensions, including four actual lapses when the program was effectively unable to write new or renewed business. Those lapses hindered numerous consumer housing closings and caused significant uncertainty for our nation's millions of NFIP policyholders, as well as real-estate professionals, lenders, and insurers. AIA and its member companies believe that a long-term extension, combined with essential reforms, is needed to bring stability and certainty to the program.

As we have previously communicated, a cornerstone of AIA's natural catastrophe agenda is meaningful reform of the NFIP. When considering NFIP reforms, AIA and its members start with the following principles: (1) program certainty is first and foremost; and (2) premiums need to better reflect risk.

Following from these two principles, AIA continues to advocate for several reforms. Many of these reforms are included in legislation approved by the Senate Banking Committee (S. 1940) and in legislation (H.R. 1309) passed by the House of Representatives in July 2011.

Specifically, any legislation to reform and reauthorize the NFIP should include: (1) a meaningful long-term extension of the program; (2) movement toward risk-based premiums; (3) a reduction in price subsidies; (4) deductible increases that help increase program capacity while encouraging mitigation by consumers; (5) an increase in coverage limits that have not changed in more than 15 years; and (6) authorization for the purchase of additional living expense coverage (residential) or business interruption coverage (commercial). Again, many of these reforms are included in proposals currently before the Congress.

Meaningful Extension/Reauthorization of the Program

AIA continues to support a long-term reauthorization of the NFIP to protect consumers and help increase stability for real estate transactions and policyholders. AIA believes that a long-term reauthorization, such as a five-year extension, will provide certainty in the flood program thereby increasing consumer and business confidence in the NFIP. Moreover, AIA believes that a long-term extension is necessary to allow for meaningful rate and premium appreciation so that the program may get on a solid financial footing and allow prices to more accurately reflect risk.

Premiums Reflecting Risk

The NFIP must ensure that premiums for coverage reflect the true costs to taxpayers so that flood loss subsidies can be eliminated over time. Understanding that this could cause significant hardship for those who cannot afford true risk-based premium payments, a possible solution is a government premium subsidy that could be provided outside of the NFIP. We believe this could be less expensive to taxpayers than flood loss subsidies and would likely result in more coverage being purchased while reducing cross-subsidies that make the program less attractive to many potential policyholders.

Legislation approved by the Senate Banking Committee, as well as H.R. 1309, take positive steps toward better pricing NFIP coverage. Both bills would increase the permissible annual premium – the so called ―elasticity band and move toward actuarial rates for a variety of properties—(1) commercial properties, (2) second homes and vacation homes, (3) homes sold to new owners, (4) homes damaged or improved, (5) homes with multiple claims, and (6) pre-FIRM properties. These are all positive steps that move the program towards a better financial position.

Changes to Coverage

WYO insurers help administer 95 percent of the NFIP business providing market penetration, innovation and efficiency. Unfortunately, the number of homeowners and businesses purchasing flood insurance has dropped from its peak following the 2005 hurricane season. In order to maximize the program's effectiveness and reduce its reliance on the treasury, participation in the NFIP needs to continue to grow and consumers should be encouraged to purchase flood coverage.

For several years AIA has supported changes in flood coverage to make the product more attractive. These include: (1) increasing coverage limits which will mean fewer uncovered losses for consumers while allowing greater premiums to be collected by the program; (2) increasing deductibles which will allow consumers to save more on premiums by assuming greater risk while encouraging mitigation; and (3) allowing the purchase of additional living expense coverage (residential) or business interruption coverage (commercial) thereby providing consumers with greater product options. Undertaking these steps will increase product diversification which should encourage more consumers to consider purchasing NFIP flood coverage.

Other Proposals Being Considered

During the continuing discussions to reauthorize and reform the NFIP several additional proposals have been brought forward. One such proposal centers on the notion of immediately ―privatizing the flood insurance program. AIA strongly supports an open and free market environment; however, the NFIP was created precisely because the private insurance market could not write flood insurance on an economically feasible basis in the vast majority of instances. The NFIP arose from the simple fact that prior to 1968, for all practical purposes, flood insurance that was both actuarially sound and affordable was unavailable to the home-owning public because it was subject to such acute adverse selection (only those who need it would purchase it). Indeed, long before the creation of the NFIP, private insurers had effectively stopped providing flood coverage.

While it constitutes a declining percentage of all NFIP policies, the number of properties receiving subsidized premium rates has grown since 1985; by 2007 it was at its highest point in almost 30 years. To date, more than half of the subsidized policies are concentrated in five states with relatively high flood risk. Based on our experience, these subsidies would not vanish if the NFIP were privatized. Unfortunately, in many states – including those states that are exposed to losses by natural catastrophes – insurers face arbitrary rate suppression. That said, any discussion of privatization of the NFIP or large portions of it must be carefully considered.

CONCLUSION

As we noted in our September 8, 2011, letter to the Senate Banking Committee on AIA and its member companies have consistently advocated for legislation that provides a long-term extension and includes essential reforms that are needed to bring stability and certainty to the program. The bill currently before Senate accomplishes these goals by including a five-year reauthorization and movement toward risk-based premiums. AIA stands ready to assist the Committee as this important legislation moves forward.

PREPARED STATEMENT OF THE MORTGAGE BANKERS ASSOCIATION

MORTGAGE BANKERS ASSOCIATION
investing in communities

Statement of
The Mortgage Bankers Association

Senate Committee on Banking, Housing and Urban Affairs
Subcommittee on Economic Policy

"The National Flood Insurance Program:
The Need for Long Term Reauthorization and Reform"

May 9, 2012

1717 Rhode Island Avenue, NW | Washington, DC 20036 | www.mortgagebankers.org | (202) 557-2700

Chairman Tester, Ranking Member Vitter and members of the Economic Policy subcommittee, thank you for the opportunity to provide this statement on behalf of the Mortgage Bankers Association (MBA[1]). We wish to express our support for long-term reauthorization of the National Flood Insurance Program (NFIP). We respectfully urge the Senate to move quickly to reauthorize the program and avoid a costly lapse in coverage.

As you may know, more than 5.6 million policy holders in 21,000 communities nationwide depend on the NFIP as their main source of protection against property losses that result from flooding. Without flood insurance, many residential and commercial real estate transactions across the country will come to a halt, as federally backed mortgage loans cannot legally be secured without this critical protection. Failure to reauthorize the program could jeopardize nearly 40,000 mortgage closings per month.

In July 2011, the House of Representatives passed a bi-partisan measure, H.R. 1309, by a vote of 406-22. On September 9, 2011, the Senate Banking Committee unanimously approved its version of the 5-year bill. Both proposals include a long-term reauthorization and important reforms that will optimize the current program, make needed improvements to the floodplain mapping and appeals processes, and other key reforms that will encourage program participation and put the NFIP back on the path to sound financial footing.

Without a reliable and uninterrupted source of flood insurance, we believe mortgage credit would, at best, be more expensive or, at worse, unavailable in many markets. Although there are private providers of flood insurance, millions of policies are written through the NFIP. The Senate should take this opportunity to capitalize on the bipartisan efforts by both the Senate Banking Committee and the House of Representatives thus far to make major improvements to this important program. We believe that passage of a comprehensive, bipartisan flood reauthorization bill is within reach, and we respectfully thank you for your efforts to schedule such a debate.

One such opportunity is through S.1940, The Flood Insurance Reform and Modernization Act of 2011. We believe this bill, with a few important changes, is the perfect vehicle to continue to advance the issue. We have outlined below some suggested areas of improvement and look forward to working over the course of time with Congress to achieve a sustainable flood insurance program.

Clarification of Multifamily Property Coverage: (Sections 105, 132, 135) MBA strongly supports NFIP coverage of commercial/multifamily properties and efforts to clarify coverage of multifamily and healthcare properties at coverage limits available to other commercial properties. We believe, however, that clarification of S. 1940 is necessary in light of the provisions of the National Flood Insurance Act of 1968 (1968 Act) and to ensure that properties currently eligible for coverage under the NFIP (e.g., multifamily properties) are not inadvertently excluded. Accordingly, the legislation should make clear that commercial property coverage applies to multifamily properties (i.e., properties or structures containing 5 or more residential housing units) and other properties that secure loans eligible for insurance by the Federal Housing Administration or purchase by Fannie Mae and Freddie Mac.

