NATIONAL ASSOCIATION of REALTORS®
REALTOR®

500 New Jersey Avenue, N.W.

Washington, DC 20001-2020

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STATEMENT OF

MAURICE "MOE" VEISSI
NATIONAL ASSOCIATION OF REALTORS® 2012 PRESIDENT

TO THE

UNITED STATES HOUSE FINANCIAL SERVICES COMMITTEE
HOUSING AND INSURANCE SUBCOMMITTEE

HEARING TITLED

IMPLEMENTATION OF THE BIGGERT-WATERS FLOOD INSURANCE ACT OF 2012: PROTECTING TAXPAYERS AND HOMEOWNERS

NOVEMBER 19, 2013

Introduction

Chairman Neugebauer, Representative Capuano, and members of the Housing and Insurance Subcommittee, more than 1 million members of the National Association of REALTORS® (NAR) thank you for this opportunity to testify on implementation of the Biggert-Waters Flood Insurance Act of 2012.

My name is Moe Veissi. 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 NAR's 2012 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.

Thank you for passing a 5-year reauthorization of the National Flood Insurance Program (NFIP). I especially wish to acknowledge Representative Maxine Waters today, for her continued leadership and tireless efforts in maintaining access to affordable flood insurance. Reauthorization ended the uncertainty of month-long extensions or shut downs that cost 40,000 home sales each month. The flood program also protects taxpayers by reducing the amount of emergency disaster relief to be spent on underinsured properties after major floods.

While the 5-year NFIP reauthorization brought stability, the law has proven complicated and difficult for FEMA to implement. Only the first round of rate changes have taken effect and already, property owners and Realtors® across the country are reporting dramatic increases well beyond what was imagined and certainly beyond congressional intent.

Realtors® strongly support the "Homeowner Flood Insurance Affordability Act" introduced by Representatives Michael Grimm (R-NY) and Maxine Waters (D-CA), and by Senators Bob Menendez (D-NJ) and Johnny Isakson (R-GA) in the Senate. This legislation would delay further implementation of the major rate changes until FEMA completes the affordability study required by Biggert-Waters, creates an office of the Advocate to investigate the flood insurance rate increases and reports to Congress with a proposed solution to the problems encountered based on the findings.

In the interim, NAR calls on FEMA to convene a national summit with key stakeholders to develop a longer-term affordability solution. We believe that the Agency already has the ample authority under current law to begin the discussion and should not wait for Congress. We stand ready to work with you and the Administration to bring clarity to housing markets subject to the Biggert-Waters reforms.

Biggert-Waters Provided 5 Years of NFIP Stability

The Biggert-Waters Act of 2012 (BW12) provided the first longer-term NFIP reauthorization in many years. Eighteen times since 2008, Congress had extended the program month-to-month. Twice, Congress gridlocked and failed to pass an extension. During each lapse, NFIP could not write insurance policies in more than 20,000 communities nationwide where flood insurance is required for a mortgage, and therefore for most property purchases.

The BW12 reauthorization ended the uncertainty surrounding extensions and shutdown that cost 40,000 home sales per month. Each lost sale meant lost jobs, income, economic growth and community revenue. The reauthorization also protected taxpayers by reducing the amount of emergency disaster relief that Congress will need to spend on uninsured and underinsured properties after the next major flood.

In addition to reauthorization, BW12 maintained NFIP coverage for all properties so no one would have to take their chances in a virtually nonexistent private flood insurance market. While there may be the potential for some niche players where lenders can accept a non-NFIP policy, private insurance companies would still cherry pick and likely not find it profitable to write policies in higher risk coastal zones.

BW12 also instituted several reforms so that the NFIP could more quickly pay back the loans incurred to cover losses from Hurricanes Katrina and Sandy and remain solvent over the long-term. The law phases out subsidies for the "Severe Repetitive Flood Loss" properties that represent 1% of insured properties but 30% of flood claims. It also provided a 4-5 year transition period for most properties to adjust to any rate increases, as well as allowing installment payments for flood insurance so the costs would not have to be absorbed in one lump sum.

