

Flood Insurance Reform

Challenges and Solutions

April 2017

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NFIP Challenges

1. Incomplete and Inaccurate Mapping

- The maps do not take into account natural barriers.
- Some Privately funded levee systems are not being recognized.
- Obvious mapping errors take years to update, causing residents to pay flood insurance premiums until the maps are updated.

2. Questionable Actuarial Calculations

- How can a home, that has never flooded, have a yearly \$64,000 premium for \$250,000 of coverage?

3. NFIP Expenses

- GAO Report (2009) has found that the NFIP pays one-third to two-thirds of annual premium revenue to WYO companies, thus leaving Only 44% of our premiums go toward paying of our claims.

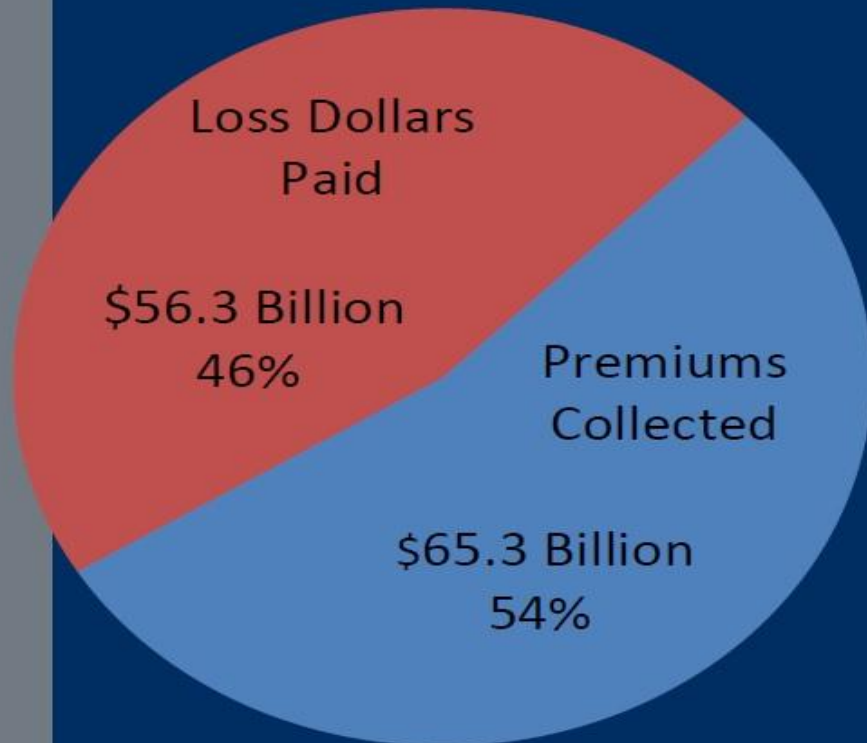
4. Affordability Study

- The study was required by BW-12, it still has not been completed.

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NFIP Premiums Collected vs. Losses Paid since 1978 in 2012 Dollars



