

Testimony of

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Regarding

FEMA's National Flood Insurance Program; Calculation of Damages and Adequacy of
Payments

before

the House Committee on Financial Services
Housing and Community Opportunity Subcommittee

April 14, 2005

My name is Gary Moselle, and I am the publisher and CEO of Craftsman Book Company. I'd like to thank you, Mr. Chairman, on behalf of my organization, for allowing me to submit testimony concerning the important issues, and significant problems, we believe have been uncovered in regards to the low-balling of claims within the National Flood Insurance Program (NFIP), and the property insurance industry.

Craftsman is recognized as an authority on the cost of both new residential construction and the cost of home improvement, home repair and property loss adjusting. Craftsman cost references have been used by construction estimators and property loss adjusters for over fifty years. Craftsman develops and licenses construction cost estimating data to over a dozen vendors of cost estimating and property loss adjusting programs.

Given that Craftsman data is at the center of a controversy affecting potentially hundreds of thousands of families across the country, I made arrangements to testify before your committee in person, however, recently learned that the committee's time constraints make such oral testimony at this time not possible.

In January 2004, I learned that our new construction pricing data was being used for the purpose of writing insurance estimates. I wrote the attached letter to pattern recognition and fraud detection expert, Mr. Steven Kanstoroom. The letter clearly states such use of our data was never intended by the publisher and, if used as is, would result in pennies on the dollar for insurance claims.

I learned Mr. Kanstoroom provided my letter to the Senate Banking, Housing and Urban affairs Committee. I also understand that, in large part based upon my letter, the Senate directed FEMA to conduct an independent review of all Hurricane and Tropical Storm Isabel Flood claims.

Subsequently, I understand FEMA issued a directive on May 7, 2004. The directive instructed adjusters to consider actual repair costs and estimates in addition to computer generated numbers.

The issue is not one of using computer generated pricing in the calculation of insurance estimates, but rather the use of the correct cost book. The fact is the cost of new construction is far less than the cost of repair and renovation – in some case by a factor of fifty times or more. For example, the time required to remove and replace a new plumbing trap in the event the wrong material was used, brass instead of copper for example, could be several minutes. On the other hand, had the pipe been in place twenty years it may well be impossible to remove the pipe without damaging the several components it is connected to, taking an hour or more and requiring several additional parts.

Several excerpts from my letter that ultimately went to the Senate Banking Committee are:

- Costs in the labor column are for normal conditions: experienced craftsman working on reasonably well-planned and managed new construction
- Add 25% to 50% for work done following a major flood
- Estimates in the National Construction Estimator are costs to the installing contractor and do not include the contractor's overhead and profit. Typical markup on repair projects is 25% to 50%.
- If you are using this book as your sole cost authority for contract bids, you're reading more into these pages than the editors intend.
- Construction costs for repair, remodeling and renovation tasks are widely acknowledged in the industry to be higher than similar work on new construction tasks.
- Renovation and insurance repair work involves access, sequence and matching issues uncommon in new construction.

I understand from a number of articles in the public domain that insurance adjusters routinely take the position that they are not permitted to deviate from the electronic book of numbers. One such report was run on WINK TV in Florida on September 13, 2004. For the reasons outlined above, taking such a position will result in a woefully inadequate reimbursement of damages, easily less than fifty percent of the actual repair cost.

Moreover, leading the consumer to believe that new construction pricing represent a fair and complete valuation of their damages is, in my expert opinion, fraudulent.

Craftsman Book Company does publish cost estimating databases for repair, remodeling and renovation work. However, Simsol Software, the firm named at the center of the pricing controversy, did not at the time of the Hurricane Isabel, nor to this day, license any such data from Craftsman.

Florida Insurance Claims Problems

In September 2004, I received another call from Mr. Kanstoroom regarding the use of our New Construction database, in Florida, for adjusting wind and flood claims.

I immediately wrote a letter to Florida's Chief Financial Officer Tom Gallagher, Governor Jeb Bush, and the Florida Attorney General, Charley Crist. I attempted to alert these officials that, in the wake of such widespread destruction, permitting the use of an artificially low set of numbers for insurance claims adjustments would lead to the same problems for Floridians that Isabel victims had endured for the past year.

I urged the Florida Officials to issue a statement that all losses should be adjusted by starting with repair and renovation cost standards, not the much lower prices for new construction.

I understand from media reports that Mr. Kanstoroom had met with these men as well on this same point.

Nevertheless, apparently no such statement was ever issued and widespread media reports now indicate tremendous suffering is being experienced by Floridians in regards to their insurance claims.

For all of these reasons I respectfully request that you recommend to FEMA, and its insurance partners, that they use the proper price book containing repair and renovation figures as the starting point for writing repair estimates. To allow them to continue to mislead the public into thinking that new construction pricing will result in Replacement Cost Value (RCV) will lead to untold and wholly avoidable suffering by the American public at a time when they are likely to be under stress and, in some cases, shock from their catastrophic loss.

Copies of my letters to Mr. Kanstoroom and to Florida officials are attached.

Thank you for your attention. I am pleased to answer any questions and would be pleased to testify in person on these important issues.