Lastly, BW12 included improvements to the accuracy of the flood maps used to determine which properties require flood insurance. It created a technical council of experts to review and set the mapping standards. It also subjected FEMA's mapping determinations to third-part dispute resolution and provided for reimbursement for successful map appeals.

BW12 achieved many of NAR's NFIP priorities, and ensured the program's continuation for the 5.5 million businesses and homeowners that rely on the program for flood insurance. It also ensured that U.S. taxpayers will spend less on emergency disaster assistance for underinsured properties after major floods. However, there have been a number of unintended consequences as a result of the new law. The remaining issues of affordability must be addressed.

BW12 Implementation Has Unintended Consequences

While bringing stability to the NFIP, the law has proven too complicated and difficult for FEMA to implement in an open and transparent process for all stakeholders. To date only the first round of rate changes have taken effect and already property owners and Realtors® across the country are reporting dramatic increases that are well beyond what we and many members of Congress believed to be possible. FEMA is relying solely on their network of write-your-own (WYO) insurance agents to roll out the changes to the program without sufficient training or timely, up-to-date information needed to fully respond to consumer questions.

Selective implementation has contributed to the rate confusion

FEMA has introduced needless complexity into an already complicated law. For example, FEMA waited nearly nine months to implement section 205's removal of subsidized rates at point of sale for properties purchased after July 2012. It was not until March 2013 that FEMA issued guidance so that the WYO companies could begin quoting the non-subsidized rate for purchased properties.

FEMA's guidance directed WYOs to implement the purchase provision beginning on October 1, 2013 and to apply it retroactively to sales beginning in July 2012. Some WYO companies were quicker than others in updating their rate quote software before that date. Those that could update provided two quotes for one property – the first if the home was purchased before October 1 and the second, if purchased afterward. This only confused prospective buyers. The other WYO companies, however, only provided the first rate quote, not the second.

In addition, FEMA has yet to implement section 207 because it only recently began collecting the data on "grandfathered" properties, i.e., those properties that have been mapped and are paying an actuarial rate but whose risk has increased due to new maps. In the past, these properties were allowed to keep their original risk rates because they were built to code at the time. FEMA has posted on its site that it will begin phasing out grandfathered rates in late 2014 at the earliest. That date, however, seems to be a moving target.

While continuing to roll out new maps and pushing forward with some provisions increasing rates, FEMA has yet to implement the other provisions that could help homeowners in the affordability arena, including:

- Completing the affordability study required by BW12 so Congress can understand and act on the rate changes; the report was due April 2013 but may not be completed for another two years.
- Providing for installment payments and reimbursement for successful flood map appeals. We are not aware of FEMA's plans to initiate either rulemaking any time soon.
- Issuing a "without levee" policy to give partial credit in the premium rates for any flood protection provided by a dam or levee that has not been federally accredited.

In addition to the changes mandated in BW12, FEMA continues to roll out flood map updates in communities across the country. While not a result of BW12, maps and changes in the law do have overlapping effects. The vast majority of Realtor® reports come from areas where a map was recently updated. Part of the rate increases could be due to the property being mapped into a higher risk flood zone, in addition to a subsidy being phased out. But we do not have the information to determine how many of the reports involved a new flood map.

Homebuyers were not warned

Because FEMA delayed, then retroactively applied, the purchase provision in section 205, many home buyers, specifically those who bought between enactment of BW12 and March 2013, were not warned of rate increases before purchasing their properties. Flood insurance policies are not labeled as "subsidized." Many of the homebuyers did not learn of the increase until opening the policy's renewal notice. For example:

- Tim and Caterine Clearwater (Purchased November 2012) – First-time home buyers with an infant who searched for years near his work as a merchant marine. The Clearwaters spent their life savings to put a 20% downpayment on their purchase and took out a conventional loan on a modest 1950's home in Haleiwa, HI. They were never told and are facing an increase from \$2,700/year to \$28,000 or more/year (see example 5 of the appended report).
- Brent and Maggie Campbell (Purchased October 2012) – Second home buyers of an 850 ft^2 beach rental in Folly Beach, SC. Like many other middle-class families, the Campbells –

both architects – were looking to supplement their income with an investment property. They too were never told of the increase from $825/year to $13,000/year (nearly a 1,500% premium increase) according to the rate quote.