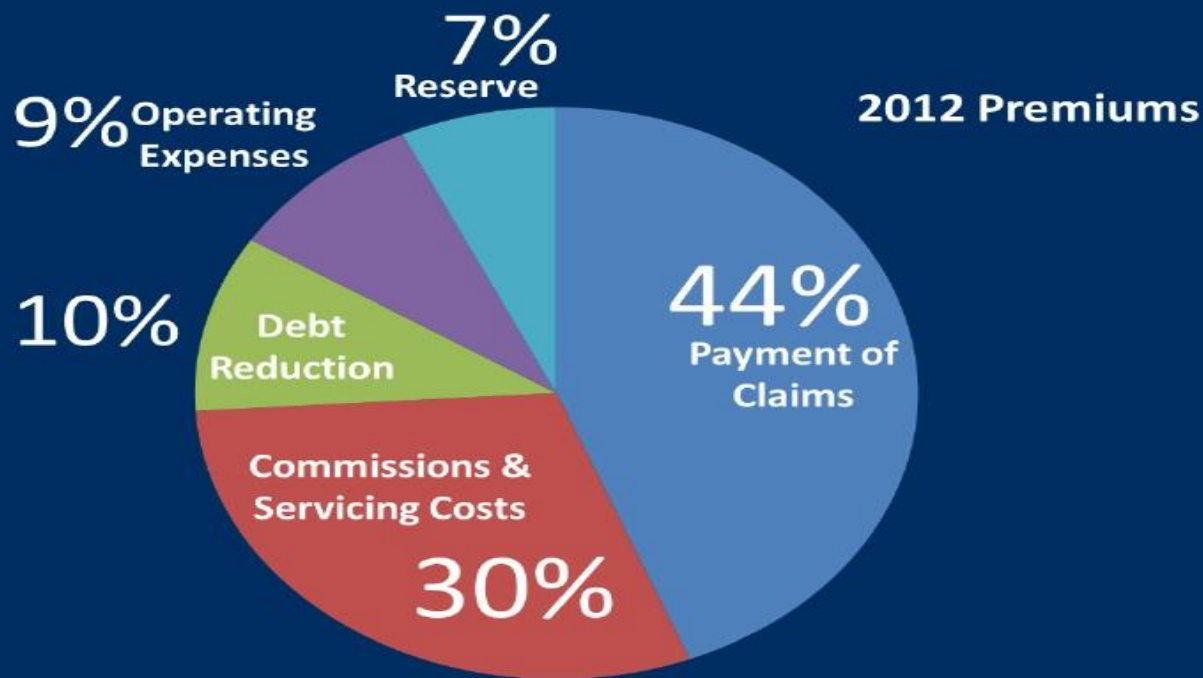
Despite that premium arrangement the NFIP has collected almost

\$9 billion

more in premiums than it has paid out to policy holders since 1978 when measured in 2012 Dollars.



Solvency Question: Premiums



Commissions & Servicing Costs include 14%, Company Expenses 11%, Premium Tax 2%, Loss Adjustment Expense 3%

Insurance Companies Do Not Shoulder Risk

Wind Claims charged to NFIP Policyholders

“The U.S. Supreme Court has upheld a jury verdict finding that State Farm Fire and Casualty Co. defrauded the federal government(NFIP) after Hurricane Katrina hit the Gulf Coast in 2005.”

“This was the first of many such claims against State Farm, and last year, Mississippi sued the company, saying the state had paid more than \$522 million to State Farm policyholders after the company evaded its responsibility by manipulating the reports of its own adjusters and engineers.”

- December 2016

<http://www.npr.org/sections/thetwo-way/2016/12/06/504572603/supreme-court-upholds-hurricane-katrina-fraud-verdict-against-state-farm>

Supreme Court Upholds Hurricane Katrina Fraud Verdict Against State Farm

December 6, 2016 · 2:51 PM ET



www.npr.org/sections/thetwo-way/2016/12/06/504572603/supreme-court-upholds-hurricane-katrina-fraud-verdict-against-state-farm



Solvency Question: Katrina

- Fault of NFIP or USACE?
- NFIP is punishing all those living in flood hazard areas for the failures of Corps levees in 2005
- NFIP payouts as a result of Katrina were not because of the hurricane, but because of engineering failures of USACE levees

Congressman Graves - LA

Sen. Menendez (NJ) attributes \$10 billion and Congressman Graves (LA) attributes \$17 Billion dollars that should have been charged to ACoE .

New Orleans Levee Failure During Katrina

**US Court of Federal
Claims ruled Army Corps
of Engineers is liable
for flooding of NOLA**

May 1, 2015

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The NFIP should be reimbursed by ACoE because the levee system, that was designed to withhold the flooding from Katrina, failed.

Congressman Graves and Senator Menendez have stated that \$10-17 Billion should be given back to the NFIP policyholders..

Mismanagement of the Flood Insurance Program

- 1% of Severe Repetitive Loss (SRL) Properties account for more than 1/3 of all claims. (These properties should have been mitigated decades ago.) One Humble, Texas home has resulted in over \$2 million in flood payouts even though it was worth just \$116,000. This home could have been bought outright 17 times over.

Cost to the NFIP Program **\$8.3 Billion Dollars**

<http://www.gao.gov/products/GAO-04-401T>

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The \$8.3 Billion Spent to Rebuild SRL properties should not be charged to NFIP Policyholders.

FEMA/NFIP are mismanaging these properties and should eat the cost.