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,200 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

Frequency of Payment: (Section 106) MBA appreciates the intent of the Senate to make flood insurance more affordable by allowing (where flood insurance is not escrowed) the Administrator to provide an option of paying premiums either annually or in more frequent installments. We note, however, that in lending transactions, insurance policies (including flood) are generally required to be paid one year in advance with monthly escrows accumulating to pay the next year premium. We urge clarification that lenders not be precluded from requiring that the flood insurance policy be paid one year in advance. We are concerned that allowing flood insurance premiums to be paid monthly may result in increased policy lapses and, in lending transactions, increased need for forced placement of the insurance.

Enforcement: (Section 110) MBA urges the Senate to reconsider the increase of penalty amounts and elimination of the ceiling on penalty payments. We note that lenders are dependent on professional flood zone determination companies to assess the need for flood insurance. While we acknowledge that a systemic failure to knowingly require flood insurance may result in penalties, we urge the Senate to either retain the existing penalty provisions or provide a safe harbor that limits increased penalties to a willful and systemic failure of the lender to require coverage.

Continuation of Insurance: (Section 110) We urge the Senate to adopt a provision found in H.R. 1309 clarifying that, in order to avoid a lapse in insurance, the servicer may charge a borrower for lender placed insurance when the flood insurance amount is insufficient or the borrower cancels or allows the flood insurance policy to lapse. The House provision would clarify that after the running of the 45-day notice and the borrower's failure to produce evidence of insurance, servicers can obtain and charge for lender placed coverage that starts with the date the NFIP (or private) flood insurance coverage lapsed or did not provide sufficient coverage.

Mandated Escrows: **(Section 111)** The bill mandates escrows for flood insurance payments. This is problematic for several reasons. First, some mortgage companies (e.g. second mortgage lenders) do not have the capacity to escrow. Congress recognized this fact and excluded second lien lenders from escrow requirements in the Dodd Frank Act. Second, many borrowers have contracted for non-escrowed mortgages. Imposing escrows on existing borrowers would repudiate their negotiated contracts. Third, many borrowers with low balance loans have traditionally been allowed to manage their own insurance payments. Section 1461 of Dodd Frank recognized this, and limited the mandatory escrow provision to higher-risk products and to the first five years of the loan. We recommend that the escrow of flood insurance premiums remain a loan term negotiated between lender and borrower. However, if the mandatory requirement remains, we urge the Senate to conform S. 1940 to the requirements of the Dodd Frank Act.

Payment of Flood Insurance Invoices: (Section 111) We urge the Senate to make a correction to eliminate the requirement that a lender/servicer pay "the remaining balance in the escrow account" to the flood provider upon receipt of the invoice. Lenders collect insurance payments each month (estimated based on the prior year's invoice) to pay the next year's premiums. We note that, in addition, RESPA permits a 'cushion' above the estimated premium amount to avoid a zero or negative balance in the escrow account. As a result, the balance in the escrow account at the time of flood insurance invoice is unlikely to exactly equal the amount required to pay the flood insurance premium.

Notification upon Loan Termination: (Section 111) MBA recommends deletion of this section. The flood insurance policy is a policy between the property owner and the insurance provider. Loan payoff does not generally result in termination of the borrower's policy.

Lender Required Notice: (Section 124) Lenders do not currently provide notice related to 500 year flood plains. The ability to meet this requirement will be dependent on FEMA mapping of the 500 year flood plains and provision of this service by a flood zone determination company able to provide, make, and maintain such an assessment. We, therefore, urge the Senate to eliminate this provision. Additionally, we recommend a change to require that notice be delivered to the borrower rather than the 'purchaser or lessee."

Elimination of Subsidy: (Section 106) proposes to exclude certain properties from receiving subsidized premiums, including A) non-primary residences, B) severe repetitive loss properties; C) properties that incurred flood-related damage equaling or exceeding the fair market value of such property, D) business properties; or E) properties that on or after enactment of this bill sustain damage exceeding 50 percent of the fair market value or obtain improvement exceeding 30 percent of the fair market value of such property. These properties would be subject to a four-year phase-in of higher premiums. However, the phase-in benefits are not available to "new policies" (e.g. sales of homes) or "lapsed policies" (e.g. delinquent borrowers). As a result, it is not clear whether the phase-in travels with the property. For example, would a pre-FIRM property newly remapped into a SFHA one year from enactment receive the benefit of the phase out of the subsidy?

Relief to Affected Property Owners: (Section 106) While MBA understands and supports the need to adopt more actuarially sound rates for flood insurance, many markets are suffering record unemployment and property value declines. We are concerned that the phase-out of subsidies will negatively affect certain communities, causing more delinquencies and REOs. As a result, we ask that you consider adopting a 5-year or longer phase-in period, consistent with the time period offered in H.R. 1309. Moreover, we urge the Senate to provide for greater mitigation relief to residential properties affected by the elimination of the subsidy.

Defaulted and REO: (Section 106) In addition, MBA urges the Senate not to eliminate the phase-in benefits on lapsed policies for defaulted borrowers or REO properties. Without this change, complying with the National Flood Insurance Program will become even more burdensome for borrowers experiencing financial difficulties and will harm the ability to resell REO.

Effective Date: (Section 106) To benefit from the phase-in, properties must be insured by NFIP insurance as of the date of enactment. To encourage reinstatement of voluntary flood coverage of lapsed policies, we recommend that homeowners be given 90 days after the effective date of the Act to obtain NFIP insurance.

Conclusion

MBA supports extension and reform of the National Flood Insurance Program to provide certainty as to the availability of flood insurance and the continued viability of the program. We are available to work with the Senate to respond to questions or concerns or to provide clarification as you contemplate passage of this important piece of legislation.

PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

NAMIC®

NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

Statement

of

National Association of Mutual Insurance Companies

to the

United States Senate

Committee on Banking, Housing and Urban Affairs

Hearing on

The National Flood Insurance Program

May 9, 2012

The National Association of Mutual Insurance Companies (NAMIC) wishes to express its support for S. 1940, the Flood Insurance Reform and Modernization Act of 2011. We believe the bill, as drafted, responsibly reauthorizes the National Flood Insurance Program (NFIP) while enacting real reform. We appreciate the leadership of the Senate Committee on Banking, Housing and Urban Affairs and we respectfully request Majority Leader Harry Reid to bring the bill to the Senate Floor for consideration.

Founded in 1895, the National Association of Mutual Insurance Companies (NAMIC) is the largest and most diverse property/casualty insurance trade association in the United States. Its 1,400 member companies write all lines of property/casualty insurance business and include small, single-state, regional, and national carriers accounting for 50 percent of the automobile/homeowners market and 31 percent of the business insurance market. We also have over a quarter of the companies that participate in the NFIP's "Write-Your-Own" program as members. NAMIC's membership truly represents a cross-section of the industry and has been proudly protecting its policyholders throughout North America for many years.

NAMIC is proud to team up with over 25 organizations to "Flood the Hill" this month to call for a Senate vote on flood insurance reform. "Flood the Hill" consists of, fourteen trade associations representing ***76,571 companies***; four professional associations representing ***1,496,000 individual members***; two environmental groups representing ***5,000,000 individual members***; and eight private companies representing ***219,893 employees***.

NAMIC appreciates the Senate Banking Committee's unanimous passage of this bill on September 8, 2011. Much like its House of Representative counterpart - *HR. 1309, the Flood Insurance Reform Act of 2011*, which passed by a vote of 406-22 - the Senate bill also enjoys wide bipartisan support. While the House and Senate reform bills are not identical, they share the same goals and are close enough in concept that passage of comprehensive legislation is within reach in the 112th Congress. We thank Chairman Jon Tester and Ranking Member David Vitter for holding this hearing and once again demonstrating the broad support for flood insurance reform and reauthorization.

Reforming the National Flood Insurance Program

The NFIP is a vitally necessary program, but in its current form is on the brink of insolvency. Without reforms, the economic cost of flooding continues to be shifted to taxpayers and irresponsible development in flood-prone areas remains encouraged. NAMIC believes the reforms in S. 1940 go a long way toward restoring the program's financial sustainability and preserving the program's benefit to the country. Specifically, we believe NFIP reform must address the following four issues: 1) update premiums to accurately reflect risk; 2) create a fair and comprehensive floodplain mapping process; 3) reduce severe repetitive loss claims; 4) encourage pre-disaster mitigation.