Neither the Clearwaters nor the Campbells can afford the increases they face. Both would have walked away from the purchase had they been informed.

There do not appear to be good options for these families:

- Neither can sell without significantly reducing the homes' listing prices and taking a loss.
- Both have maxed or nearly maxed out their flood policy deductible at $5,000.
- The Campbell's rate reflects a Community Rating System discount of $2,100.
- The Clearwaters home was already elevated before purchase.
- The Clearwaters were not able to obtain an elevation certificate by the renewal deadline of October 31, so they received a tentative rate of $10,000/year for one year.
- If unable to get a loan to elevate or buyout the property, both could be facing foreclosure.

Realtors® supported BW12 as it passed the House (H.R. 1309), which included a gradual 5-year phase-out both for the purchase or grandfathering of property. There was also a 12-month grace period before the phase-outs would begin. The Senate version did not include a purchase provision.

When added to the omnibus transportation bill (called MAP-21) the night before the vote, those provisions changed. While still applying to grandfathered properties, the gradual 20% cap on rate increases for the purchases was deleted, as was the grace period. Buyers would see the full actuarial increase upfront, but Congress intended them to be warned first. Also, the grandfathering provision appears to have been expanded to include "any property," when the original intent was to limit it to helping newly mapped properties.

The vote was on a conference report for the bill so amendments were not allowed. It was a Sophie's choice: either support the final bill with the changes, or oppose and risk 4 years of efforts to reauthorize NFIP and get real estate transactions moving again in 20,000 communities nationwide. Realtors® chose to support the reauthorization and keep working to make any necessary technical corrections.

$87,000 Flood Insurance

This was supposed to be a myth.

No one could have imagined rates of this magnitude. Before BW12, FEMA had repeatedly reported in its annual rate reviews that subsidized policy holders were paying 40-45% of the actuarial cost and that the average subsidized rate was $1,200/year in 2011.[1] The Congressional Budget Office adopted those figures when scoring the legislation. When FEMA was confronted with the reports of $30,000 flood insurance, the Agency initially responded that actuarial rates could range between $500 and $10,000 or more, but it would be unusual to see a rate outside this range.

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[1] GAO. "Flood Insurance: More Information Needed on Subsidized Properties," Report #GAO-13-607, July 3, 2013.

Yet consumers and Realtors® across the nation were routinely reporting rate quotes for flood insurance in the $20,000-$30,000 range. Consequently, prospective buyers have been walking away or refusing to come to the closing table on properties if flood insurance is required. Some sellers have responded with a front-yard sign or MLS selling point that "no flood insurance required." Others, who are not so fortunate, are being forced to reduce their listing price or choosing not to sell and are stuck. Based on NAR survey data before October 1, 2013, when the first round BW12 went into effect, Realtors® reported that 10% of their transactions were located in a floodplain.

On October 1, coastal markets froze. The freeze spread, and has been felt as far inland as A zones near rivers in Indiana. According to RAND, a $500 premium increase is associated with a $10,000 decrease in property value based on previous research.[2] Not only were the increases affecting the sellers but also entire neighborhoods as winners and losers were picked. It was costing jobs and income in related industries and rippling throughout the local economy and community tax base.

We asked an expert, Lisa Jones of Carolina Flood Solutions, to review several of the rate quotes we received, including one for $87,000. She's a certified floodplain manager with nearly 30 years of experience advising clients on the NFIP from a variety of vantage points, including former NFIP coordinator and past president of the Association of State Floodplain Managers. Her full report with findings and recommendations is appended to this testimony.