Severe Repetitive Loss Properties

Perhaps the toughest criticism of the NFIP is that the same insured and subsidized properties are flooded repeatedly and are rebuilt, sometimes several times, in the same location using NFIP funds. As of 2012, repeat property losses account for just 1% of NFIP's insured properties, but 25% to 30% of claims.² Put another way, one in 10 policies has a claims history more than the value of the property.



Figure 2. Extreme examples of repetitive loss properties (Source: USA Today based on <http://www.air-worldwide.com/Publications/AIR-Currents/2013/U-S-Flood-Insurance-the-NFIP-and-Beyond/>)

- Wilkinson County, MS- The home was valued at \$69,000, it received over \$663,000 in flood claims to rebuild after repetitive floods.
- Humble, TX - The home was valued at \$116,000, it received over \$2,000,000 in flood claims to rebuild again and again.

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The \$25 Billion Dollars NFIP debt needs to be forgiven because of a folly of errors has caused NFIP Policyholders to pick up the tab on mismanagement by several federal agencies.

This could save the NFIP program \$400 million a year in interest only payments.

[Home](#) > [Legislation](#) > [114th Congress](#) > H.R. 5953  Print  Subscribe

H.R.5953 - National Flood Insurance Program Debt Forgiveness Act of 2016

114th Congress (2015-2016)

BILL Hide Overview ✕

Sponsor: [Rep. Waters, Maxine \[D-CA-43\]](#) (Introduced 09/08/2016)

Committees: House - Financial Services; Budget

Latest Action: 09/08/2016 Referred to House Budget ([All Actions](#))

Tracker:

Introduced

[Summary \(0\)](#) [Text \(1\)](#) [Actions \(4\)](#) [Titles \(2\)](#) [Amendments \(0\)](#) [Cosponsors \(7\)](#) [Committees \(2\)](#) [Related Bills \(0\)](#)

Summary: H.R.5953 — 114th Congress (2015-2016)

Mandatory Purchase Requirement

Mandatory Purchase Requirement

- Compliance
 - Percentage of structures in the SFHA with a federally backed mortgage and having insurance
 - Number of studies - range of 50-60% (most current, highest resolution); some states less than 20%
 - Challenges in lender enforcement and federal oversight
- Retention
 - Mix of new and dropped policies each year
 - Immediate drop the first year after purchase (20-30%)

The current policy of mandatory flood insurance purchase appears to be ineffective in achieving widespread purchase of NFIP flood insurance policies.

Conservative Estimates:

There are 2.75 Million structures that should be paying flood insurance.

Assumption: \$1,000 per policy, direct from consumer

Assumption: \$3,000 per policy, (Forced Placed Insurance)

Additional Revenue to the Flood Program would be :
Direct from Consumer - \$2.75 Billion
Forced Placed - \$8.25 Billion

THE NATIONAL ACADEMIES
Advisers to the Nation on Science, Engineering, and Medicine

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Mandatory Purchase Requirement

Banks are not getting fined if when they don't comply.

The Banks must "Force Place" customers if they do not comply.

NFIP Charges / Additional Revenue

Wind Cases Fraudulently switched to Flood Cases	\$10 Billion	
ACoE Levee Failure in Katrina	\$10 Billion	
SRL Properties	\$8.3 Billion	
Interest Only Payments on Debt (\$400 million x10 yrs)	\$4 Billion	
<u>Reimburse the NFIP Program</u>	<u>Total</u>	<u>\$32.3 Billion</u>

Mandatory Flood Insurance Mandate
(30-50% homes in SFHA, w/mortgage do not carry NFIP ins.)
1.7 million homes x \$1,000 premium each

Additional Premiums paid into the NFIP Program Yearly **\$1.7 Billion**



"Every year, homes and businesses located in areas with lower flood risks are inundated with flood waters. Evidence to support this fact includes FEMA's determination that 25 percent of annual flood losses occur outside SFHAs⁷ and data showing that approximately one-third of federal flood disaster assistance is allocated to homeowners living outside of designated SFHAs.⁸

Further supporting this fact is a comprehensive study conducted by the Wharton Center for Risk Management and Decision Processes. In its study, the Wharton Risk Center examined 1 million NFIP claims from 1980 – 2012 and found that the claim rate for insured SFHA and non-SFHA structures were almost equal. The difference in claims rates was 0.28 percent, a figure that was not statistically significant.⁹ Given the equality of claims rates between flood prone areas and areas perceived by consumers to have little or no flood risk, it is imperative that flood insurance coverage levels in such areas improve.