First, the NFIP must charge risk-based premiums. Insurance rates should more accurately reflect the true cost of providing coverage, but they currently do not under the NFIP model. As the

NFIP currently stands, it rates are inadequate and do not match the risk faced by many of its insured. NFIP rates are often as much as 60% below actuarially sound rates. The inadequacy of the rates led the program to experience significant losses from major floods such as those we saw in the 2005 storm season. The over $20 billion debt assumed by the NFIP after Hurricane Katrina fell on the shoulders of all taxpayers. Without reforms, the next major storm causing the NFIP to exceed its reserves will force the NFIP to borrow billions more from the U.S. Treasury. The phase-in of sound rates provided by S. 1940 is a sensible approach to putting the NFIP on a sound fiscal footing.

FEMA's flood maps must also be updated based on the best available science, incorporating expert opinions in the public and private sectors at the local, state and federal levels. Accurate maps are necessary to accurately predict flood risk, which is necessary for the aforementioned risk-based rates. We also support the fair appeals process allowing for community input in the mapping process. NAMIC believes that the Technical Mapping Advisory Council created by S. 1940 would accomplish this goal.

Further, the NFIP must reduce the number of repetitive loss properties participating in the program. According to a 2011 Government Accountability Office (GAO) report, 1% of the flood policies account for between 25-30% of the claims. S. 1940 properly implements risk-based rates immediately for severe repetitive loss properties. Once the policies reach true actuarial rates, the high cost of flood insurance should either cover future claims or force owners to drop their coverage. Either scenario will result in fewer claims for the NFIP and will discourage rebuilding in high-risk areas.

Finally, FEMA should encourage better pre-disaster mitigation. NAMIC strongly supports the report commissioned in S. 1940 on the inclusion of building codes in floodplain management criteria. Building codes have been shown to save lives, prevent severe property damage, and reduce the need for federal disaster relief. Therefore we would encourage you to adopt the partnership approach in H.R. 1309 that would give local communities the ability to reduce potential property loss though the use of Community Block Development Grant funds for local building code enforcement.

Reauthorizing the National Flood Insurance Program for the Long Term

Long term reauthorization of the NFIP is vitally needed by the struggling housing, construction and financial markets. Above all, Congress must avoid another lapse in NFIP authorization at all costs. Failing to reauthorize the NFIP could jeopardize nearly 40,000 mortgage closings per month, according to the National Association of REALTORS.

More than 5.6 million policyholders in 21,000 communities nationwide depend on the NFIP as their main source of protection against property losses that result from flooding. Without flood insurance, many residential and commercial real estate transactions across the country will come to a stop, as federally backed mortgage loans cannot legally be secured without this critical protection.

During a lapse, there is much confusion regarding the effective term of the policy and whether consumers and businesses have flood insurance protection. The repeated last-minute short-term reauthorizations forces consumers, lenders, agents and insurers to repeatedly take steps to prepare for the contingency that Congress fails to reauthorize the NFIP. Long-term authorization will provide more certainty to the private market partners of the NFIP – "Write Your Own" carriers – so they may model their business plans for deeper market penetration and higher take-up rates. Consumers and businesses need a reliable program that can provide long-term access to flood insurance. S. 1940 fulfills that need by reauthorizing the NFIP for five years.

Conclusion

The NFIP is in need of significant reforms in order to continue providing flood protection to those who need it. NAMIC supports this reform legislation and believes that S. 1940 is an effective way to balance the many goals of the reform effort: fiscal soundness, affordability of insurance, adequate coverage for those at risk, floodplain management (reduction of flood hazard vulnerability), economic development, individual freedom, and environmental protection.

NAMIC thanks the Senate Banking Committee for its leadership so far on S. 1940 the Flood Insurance Reform and Modernization Act of 2011. We urge the bill's many supporters to speak to Senate leadership about scheduling a floor vote on this important legislation before the end of May.

PREPARED STATEMENT OF THE AMERICAN BANKERS ASSOCIATION AND THE AMERICAN BANKERS INSURANCE ASSOCIATION

Statement for the Record

On Behalf of the

AMERICAN **BANKERS** ASSOCIATION

and the

AMERICAN BANKERS INSURANCE ASSOCIATION

For the Hearing

"The National Flood Insurance Program:
The Need for Long-Term Reauthorization and Reform"

Before the

Subcommittee on Economic Policy

Committee on Banking, Housing, & Urban Affairs

United States Senate

May 9, 2012

American
Bankers
Association

Statement for the Record

on Behalf of the

American Bankers Association

For the Hearing

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The Need for Long-Term Reauthorization and Reform"

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Subcommittee on Economic Policy

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United States Senate

The American Bankers Association (ABA) is pleased that the Subcommittee is holding this important hearing (Flood Insurance – Long Term Reauthorization) and appreciates the opportunity to submit a statement for the record. The American Bankers Association represents banks of all sizes and charters and is the voice of the nation's $13 trillion banking industry and its two million employees.

The American Bankers Insurance Association (ABIA) is a subsidiary of the American Bankers Association (ABA). As the only Washington, DC based full service association for bank-insurance interests, ABIA is dedicated to furthering the policy and business objectives of banks in insurance.

The ABIA's mission is to develop policy and provide advocacy for banks in insurance and to support bank insurance operations through research, education, compliance-assistance and peer group networking opportunities.

Members of the ABIA include banking institutions of all asset sizes, insurance companies, service providers, consultants, mortgage companies, credit card companies and associations. The membership makeup is approximately 55% banking institutions and 45% all other providers.

We would like to share with the Subcommittee our concerns about the problems created by lapses in the authorization of the National Flood Insurance Program (NFIP) as well as suggestions for long-term reform and reauthorization.

Since 1968 nearly 20,000 communities across the United States and its territories have participated in the NFIP by adopting and enforcing flood plain management ordinances to reduce future flood damage. In exchange, the NFIP makes federally-backed flood insurance available to homeowners, renters, and business owners in these communities.

The NFIP's authorization has been subject to short-term extensions in recent years, and has, at times, been allowed to lapse before being re-authorized retroactively. Such lapses create procedural and compliance difficulties for lenders and unnecessarily delay borrowers seeking to purchase homes. More than 5.6 million policyholders in 21,000 communities nationwide depend on the NFIP as their main source of protection against property losses that result from flooding. Without flood insurance, many residential and commercial real estate transactions across the country will come to a stop, as federally backed mortgage loans cannot legally be secured without this critical protection. Failing to reauthorize the NFIP could jeopardize nearly 40,000 mortgage closings per month.

We are about to enter hurricane season, and America cannot afford a lapse of the program. Failure to reauthorize the NFIP would further stress already struggling real estate markets, potentially cost the government billions of dollars in uncompensated relief efforts, and put millions of consumers at risk.

In July 2011, the House of Representatives passed a bi-partisan measure, H.R. 1309, by a vote of 406-22. On September 9, 2011, the Senate Banking Committee unanimously approved its version of the 5-year bill. Both proposals include a long-term reauthorization and important reforms that will optimize the current program, make needed improvements to the flood plain mapping and appeals processes, and other key reforms that will encourage program participation and put the NFIP back on the path to sound financial footing.

We do bring to your attention to a provision included in Section 3 of the House-passed legislation dealing with cancellation of force placed insurance when a borrower demonstrates that they have obtained flood insurance. Requiring cancellation of force placed insurance in such an instance is appropriate, but the legislation would require lenders to cancel the force placed insurance and refund to the borrower any fees within 30 days of notification of other insurance. Given the realities of paperwork processing and internal control compliance, we respectfully urge that this time frame be extended to a minimum of 60 days if such a provision is considered in any final legislation.

Thank you for your efforts to reform and extend this important program, and for hearing our concerns. We look forward to working with you and the other members of the subcommittee as this process moves forward and we encourage the full Senate to act now to reauthorize this program and avoid the costly consequences that would result in a lapse from failure to act.