While information to draw definitive conclusions isn't available, it appears that the $87,000 example is potentially a mistake by the insurance company. The example involves the purchase of property under BW12. However, the property's construction date (1986) appears to follow the community's first flood map (1984), meaning it may be eligible for a lower grandfathered rate (i.e., until FEMA implements section 207). It will also have to be confirmed that the structure is built to A-zone standards or has a current policy where the rate can be assigned. Moreover, this appears to be a classic case of over-insurance: the quote was for $250,000 of coverage but the property may require less insurance if the structure is valued at less than that. The public tax assessment suggests that the structure's value is closer to $92,000; for this amount of coverage, the flood insurance would cost only $24,000/year.

Cost is not the only issue

Each property should have only one actuarial rate. Different WYO insurance agents should all be quoting a single rate based on FEMA issued guidelines. Yet many of the Realtor® reports involve multiple rate quotes for a single property.

The attached report highlights three such examples. In one case, the buyer received six different quotes ranging from $10,000 to $30,000 per year; three of those came from different agents for the same company. According to our analysis, all 6 insurance agents provided inaccurate information about the property. When inputting the data into the rate-quote software, information about the home's true elevation, construction date, CRS discount, eligibility for grandfathering, all were entered incorrectly. Those mistakes drove the quotes. As the old saying goes: garbage in, garbage out. When the correct data was entered, the true rate turned out to be $480 per year, which has been confirmed by FEMA.

[2] RAND. "Flood Insurance in New York City Following Hurricane Sandy," Pre-published report, 2013, page xxi.

Lack of training appears to be contributing to excessive rate quotes. FEMA currently has a 4-hour introductory class that is required only if agents write for the NFIP Direct Program. It does not teach agents how to fill out an application for flood insurance. FEMA could expand the class and modify its agreements with WYO companies to make it a requirement. Additionally, FEMA could require training for surveyors, engineers or architects who complete the Elevation Certificate as part of the Letter of Map Change process.

Many of the rate quotes also appear to be based on arcane "Submit-to-Rate" procedures that require individual judgments for properties that are two or more feet below base flood elevation. There is no transparency in the calculations. The quotes issued do not contain enough information to reproduce the estimates. This should be addressed.

To our knowledge, insurers do not routinely re-underwrite old policies or even verify the accuracy of basic facts about a property before applying rate increases. At least one insurance company adjusted a premium rate upward because the original agent writing the policy a decade before had made a mistake and missed a basement. Another listed a basement on the declaration page of the policy, even though one does not exist for the property.

Right now, consumers have no one to turn to when faced with multiple differing rate quotes for the same property. They are essentially told to trust the WYO agent. If this were a question about the standard homeowners' policy instead, the owner could turn to the state insurance commissioner. There should be an equivalent advocate at the federal level for flood insurance.

Conclusion

While BW12 brought certainty to the NFIP, we now see some unintended consequences as well. However, at this time we cannot identify enough information to determine how many of these are due to the law, its implementation, insurance rating error or flood map updates.

Therefore, Realtors® urge you to support the "Homeowner Flood Insurance Affordability Act" to delay further implementation of the major rate changes until FEMA can complete the affordability study required by BW12, create a flood insurance advocate to further investigate rating abnormalities and report back to Congress with a proposed affordability solution.

In the interim, we are also calling on FEMA to convene a national summit with key stakeholders to develop a long-term affordability solution and work with industry and consumers implement the law in the most transparent and understandable process possible. We believe that the Agency already has the authority under current law to begin the discussion.

Thank you for the opportunity to share the Realtor® community's views on such a critical topic. We stand ready to work with you and the Administration to bring clarity to the housing markets under BW12.