Each home and business in areas with residual flood risks or moderate- to low risk is exposed to loss and these communities will be more resilient if structures are covered by flood insurance. With limited feasible options to compel these property owners to purchase flood insurance coverage, NFIP must persuade consumers to do so. NFIP should examine the process of obtaining flood insurance to determine if there are barriers to consumers taking the decision to purchase flood insurance. NFIP should consider partnerships with states to determine how changes in the process of purchasing flood insurance could improve purchase rates and evaluate strategies to present coverage options to consumers who believe that because they are not required by law to purchase flood insurance they have no exposure to flood risk. "

Increasing Participation into the NFIP Pool.

50% of homes that are flooded are NOT situated in SFHA.

NFIP Shouldn't pay for Flood Mapping

- Dozens of Federal and State Agencies use the flood maps. The financial burden should be spread out equally to all those agencies using the maps.
- According to FEMA's own statistics the flood maps are +/- 40% wrong.
- The cost for homeowners (LOMA's) and townships (Flood Map Appeals) to fix the faulty FEMA maps amounts to billions. The cost to fix Faulty maps cost more than pay for new maps.
- New York City's Flood Map Appeal proved that the elevations were off by 1-2 feet across NY and NJ. This appeal cost millions.

Flawed Flood Maps

Brought to you by

FEMA



20,000 flood zone communities will be fighting the flood maps. \$50,000 for each community.

This will cost us over \$1 Billion dollars.

The Flood Map firms must be penalized.

Fema MUST reimburse the communities.

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This vicious circle concerning the faulty flood maps costs more and more money to the towns to file a flood map appeal and to individual homeowners filing LOMA's; hiring their own engineers and purchasing elevation certificates.

NYC has spent millions on their own flood map appeal.

What is the Cost to
LIDAR Map
all 22,000 Flood zone
Communities?

FEMA Flood Maps are wrong +/- 40%

FEMA wants to incorporate "future conditions" data **guessing** at long-range climate, sea level rise, land use/precipitation changes. No actionable science no benefit-cost analysis, no idea about affordability impacts. (TMAC - Technical Mapping Advisory Council)

<https://www.fema.gov/media-library/assets/documents/111853>

FEMA Technical Mapping Advisory Council "Future Conditions" report, December 2015, **p. 3-32**

FEMA vs. NYC

How many properties included into flood plain

Table 1-4. Changes in residents and buildings in the 1-percent-annual-chance floodplain between 2007 FIRMs, 2015 PFIRMs, and the City's analysis.

1-Percent-Annual-Chance Floodplain*					
	2007 FIRMs	2015 PFIRMs	City's Analysis	Change from 2007 FIRMs to City's Analysis % increase	Change from 2015 PFIRMs to City's Analysis (% decrease)
Residents	218,000	400,000	230,000	6%	(43%)
Buildings	36,000	71,500	45,000	25%	(37%)
1-4 Family**	26,000	57,400	42,000	38%	(27%)
Floor Area (Square Feet)	377,000,000	532,000,000	383,000,000	2%	(28%)

*Rounded for clarity

**A subset of total number of buildings

Over a 50% increase in properties added to flood zone from current flood maps.

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NYC Flood Map Appeal

Over 30% more properties added into the floodplain.

If we extrapolate that across all 22,000 flood zone communities we estimate there will be an additional 1.5 million properties included into the floodplain.

This equates to 1.5 Billion Dollars in additional premiums



Table 1-3. 2015 PFIRMs and City Analysis percent-annual-chance stillwater elevations (feet, NAVD88) at NOAA gage stations.

Location	Analysis	10%	2%	1%	0.2%
The Battery	2015 PFIRMs	6.9	9.9	11.3	14.9
	City's Analysis	6.1	8.0	9.2	12.7
Kings Point	2015 PFIRMs	9.7	11.9	12.7	14.5
	City's Analysis	9.4	11.0	11.6	13.2
Willets Point	2015 PFIRMs	9.8	12.0	12.9	14.7
	City's Analysis	9.5	11.1	11.7	13.3
Sandy Hook	2015 PFIRMs	7.2	9.9	11.1	14.4
	City's Analysis	6.3	8.1	9.3	13.2

Difference between FEMA and NYC's BFE's

-2.1 ft

- 1.1 ft

-1.2 ft

-1.8 ft

Note; 1% is FEMA's 1 in 100 year flood plain.