PREPARED STATEMENT OF THE COUNCIL OF INSURANCE AGENTS AND BROKERS

Statement for the Record

Senate Committee on Banking, Housing and Urban Affairs

On Reauthorizing and Modernizing the National Flood Insurance Program

On behalf of

The Council of Insurance Agents and Brokers

May 9, 2012

The Council of Insurance Agents and Brokers is pleased to submit this statement for the record on modernizing and reauthorizing the National Flood Insurance Program (NFIP). Council members specialize in a wide range of insurance products and risk management services for business, industry, government, and the public. Operating both nationally and internationally, Council members conduct business in more than 3,000 locations, employ more than 120,000 people, and annually place more than 80 percent – well over $200 billion – of all U.S. insurance products and services protecting business, industry, government and the public at-large, and they administer billions of dollars in employee benefits. Since 1913, The Council has worked in the best interests of its members, securing innovative solutions and creating new market opportunities at home and abroad.

Council members rely on the NFIP to help businesses large and small secure flood insurance coverage and continue moving local economies forward in areas that face increasingly high flood risks. In doing so, our members rely on a predictable flood insurance market to which the NFIP has been the backbone for decades. Recent congressional inaction to reauthorize the program resulted in lapses that, despite Congress's retroactive reauthorization, damaged broker's confidence in the program and underscored the need for an innovative solution to cover commercial flood risks. Allowing the program to lapse again would not only cause significant economic damage to struggling economies, but also to market confidence already disturbed by previous falters. We therefore strongly support the legislation reported out of the Senate Banking Committee last year that restores predictability to the commercial flood insurance marketplace by reauthorizing the program for five years and integrating financial reforms that would move the program towards more stable financial footing.

As you know, the NFIP is fundamentally bankrupt with a debt that now exceeds $18 billion following natural disasters over the past ten years. In addition to climate volatility and extreme event exposure that is inherent to a natural disaster assistance program, the NFIP's financial disarray also stems from institutional issues that include overly subsidized premium assistance, outdated flood maps, and waste and fraud. Council members therefore believe that, in conjunction with a long-term reauthorization that preserves predictability, the NFIP should integrate private market solutions that would adequately restore the program's financial integrity. In addition to reduced premium assistance, these solutions should include an active role for the reinsurance community that would essentially introduce the program to true risk analysis and subsequent risk spreading through the reinsurance and capital markets, ultimately reducing costs to taxpayers. An active partnership could easily be formed where market experts assist the NFIP in identifying true risks, and subsequently seeking appropriate coverage in the private reinsurance market. A model like this would not only save taxpayer dollars, but would he put the program on a financially sustainable path. We look forward to working with Members of Congress on innovative ways that the private insurance market can assist the NFIP and taxpayers with natural disaster assistance.

The legislation before the U.S. Senate that reauthorizes the program for five years makes critical advances on several key issues that include reduced premium assistance and substantive mapping reforms. The reforms would ultimately help restore much needed broker confidence and predictability in the flood insurance marketplace. We urge Senate leadership to quickly pass the long-term reauthorization effort to avoid another lapse and slowly move the program to more financially sound footing.

We very much appreciate the opportunity to submit this statement for the record. If you have any questions or would like more information, place contact Joel Kopperud at joel.kopperud@ciab.com.

PREPARED STATEMENT OF R.J. LEHMANN, DEPUTY DIRECTOR, CENTER ON FINANCE, INSURANCE, AND REAL ESTATE, THE HEARTLAND INSTITUTE

Written Testimony of R.J. Lehmann

Deputy Director, Center on Finance, Insurance, and Real Estate

The Heartland Institute

Senate Banking, Housing and Urban Affairs Committee

Subcommittee on Economic Policy

Hearing on Reauthorization of the National Flood Insurance Program

May 9, 2012

Chairman Tester, Ranking Member Vitter, and members of the Subcommittee,

We thank you for the opportunity to submit written testimony on reauthorizing the National Flood Insurance Program, and in particular, on S. 1940, the Flood Insurance Reform and Modernization Act of 2011, reported out of the Committee in September 2011.

The Heartland Institute is a 28-year-old national nonprofit education and research organization, headquartered in Chicago and dedicated to discovering, developing, and promoting free-market solutions to a range of social and economic problems. Heartland's Center on Finance, Insurance, and Real Estate long has advocated for substantive long-term reforms to NFIP[1], and we are pleased that both the U.S. House and Senate Banking Committee have approved meaningful, fiscally and environmentally responsible, and substantially similar legislation that would forward

[1] Eli Lehrer and Scott Richardson, "Solving the Flood/Wind Problem After Hurricane Losses: The Case for a Standardized Loss Allocation System" (Chicago: The Heartland Institute, 2011).

the goals of actuarial rates, effective enforcement of mandatory purchase and floodplain management requirements, modernized Flood Insurance Rate Maps, and a shift toward preparing for extreme tail risks through the build-up of catastrophe reserves.

However, the window to take-up the Committee's five-year NFIP reauthorization on the Senate floor is rapidly closing. Unless otherwise extended by Congress, statutory authority for NFIP is set to expire May 31, one day prior to the start of the 2012 hurricane season. Though the House and Senate flood insurance reform bills introduced in the 112th Congress are more similar than in other recent sessions, there remain some minor differences that will need to be settled before the legislation can be presented to the President. We are hopeful that this process can be completed in an expeditious manner before the program's scheduled expiration, but that will require immediate action on the part of Senate leadership.

Two-Year Extension Versus Long-Term Reform

The Federal Emergency Management Agency, which is responsible for administering NFIP, recently endorsed a plan for Congress to pass a two-year reauthorization of NFIP under its current structure, to grant additional time for debate on long-term changes to the program and to provide the housing market with additional certainty of the program's continuation over the near term. We are sympathetic to FEMA's concerns about the disruption that another lapse in NFIP authorization could cause. Since its last long-term authorization expired in September 2008, NFIP has been extended without any changes through a series of 12 short-term reauthorizations. It also has lapsed several times during that period due to congressional inaction, including four lapses for a total of 53 days in 2010 alone.

But we disagree strongly with FEMA that a two-year extension, which would push the reform debate into the 113th Congress, is desirable at this time. NFIP is not sustainable for an additional two years as it is currently constituted. The U.S. Government Accountability Office placed NFIP on its list of high-risk federal programs in March 2006, and it has remained there in each successive year.[2] The program is $17.775 billion in debt and can borrow only $3 billion more from the U.S. Treasury under its currently authorized borrowing authority. Given its debt load, NFIP continues to accrue nearly $1 billion in interest annually and the Congressional Budget Office projected in October 2011 that its current borrowing authority likely will be exhausted by or before 2014.[3]

Extending NFIP for an additional two years with no major changes would create a strong possibility that FEMA will either need to return to Congress to seek additional borrowing power or that the program will become insolvent. Political concerns could jeopardize congressional attempts to authorize additional debt for an already heavily indebted, high-risk program, while insolvency would be even more destabilizing to housing markets, given that the program is relied upon by 5.6 million policyholders with $1.25 trillion of coverage in-force. In order to ensure the program is placed on more sound fiscal footing, it is imperative that Congress approve a long-term reauthorization that includes significant reforms.

NFIP Debt and Borrowing Authority

For much of its history, the National Flood Insurance Program has been able to pay claims out of its operating revenues, and the program had no debt at all at the end of the 2004 Fiscal Year. In the ensuing nearly eight years, it has borrowed $19.6 billion from the U.S. Treasury, and repaid less than 10 percent of that total.[4] Following record losses stemming from the 2005 hurricane season, Congress voted three times between September 2005 and March 2006 to raise the cap on FEMA's authority to borrow money from the U.S. Treasury, previously just $1.0 billion, until it ultimately reached its current level of $20.775 billion.

Catastrophic flood loss events have driven the program's growing debt over this period. In fact, NFIP has paid out more in claims than it received in policyholder premiums in three of the past

[2] United States Government Accountability Office, NATIONAL FLOOD INSURANCE PROGRAM: Continued Actions Needed to Address Financial and Operational Issues, (Washington: GPO, 2010)
[3] Congressional Budget Office, Congressional Budget Office Cost Estimate: Flood Insurance Reform and Modernization Act of 2011, (Washington: GPO, 2011)
[4] Congressional Research Service, National Flood Insurance Program: Background, Challenges, and Financial Status, (Washington: GPO, 2011)

eight calendar years. In 2004, NFIP collected $2.04 billion in premiums and made $2.23 billion of payments to policyholders; in 2005, it collected $2.24 billion in premiums and made $17.71 billion of payments to policyholders; and in 2008, it collected $3.07 billion in premiums and made $3.45 billion of payments to policyholders.

Even in years in which the program's pure loss ratio has been less than 100 percent, it incurs significant administrative costs through its Write Your Own program, under which private insurers are paid to market NFIP policies and adjust claims following a loss event. The GAO estimates that payments to WYO insurers, which are based on payment methodologies established in 1983, typically consume between one-third and two-thirds of the program's annual premiums.[5]

The program's string of record losses began with Hurricane Ivan in 2004, which prompted $1.58 billion in flood insurance claims. Claims from the 2005 hurricane season, the bulk of which were paid in Fiscal Year 2006, included the largest single loss event in NFIP history, $16.17 billion for Hurricane Katrina. NFIP also paid out $470.7 million in losses from Hurricane Rita and $363.8 million of losses from Hurricane Wilma.

Since 2005, the program has been hit further by floods in Pennsylvania, New York, and New Jersey in June 2006 that caused $227.5 million in losses; an April 2007 Nor'Easter that produced $225.6 million in losses; and the strike of Hurricane Ike in September 2008, which produced $2.63 billion in losses, the second-largest flood loss event in U.S. history. The program was spared comparably large losses from significant floods in the Midwest in 2008 and in New England in 2010 largely because take-up in those regions was relatively low.

Implementing Actuarial Rates and Establishing Catastrophe Reserves

Based on CBO's most recent projections, given annual interest payments of $900 million and annual premiums of roughly $3.1 billion, it is unlikely that NFIP will be able to repay its debt

[5] United States Government Accountability Office, NATIONAL FLOOD INSURANCE PROGRAM: FEMA's Management and Oversight of Payments for Insurance Company Services Should Be Improved, (Washington: GPO, 2007)

within the next decade. Even in Fiscal Years 2010 and 2011, when claims were significantly lower than premiums, the program was able to pay down just $500 million and $750 million of debt, respectively. While the reforms proposed in S. 1940 and H.R. 1309 do not solve this problem, they do make significant contributions toward moving the program in a fiscally sound direction and mitigate against the risk that NFIP's financial condition will deteriorate even further.

Since the introduction of Flood Insurance Rate Maps in the early-to-mid 1970s, NFIP has maintained two separate sets of rate-paying customers. For those whose properties were built after completion of a community's rate map, the program charges full actuarially indicated rates. But for those who own properties which predate rate maps, estimated to be roughly 20 percent of all NFIP policyholders, the program charges subsidized rates that FEMA estimates are only 35 percent to 45 percent of the full-risk cost. NFIP also experiences disproportionate losses from so-called "repetitive loss properties." Although estimated to constitute just 1 percent of the total policies in-force, RLPs have accounted for more than one-third of all claims paid. Moreover, FEMA estimates that roughly 90 percent of RLPs are pre-FIRM properties that pay subsidized premiums.

Under both S. 1940 and H.R. 1309, subsidized premium rates would be phased out for all severe repetitive loss properties, second homes and vacation homes, commercial properties, and any property that has suffered damage exceeding 50 percent of its fair market value or that has undergone improvements of more than 30 percent of its fair market value. The Senate bill would raise the maximum risk premium increase for these properties from the current 10 percent to 15 percent, while the House bill would raise the maximum increase to 20 percent. The Senate bill also schedules a three-year phase-in of NFIP premiums for properties newly included in Special Flood Hazard Areas due to rate map revisions, while the House bill calls for a five-year phase-in.

According to CBO's projections, implementation of the Senate bill's provisions for phasing out subsidized premiums would increase federal revenues by $4.565 billion over the next decade, forming the bulk of a projected $4.665 increase in NFIP's net income. This would not resolve the program's fiscal problems, but it would mark a significant turn toward sustainability.

In addition to phasing out subsidized premiums for many pre-FIRM policies, S. 1940 also projects to raise $775 million over the next decade through additional premiums that would be charged to capitalize a reserve fund. Unlike private insurers, which charge rates that are designed to build a capital surplus and which typically cede risks of catastrophic losses to reinsurers, NFIP operates strictly on a cash-flow basis, and borrows money to cover expenses in years of extreme loss.

The Senate bill would begin to change this structure, first by charging premiums to capitalize a reserve fund and also by granting FEMA statutory authority to explore the use of private reinsurance and alternative risk transfer mechanisms such as catastrophe bonds to limit its exposure to catastrophic flood events. Taking these actions would not only better protect taxpayers from being forced to foot the bill for flood risks, but would encourage greater private sector participation in the flood insurance market, which could eventually set the stage for privatizing part or all of NFIP's operations. Reinsurers and catastrophe bonds already provide private sector capacity for flood risks in many other nations where such risks are privately insured.

Conclusion

In 1966, when Congress was initially deliberating on what would become the National Flood Insurance Program, the Presidential Task Force on Federal Flood Control Policy warned that creating a federal program that provided "insurance in which premiums are not proportionate to risk would be to invite economic waste of great magnitude."[6] That prediction has, unfortunately, come to pass.

Over much of its history, the National Flood Insurance Program has subsidized irresponsible floodplain development at taxpayers' expense. Today, more than half of the U.S. population

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[6] United States Task Force on Federal Flood Control Policy, A Unified National Program for Managing Flood Losses, (Washington: GPO, 1966)

lives in coastal watershed and river floodplains.[7] Indeed, according to NFIP's own statistics, 90 percent of all presidentially declared national disasters in the United States involve flooding.

The federal government should not encourage the choice to live in harm's way, nor should it subsidize development in environmentally sensitive wetlands and floodplains. The National Flood Insurance Program needs significant reform today.

Respectfully Submitted,

R.J. Lehmann
Deputy Director, The Heartland Institute Center on Finance, Insurance, and Real Estate
Managing Editor, OutOfTheStormNews.com
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[7] United States Commission on Ocean Policy, An Ocean Blueprint for the 21st Century, (Washington: GPO, 2004)

LETTER SUBMITTED BY BILL CHENEY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, CREDIT UNION NATIONAL ASSOCIATION

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Credit Union National Association
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BILL CHENEY
President & CEO

May 9, 2012

The Honorable Jon Tester
Chairman
Subcommittee on Economic Policy
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

The Honorable David Vitter
Ranking Member
Subcommittee on Economic Policy
Committee on Banking, Housing, and Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Tester and Ranking Member Vitter:

On behalf of the Credit Union National Association (CUNA), I am writing regarding the hearing today on the National Flood Insurance Program (NFIP): The Need for Long-Term Reauthorization and Reform. CUNA is the largest credit union advocacy organization in the United States, representing nearly 90% of America's 7,300 state and federally chartered credit unions and their 95 million members. We appreciate the opportunity to share our views regarding this issue.

As you know, the National Flood Insurance Program (NFIP), administered by the Federal Emergency Management Agency (FEMA), was established in 1968. Prior to its existence, many homeowners, renters, and businesses were unable to insure against flood losses because private insurers did not offer such coverage or because it was unaffordable. Flood insurance is required by law in flood zone areas that are designated by the recently updated FEMA maps and thus a necessary purchase by prospective homeowners before credit unions can offer mortgages and other related products to homebuyers.

Previous lapses in NFIP authorization have caused significant disruption in the mortgage underwriting process for thousands of prospective homeowners. With the program's authorization set to expire at the end of this month, it is urgent that Congress extend the authority of this crucial program or pass comprehensive reform.

Last year, the House of Representatives and the Senate Banking Committee passed five-year reauthorization bills. We support a provision contained in the House-passed bill (H.R. 1309) that codifies the existing practice that allows a lender or servicer to charge the borrower for the cost of premiums and fees incurred by the lender or servicer in cases where a borrower who is required to have flood insurance either cancels or lets the required policy lapse and then fails to purchase flood insurance within 45 days after notification of the lapse.

The Honorable Jon Tester
The Honorable David Vitter
May 9, 2012
Page Two

The House-passed provision simply removes any ambiguity and clarifies that in such cases the lender or servicer may charge the borrower for the premiums or fees incurred for coverage beginning on the date on which flood insurance coverage lapsed or did not provide a sufficient coverage amount. We urge the Senate to include this common-sense language in any bill flood insurance bill it considers.