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1.3 SUMMARY OF BASES FOR APPEAL

As a result of the assessments and discussions between FEMA and the City described in Section 1.2, the City conducted a detailed assessment of FEMA's PFIRM coastal analysis and identified two primary sources of technical and scientific errors⁷ that have resulted in incorrect BFEs and SFHA boundaries: (1) insufficient ET storm model validation; and (2) misrepresentation of tidal effects for ET storms. The City's findings show that the errors in the FEMA analysis are remarkable and revisions to FEMA's analysis are required in order to properly determine BFEs and SFHA boundaries in the study area.

Due to the time limitations of the 90-day appeal period and the background information described in Section 1.2, ET storms alone are the sole focus of this appeal. The City suspects that there may be similar improvements that could be made to FEMA's methodologies for determining the contribution of tropical storms in the total percent-annual-chance stillwater elevations and welcomes further discussion with FEMA related to tropical storms, including further evaluation of the impact of Hurricane Sandy, a historic tropical storm in the study area.

⁷The proposed BFEs, base flood depths, SFHA zone designations, or regulatory floodways are said to be technically incorrect if at least one of the following is true:

- The methodology was not applied correctly.
- The methodology was based on insufficient or poor-quality data.
- The application of the methodology included indisputable mathematical or measurement errors.
- The methodology did not account for the effects of natural physical changes that have occurred in the floodplain.

The proposed BFEs, base flood depths, SFHA zone designations, or regulatory floodways are scientifically incorrect if the methodology used is inappropriate or incorrect, or if the assumptions made as part of the methodology are inappropriate or incorrect (FEMA 2011a).

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NYC Flood Map Appeal

- “Methodology incorrect”
- “Methodology on insufficient or poor quality data”
- “Insufficient Storm Model Evaluation”
- “Misrepresentation of Storms”
- “Errors are remarkable”
- “Methodology included indisputable mathematical or measurement errors”
- “The proposed BFEs, base flood depths, SFHA zone designations, or regulatory floodways are scientifically incorrect.”

All Homeowners should have Option to Buy NFIP Insurance;

- if “opt out” then they are not eligible for FEMA assistance in future disaster.
- If “opt in” then eligible for all FEMA assistance.



As part of our investigation, the Attorney General has identified several fundamental flaws with the National Flood Insurance Program and its administration.¹ These flaws include:

- **A lack of clarity in the scope of coverage under the Standard Flood Insurance Policy.** Contrary to what many homeowners believe, flood insurance coverage is complex and severely limited. What constitutes a “flood” for purposes of the standard flood policy is generally misunderstood, and policyholders are also generally unaware that the type, nature, and location of flood forces generated by the floodwaters can play a significant role in determining coverage. Contributing to this general misunderstanding are marketing materials for flood insurance, which typically fail to clearly disclose these key limitations.
- **Inadequate training and lack of certification requirements for structural engineers retained in connection with flood claims.** While adjusters retained to provide services in connection with the flood claim administration process are required to be certified, there is no such requirement for engineers or engineering firms. This lack of certification and corresponding training in structural damage causation analyses can often lead to incorrect or imprecise findings, which may in some instances cause policyholders to be either over- or underpaid on their respective claim.
- **Poor administration and supervision of the flood claims process, including the failure to provide important documentation to policyholders.** Our investigation revealed systematic inefficiencies as well as inadequate transparency and oversight in the flood claim process, resulting in delays for consumers and higher costs for taxpayers.

“Earth Movement” / Catastrophic Exclusion

The Standard NFIP Policy does not pay for “Earth Movement” damage from a storm.

“Earth Movement” damage was excluded from the Flood Policy because the cost to cover this damage would have caused premiums to “skyrocket”.

The reason for any insurance is to protect against the catastrophic damage, the “Earth Movement” excludes this.

"FEMA has interpreted the HFIAA to allow for the total amount charged to the policyholder to increase an average of 19.8 percent for all 5.5 million FEMA policies and an increase of 37% for hundreds of thousands of certain policies."