On behalf of America's credit unions and their 95 million members, we encourage the Senate to reauthorize the National Flood Insurance Program before its authorization lapses. Thank you for your consideration of our views.

Best regards,

Bill Cheney
President & CEO

LETTER SUBMITTED BY JAMES W. TOBIN III, SENIOR VICE PRESIDENT AND CHIEF LOBBYIST, NATIONAL ASSOCIATION OF HOME BUILDERS

NAHB

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Government Affairs

James W. Tobin III
Senior Vice President & Chief Lobbyist

May 9, 2012

The Honorable Jon Tester
Chairman
Subcommittee on Economic Policy
Committee on Banking, Housing, and Urban Affairs
U.S. States Senate
Washington, DC 20510

Dear Senator Tester:

On behalf of the 140,000 members of the National Association of Home Builders (NAHB), I am writing today to provide NAHB's thoughts regarding the National Flood Insurance Program (NFIP). NAHB commends the committee for addressing the need for reauthorizing and reforming the NFIP.

First, NAHB strongly supports the reauthorization of the NFIP for five years. As you know, the May 31, 2012, expiration deadline is looming and for the last several years, the NFIP has undergone a series of short-term extensions that have created a high level of uncertainty in the program and caused severe problems for our nation's already troubled housing markets. Unfortunately, during this time between authorization periods, many homebuyers faced delayed or cancelled closings due to the inability to obtain flood insurance for their mortgages. In other instances, builders were forced to stop or delay construction on new homes due to the lack of flood insurance approval, adding unneeded delays and job losses.

NAHB still has concerns with several aspects of the Senate bill, most notably the mandatory purchase requirements for those living within the residual risk areas. NAHB strongly believes that local investment in these flood structures takes into account the risks and requiring those who choose to live behind these structures to purchase flood insurance is, in fact, a form of double taxation.

Currently, one important component of the NFIP is the ability of communities, with the assistance of the federal government, to design, install, and maintain flood protection structures for the purpose of reducing risk. In most instances, residential structures located behind dams or levees that provide protection to the 100-year flood plain are not required to purchase flood insurance. This is a planned trade off. In exchange for constructing adequate flood controls, structures located behind those controls are removed from the Flood Insurance Rate Maps (FIRMs).

Accordingly, any reforms that contemplate bringing these same residences back under a mandatory purchase requirement raise very real and powerful equity and fairness issues, in terms of costs to homeowners. A great deal of time and taxpayer money was invested to provide additional flood protection to these residences, and it is only fair that homeowners in these areas, if required to purchase insurance, be recognized for their communities' efforts. In addition, some localities charge a levee fee on property taxes to residents for operation and maintenance of the levee, charging for flood insurance is an additional burden.

NAHB would like to thank the subcommittee for working to address the need for NFIP reauthorization and to avoid a costly lapse in the program. However, due to our concerns, NAHB cannot support the Senate bill in its current form. NAHB appreciates the opportunity to provide input on the legislation, and looks forward to our continued collaboration as we seek to address NFIP reform.

Sincerely,

JWTobin III

James W. Tobin III

LETTER SUBMITTED BY FRANKLIN W. NUTTER, PRESIDENT, REINSURANCE ASSOCIATION OF AMERICA

RAA
REINSURANCE ASSOCIATION OF AMERICA

May 9, 2012

The Honorable Jon Tester
Chairman
Subcommittee on Economic Policy
Committee on Banking, Housing, and Urban Affairs
United States Senate
534 Dirksen Senate Office Building
Washington, DC 20510

The Honorable David Vitter
Ranking Member
Subcommittee on Economic Policy
Committee on Banking, Housing, and Urban Affairs
United States Senate
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Tester and Ranking Member Vitter:

The Reinsurance Association of America (RAA) is pleased to provide comments for the record for the May 9, 2012 Committee on Banking, Housing, and Urban Affairs Subcommittee on Economic Policy hearing entitled "The National Flood Insurance Program: The Need for Long-Term Reauthorization and Reform". The RAA is a national trade association representing reinsurance companies doing business in the United States.

The RAA strongly supports the "Flood Insurance Reform and Modernization Act of 2011" (S.1940), which the Committee on Banking, Housing, and Urban Affairs on September 8, 2011 voted to report to the Senate. The legislation provides a long-term reauthorization of the National Flood Insurance Program (NFIP) and includes desperately needed substantive reforms to ensure the Program can continue to provide needed flood insurance coverage to homeowners living in flood-prone regions, while at the same time protecting U.S. taxpayers.

The RAA supports many of the provisions included in S.1940, but our letter today focuses on Section 136 relating to the role reinsurance may play in returning the NFIP to a fiscally sound and sustainable program. RAA believes the NFIP can address its volatility and extreme event exposure and reduce the dependence of the Program on taxpayers and Federal debt through risk transfer to reinsurance and capital market providers. Both markets have significant capacity and an appetite to assume flood risk.

Reinsurance is critical to insurers and state-based property insurance programs to manage the cost of natural catastrophe risk, and similar cost management and risk sharing can be achieved through the NFIP. Section 136 of S.1940 makes it clear the Federal Emergency Management Agency (FEMA) Director has the authority to utilize private reinsurance to minimize the burden on American taxpayers. RAA also supports provisions that direct FEMA to report to Congress an assessment of the capacity and pricing of the private reinsurance, capital markets, and financial markets by requesting proposals from those markets to assume a portion of the Program's risk. This will allow NFIP to work with modelers, underwriters and/or brokers to provide the market with an evaluation of its risk portfolio, determine what types of risk in the NFIP are amenable to risk transfer and then if they choose to, find and secure coverage in the private sector. Importantly, the legislation would also allow FEMA to develop a protocol for the release of NFIP data to the private sector that includes adequate privacy protections so that an adequate risk assessment can be conducted in developing these proposals.

The process described above would also allow the private sector to evaluate NFIP data and conduct their own risk assessment. Most importantly, this provision helps pave the way for NFIP to transfer catastrophe risk from taxpayers and the Treasury to the private market. Should the NFIP find the bids unattractive on a price or coverage basis, it would not go forward with the placement and the NFIP would be in the same place it is now: dependent on public debt. If the placements were successful, the private sector would be in a position to provide financial relief to taxpayers.

The RAA applauds your commitment to reforming the NFIP and we encourage the full Senate to consider and pass the Committee-passed bill to reform the Program. We look forward to continuing to work with you on this critical issue and putting the NFIP on a sustainable fiscal path.

Sincerely,

Franklin W. Nutter
President

LETTER SUBMITTED BY SMARTERSAFER

SMARTERSAFER.org

May 9, 2012

The Honorable Jon Tester
Chair
Economic Policy Subcommittee
Senate Banking Committee
534 Dirksen Senate Office Building
Washington DC, 20510

The Honorable David Vitter
Ranking Member
Economic Policy Subcommittee
Senate Banking Committee
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Senators Tester and Vitter:

As a diverse coalition of taxpayer advocates, environmental organizations, insurance industry interests, housing groups and others, we thank you for your efforts to reauthorize and reform the National Flood Insurance Program (NFIP). The hearing you are holding today is a positive step to getting the full Senate to consider and pass the Banking Committee-passed bill to reform NFIP, which as you know is in need of serious reform. The program is currently almost $18 billion in debt to federal taxpayers and that amount is likely to increase if reforms to the program are not implemented. Without significant reform, the NFIP will not be sustainable and American taxpayers will continue to be asked to bailout the program time and time again.

The Senate Banking Committee has already unanimously reported out a bill that makes a number of needed reforms to put the flood insurance program on sound financial footing and the House passed NFIP reform with over 400 votes. The bill will phase out risky, unwarranted subsidies that have undermined the financial stability of the program; will allow NFIP to purchase reinsurance to help NFIP pay future claims while protecting taxpayers from these otherwise inevitable costs; will require FEMA to ensure maps are updated and accurate so that people understand and can better prepare for their risks; and will streamline and strengthen mitigation programs to help decrease flood risks and strengthen flood-exposed communities, homes, and businesses.

The Banking Committee has taken a needed step to reforming the nation's flood insurance program and Smarter Safer joins a range of stakeholder groups in applauding this legislation. We urge the full Senate to quickly pass this needed reform to NFIP so that the House and Senate can begin to resolve the differences and quickly get a bill to the President's desk.

We look forward to working with you on this issue and thank you for all of your efforts to pass this critical legislation.

Sincerely,
SmarterSafer

SMARTERSAFER.org

Americans for Smart Natural Catastrophe Policy

Environmental Organizations
American Rivers
Ceres
Clean Air-Cool Planet
Defenders of Wildlife
Environmental Defense Fund
National Wildlife Federation
Republicans for Environmental Protection
Sierra Club

Consumer and Taxpayer Advocates
American Conservative Union
American Consumer Institute
Competitive Enterprise Institute
Taxpayers for Common Sense

Insurer Interests
Allianz of America
Association of Bermuda Insurers and Reinsurers
Chubb
Liberty Mutual Group
National Association of Mutual Insurance Companies
Reinsurance Association of America
Swiss Re
USAA

Housing
National Low Income Housing Coalition
National Leased Housing Association

LETTER SUBMITTED BY JAMES BRADLEY, SENIOR DIRECTOR OF GOVERNMENT RELATIONS, AMERICAN RIVERS

American Rivers
Rivers Connect Us

May 7, 2012

The Honorable Jon Tester
Chairman, Subcommittee on Economic Policy
United States Senate
Washington, DC 20510

The Honorable David Vitter
Ranking Member, Subcommittee on Economic Policy
United States Senate
Washington, DC 20510

Dear Chairman Tester and Ranking Member Vitter:

On behalf of American Rivers' members and supporters across the nation, I write in support of S. 1940, the Flood Insurance Reform and Modernization Act. Thank you for holding a hearing to raise awareness of the critical need for long term extension and reforms of the National Flood Insurance Program (NFIP).

American Rivers is the leading conservation organization working to protect and restore the nation's rivers and streams. We work to preserve our "natural defenses" - our wetlands, rivers, floodplains, and upland and coastal areas –to safeguard communities and the environment. Protecting and restoring floodplains allows room for rivers to safely accommodate flood water, makes communities more resilient to floods and reduces the financial impact of flood recovery on communities and the federal government.

Reform is Necessary

The NFIP was intended to be a tool to manage the Nation's flood risk and reduce flood losses. While the program has helped Americans financially recover from devastating floods for over four decades, it has a number of shortcomings that encourage development in the floodplain, waste taxpayer money, and make communities more vulnerable to floods. These weaknesses, coupled with natural catastrophes like Hurricane Katrina, have resulted in fiscal insolvency and a debt of almost $18 billion to the Treasury.

American Rivers supports long term extension paired with several critical reforms to the NFIP that are included in S. 1940, the Flood Insurance Reform and Modernization Act. For the program to become financially sustainable and to improve protection of flood-prone communities and the floodplain, any long-term extension must include:

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- Improvements to FEMA's flood mitigation programs that will facilitate moving flood-prone properties out of harm's way. These programs eliminate a financial burden from the taxpayers and help restore floodplains.
- Improvements to FEMA's flood mapping program that will improve the accuracy of flood maps and communication of flood risk to communities and homeowners. Reestablishing the Technical Mapping Advisory Council will result in flood maps that more accurately reflect the flood risks associated with sea level rise, climate change, and future development.
- A phase out of flood insurance subsidies that are a financial burden on the taxpayer and have perpetuated development in the floodplain. The bill would phase out subsidies for certain properties including vacation homes, properties that flood repeatedly, and properties that have been substantially updated.

Levees and Residual Risk

The communication of flood risk is a vitally important role of the NFIP that empowers communities and homeowners to make decisions about how to keep their family and property safe during a flood. American Rivers believes the federal government has a moral and financial responsibility to communicate flood risk to all citizens, both in unprotected areas and behind levees and below dams.

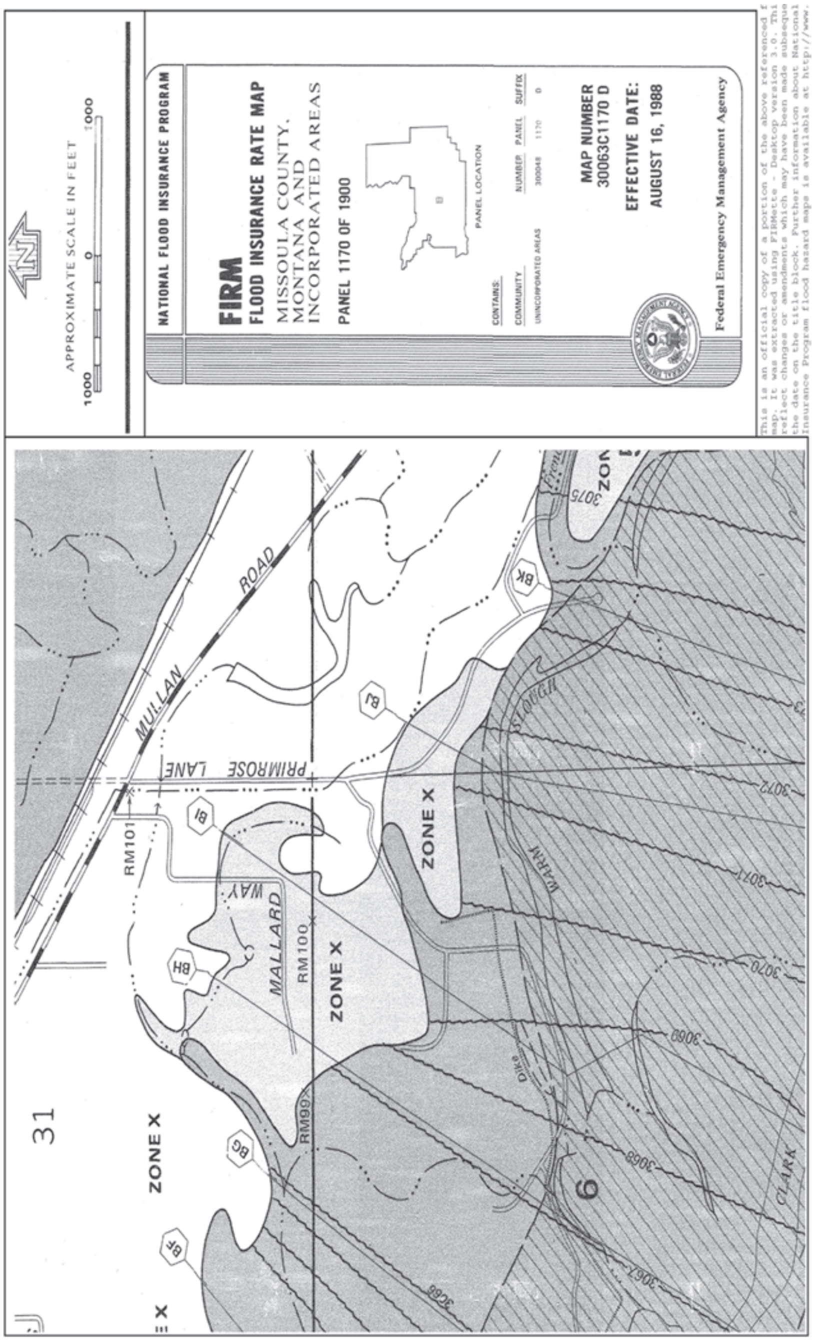
The presence of a levee does not guarantee protection from all floods. Levees are constructed to a certain level, such as the "100-year flood", and can be overtopped by a larger flood or fail if not maintained. Levee failures can be catastrophic for the properties behind them and disturbingly, many people have no idea they live behind a levee. For this reason residual risk areas behind levees and below dams should be mapped, the risk should be communicated to property owners, and development standards and flood insurance should be required. If changes to residual risk sections of S. 1940 are made as the bill proceeds, American Rivers encourages the Senate to maintain requirements to map residual risk areas and communicate the risk to the public.