12/17/2014

http://insurancenewsnet.com/oarticle/2014/12/16/fema-announces-higher-than-expected-rate-increases--a-579096.html#.VJGNFCvF_Zc

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Are 19.8% to 37% compounded yearly increases “affordable”?

How will this affect the housing market in flood zone communities?

Flood zone properties now have a “stigma” because of Flood Insurance increases.

Is a 25% flood insurance increase Affordable?

This is how a 25% compounded increase affects us.

Current Premium	Increase(25%)	Surcharge	Premium
Year 0			\$2,000
Year 1	\$500	\$250	\$2,750
Year 2	\$687	\$250	\$3,687
Year 3	\$921	\$250	\$4,858
Year 4	\$1,214	\$250	\$6,322
Year 5	\$1,580	\$250	\$8,152
Year 6	\$2,038	\$250	\$10,440
Year 7	\$2,610	\$250	\$13,300
Year 8	\$3,325	\$250	\$16,875
Year 9	\$4,218	\$250	\$21,343
Year 10	\$5,335	\$250	\$26,928

How will this affect our local and national economies?

How will this negatively impact the value of the properties in a flood zone?

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Does a \$11,494.00 yearly flood insurance premium seem reasonable for a home valued at \$128,000 ?

\$100K Mortgage=
\$500 a month

An \$1,100 a month flood premium will render this property virtually worthless.

00959 3762464 000960 001919 00010001

Date: 12/20/2013

National Flood Insurance Program
U.S. Department of Homeland Security
P.O. Box 2965
Shawnee Mission, KS 66201-1365



FEMA

>000959 3762464 0001 092201 10Z

Insured

Brunswick, GA 31525

Agency

Brunswick, GA 31520

RE: Policy Number
Insured's Name

Property Location

Brunswick, GA 31525

Dear Agency:

We have received an endorsement request for flood insurance for the above referenced property in the amount of 130,800 Building Coverage and 23,400 Contents Coverage with a premium payment of \$5,875.00. Based on the risk rating factors indicated on the endorsement, the correct premium for the coverage requested is \$11,494.00. The premium on this policy, therefore, has been underpaid by \$5,619.00.

In accordance with the terms specified in the Standard Flood Insurance Policy, section VII.G, Reduction and Reformation of Coverage, in order to receive the originally requested coverage as of the original effective date, the underpaid premium must be received by us within 30 days of the date of this letter. If we do not receive the underpayment by that date, we will issue the policy with coverage in the amount that the submitted premium would purchase.

The enclosed remittance form should be returned with the payment due.

Sincerely,
Underwriting Department
1-800-638-6620

CC: Insured
Lender

**This pre-firm house sold for \$128,000
In September 2012. The premium is nearly
10% of the value. How does this make sense?**

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Flood insurance premium in 2013 - \$4,600

Flood insurance premium in 2014 - \$65,738.00

Never Flooded. This is my 2nd home - "Mansion"

Hartford Insurance Company of the Midwest
Flood Insurance Processing Center
P.O. Box 205
Kellisville, WI 53993
Phone: 800-303-5663 Fax: 866-528-3209

January 18, 2014 **COPY**

POLICY NUMBER: [REDACTED]
INSURED NAME: [REDACTED]
Property: [REDACTED]

REDUCE COVERAGE AT RENEWAL DUE TO SHORT PREMIUM

Dear Producer:

The amount of premium submitted to renew the flood insurance policy listed above was insufficient to reimburse the amounts of coverage on the expiring flood policy. The policy has been issued but coverage has been reduced based on the amount of premium received, as shown below.

Building	\$ 17,400
Contents	0

I | Additional comments:

Please remit the additional premium of \$61,038.00 **←** to restore coverage back to the amounts purchased on the previous 2013 policy. If premium is received within 30 days of the date of this letter, the coverage increase will be effective on the inception date of the policy. If not, coverage will be increased with a 30 day waiting period from the day premium is received.

If you have any questions, please contact us at the phone number listed above or by email at cs@floodpro.net.

Thank you.

Flood Insurance Processing Center JXB doc:REDRWL
cc: [REDACTED]

Handwritten notes:
Plus 4,696.00 paid
total new rate = \$65,738.00 **←**

Does a \$65,788.00 yearly flood insurance premium for a \$250,000 flood insurance policy seem reasonable for a home that has never flooded?