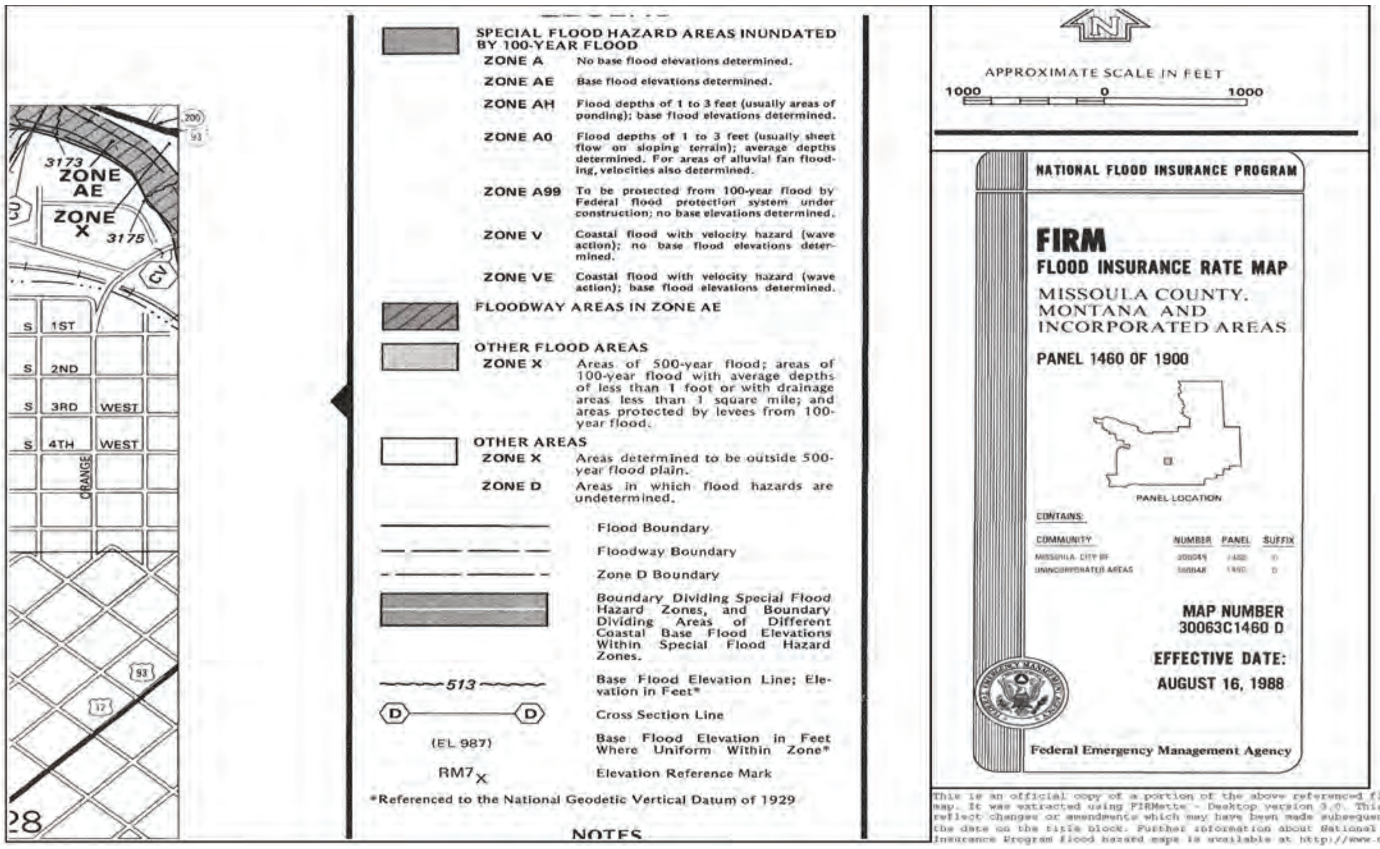
Thank you for holding another hearing on this important issue. We encourage the Senate to pass S. 1940 as soon as possible.

Sincerely,

James Bradley
Senior Director of Government Relations
American Rivers

FIRM MAP AND NOTICE SUBMITTED FOR THE RECORD




3173
ZONE AE
ZONE X
3175
200
93
S 1ST
S 2ND
S 3RD
WEST
S 4TH
WEST
ORANGE
93
12
28
SPECIAL FLOOD HAZARD AREAS INUNDATED BY 100-YEAR FLOOD
ZONE A No base flood elevations determined.
ZONE AE Base flood elevations determined.
ZONE AH Flood depths of 1 to 3 feet (usually areas of ponding); base flood elevations determined.
ZONE AO Flood depths of 1 to 3 feet (usually sheet flow on sloping terrain); average depths determined. For areas of alluvial fan flooding, velocities also determined.
ZONE A99 To be protected from 100-year flood by Federal flood protection system under construction; no base elevations determined.
ZONE V Coastal flood with velocity hazard (wave action); no base flood elevations determined.
ZONE VE Coastal flood with velocity hazard (wave action); base flood elevations determined.
FLOODWAY AREAS IN ZONE AE
OTHER FLOOD AREAS
ZONE X Areas of 500-year flood; areas of 100-year flood with average depths of less than 1 foot or with drainage areas less than 1 square mile; and areas protected by levees from 100-year flood.
OTHER AREAS
ZONE X Areas determined to be outside 500-year flood plain.
ZONE D Areas in which flood hazards are undetermined.
Flood Boundary
Floodway Boundary
Zone D Boundary
Boundary Dividing Special Flood Hazard Zones, and Boundary Dividing Areas of Different Coastal Base Flood Elevations Within Special Flood Hazard Zones.
513
Base Flood Elevation Line; Elevation in Feet*
D
D
Cross Section Line
(EL 987)
Base Flood Elevation in Feet Where Uniform Within Zone*
RM7 X
Elevation Reference Mark
*Referenced to the National Geodetic Vertical Datum of 1929
NOTES
N
APPROXIMATE SCALE IN FEET
1000
0
1000
NATIONAL FLOOD INSURANCE PROGRAM
FIRM
FLOOD INSURANCE RATE MAP
MISSOULA COUNTY, MONTANA AND INCORPORATED AREAS
PANEL 1460 OF 1900
PANEL LOCATION
CONTAINS:
COMMUNITY NUMBER PANEL SUFFIX
MAP NUMBER 30063C1460 D
EFFECTIVE DATE:
AUGUST 16, 1988
Federal Emergency Management Agency
This is an official copy of a portion of the above referenced fl
map. It was extracted using FIRMette - Desktop version 3.0. This
reflect changes or amendments which may have been made subsequent
the date on the title block. Further information about National
Insurance Program flood hazard maps is available at http://www.

Mike Barton
435 Ryman St.
Missoula, MT 59802-4207

Dear Mike Barton,

Of all the potential threats to your business, here's one you may not have seen coming: a couple inches of water. Just a few inches of flooding can leave your business in ruins. Unless your business is covered with flood insurance.

Keeping your business protected means keeping your doors open.

If you think flooding can only temporarily sidetrack a business, think again. Over 40% of small businesses never reopen their doors following a disaster, and the costs of flooding aren't just short-term. A closed business means lost revenue, and a flooded business could mean tens of thousands of dollars in debt.

It costs a little to protect a lot.

In 2010, the average commercial flood claim was nearly $66,000. Yet, for as little as $162 a year, qualified business owners can get $50,000 of contents coverage. And if you need it, complete building coverage is not only available, it's quite affordable as well. So even if a disaster does hit, your business can get back on its feet quickly.

Owning a small business can come with big risks.

During a bad storm, water doesn't just flood your building. It could flood your equipment, your electronics, your records and your entire inventory. Imagine having to replace all of that on your own. Now imagine having it covered. Simply put, your business is too important to leave exposed.

Only flood insurance covers floods.

Protect your business today. To purchase a flood policy, call your agent or one of the flood experts listed below. To learn more about flood risk and flood insurance, go to FloodSmart.gov/business. To find other agents, call 1-888-724-6791.

Sincerely,

Edward L. Connor

Edward L. Connor
Deputy Administrator, Insurance
Federal Insurance and Mitigation Administration

P.S. There's typically a 30-day waiting period on new insurance policies. If you wait until a flood happens, it will be too late. Now is the time to protect your business.

001-23057-000188265-P15-1523

To get flood insurance for your business, contact:

Ty Rembe
State Farm - Rembe Agency
825 W Spruce St. Ste. A
Missoula, MT 59802-3954
406-721-5050
ty.rembe.rgq6@statefarm.com

Adam Emmert
Clark Fork Insurance Agency
1410 S Reserve St.
Missoula, MT 59801-4758
406-542-3112
adamemmert@allstate.com

For other agents in your area, visit FloodSmart.gov/business or call 1-888-724-6791.

FEMA

NATIONAL FLOOD INSURANCE PROGRAM