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The Exorbitant Rise in Flood Insurance Premiums WILL be Devastating!

Properties become uninsurable

- ↳ Properties become unsellable
- ↳ Property values go to zero
- ↳ Owners lose everything
- ↳ Banks lose mortgage portfolio
- ↳ Real estate market freezes
- ↳ Companies lose workers
- ↳ Economies are destroyed

NFIP, itself, goes into "death spiral" as people leave program

- ICC needs to be increased so homeowners have adequate funds to raise their homes.
- Is the \$75 ICC fee allocated correctly?
(\$75 X 5.1 million = \$382 Million annually
This equals 12,700 \$30,000 ICC claims
- A Rental Stipend needs to be added to the NFIP policy.



The U.S. Government has spent over \$200 billion dollars in federal disaster appropriations from 2003 - 2013.

If that money were spent proactively on mitigation efforts it could save over a trillion dollars in future flooding.

Studies suggest we get from 4 - 45 times the money back in protecting communities from future storms.

Response over Prevention—Are We Doing this in Reverse?

In 2016, the Congressional Budget Office (CBO) identified \$209 billion in federal disaster appropriations solely for hurricane response from 2000 through 2015.¹ The increase in hurricane-related disaster expenditures was dramatically demonstrated in the surge of supplemental appropriations for the Army Corps of Engineers (USACE or Corps). From 2003 to 2013, Congress enacted supplemental appropriations for USACE of \$32.2 billion with \$27.5 billion appropriated to facilitate Corps response to flooding.² The largest amounts appropriated were in response to the 2005 hurricanes (Katrina, Rita, Wilma) and Hurricane Sandy—\$16 billion and \$5.35 billion, respectively.³

Figure 1: Federal Hurricane-Related Disaster Expenditures by Agency—FY2000–2015

Agency	FEMA/DRF	HUD	USACE	Other Agencies
Percent Allocation	44%	20%	11%	26%
Total	~\$92 billion	~\$42 billion	~\$23 billion	~\$54 billion

Source: Congressional Budget Office (rounding causes totals to exceed appropriations identified by CBO)
Other Agencies includes DOT, DOD (non-USACE), ED, SBA

To add context to the \$27.5 billion in supplemental appropriations, annual appropriations for the USACE civil works program have ranged between \$4.5 billion and \$5.5 billion from fiscal year 2003 through fiscal year 2013.⁴ One analysis of USACE funding determined that supplemental appropriations were equal to almost half of regular USACE appropriations from 2003 through 2013.⁵

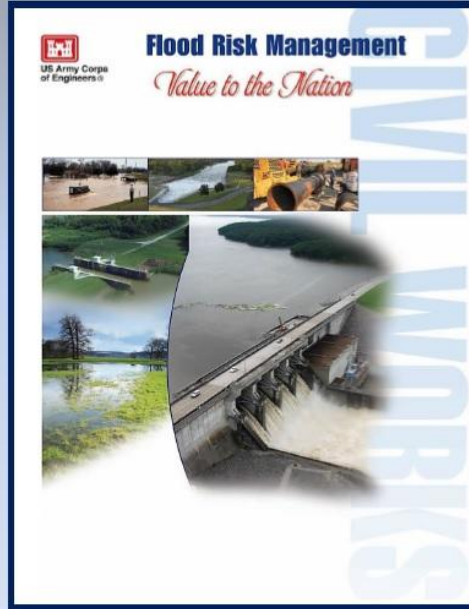
Return on Investment

4 to 1

Hazard Mitigation Assistance



6.5 to 1



45 to 1

Mississippi River and Tributaries Project

Levee System Evaluation Report for the National Flood Insurance Program

United States Army Corps of Engineers
Mississippi Valley Division
Memphis District
Vicksburg District
New Orleans District



April 2014



Below is an obvious example of FEMA mismanagement.
How mismanaged are the flood maps and actuary rates?

Spending \$172K on a Temporary trailer to help 1 flooded homeowner for \$135K home is fiscally unsound

FEMA TRAILER \$150,000



**Plus \$22,000
FEMA Management Fee**

\$135,000 3 BED/2 BATH HOME



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StopFemaNow@gmail.com

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We are a 501 (c) (4) nonprofit organization