Carolina Flood Solutions

CAROLINA FLOOD SOLUTIONS LLC

Innovative Solutions for Complex Issues

Flood Insurance Case study

With Recommendations on Improving the NFIP

CONSULTANT REPORT

November 2013

Carolina Flood Solutions LLC

Prepared by:

Lisa S. Jones, CFM, CPM, ANFI

Prepared for:

National Association of Realtors
500 New Jersey Avenue, NW
Washington DC 20001

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NFIP Policy Rating Analysis

Summary of Findings after and Recommendations for Improvements

Carolina Flood Solutions LLC is a private consulting firm who assists clients with a variety of flood insurance and floodplain related concerns, including determining if their flood insurance policy is rated properly, resolving any misrating or discrepancies and offering mitigation options to insured's who desire to lower their premiums. Below are five policies or quotes that we selected as part of this case study to support a foundation for recommendations for improvements to the NFIP operational structure, to "shore up" the NFIP before rate increases are expanded or grandfathering is removed, thus making sure that those who are affected are categorized and rated properly.

Disclaimer: None of the information in this document is to be considered quote or an offer of coverage, but an estimate or observations for research and informational purposes only. Example 1 utilized the NFIP Flood Insurance Manual dated 5/1/12, and the remaining examples are based on the NFIP Flood Insurance Manual dated 10/1/13.

Background:

Carolina Flood Solutions LLC works with clients to help lower their flood insurance premiums through forensic underwriting premium audits. My report outlines five policies or quotes that were part of this case study that highlights where mistakes were made that result in insured's being overcharged for their flood insurance premiums or rules misinterpreted, making a residences for sale unattractive to two potential buyers, and lastly, a new homeowner caught off guard by the retroactive application of insurance rates and affordability.

I have gleaned that while most agents try to do a good job, they are not prepared for the complexities of writing a flood insurance policy, as it differs from the normal property and casualty lines they are familiar with.

Summary:

Two of the three policies included in the case study were found to be misrated, which resulted in annual savings and eligibility for multi-year refunds. The third is a structure for which 6 different agents provided quotes to potential buyers or the insured. The NFIP quotes applied the full-risk rate premium and exacerbated the misunderstanding of the NFIP Biggert-Waters NFIP Reform Act of 2012 leading to two potential buyers walking away. The fourth example is an outrageously high quote for over $87,500 that over insures the structure. Based on the information provided this structure is post-FIRM and should not be impacted by the Biggert-Waters Reform changes that have been implemented thus far. The fifth example is an example of a homeowner who bought a house a year before that changes were effective and has been caught off guard by the retroactive provisions of the Biggert-Waters Reform Act of 2012.

Example 1: Misrating

Client's Flood Insurance declarations page (Figure 1) indicates the structure has an unfinished basement. The structure actually is elevated on a crawlspace as supported by the elevation certificate (Figure 2) the client obtained. The cause of the misrating was incorrect information regarding the building. The error resulted in a refund of $846 for the current year in addition to the previous year. Having been compensated with a 2 year refund, the remaining three year refund is pending.

Figure 2 Example 1 Declarations Page

RATING DESCRIPTION

Property/Building	Contents Location
Single family	**Basement and above ground level**
Two floors	**Subject to, III. Property Covered,**
Non-elevated unfinished basement	**Paragraph B.**

Date of construction or substantial improvement was on **01/01/1955**

LOCATION INFORMATION

Community Name: **COLUMBIA, CITY OF** No: **4501720176G**
Status: **Regular** CRS Class: Flood Risk/Rated Zone: **A Current Flood Zone: A** Elevation Difference: Grandfathered:

Figure 2 Example 1 Excerpt from Elevation Certificate

a) Top of bottom floor (including basement, crawlspace, or enclosure floor)	153.1	☑ feet	☐ meters
b) Top of the next higher floor	156.4	☑ feet	☐ meters
c) Bottom of the lowest horizontal structural member (V Zones only)	NA.	☐ feet	☐ meters
d) Attached garage (top of slab)	155.6	☑ feet	☐ meters
e) Lowest elevation of machinery or equipment servicing the building (Describe type of equipment and location in Comments)	155.2	☑ feet	☐ meters
f) Lowest adjacent (finished) grade next to building (LAG)	152.9	☑ feet	☐ meters
g) Highest adjacent (finished) grade next to building (HAG)	156.0	☑ feet	☐ meters
h) Lowest adjacent grade at lowest elevation of deck or stairs, including structural support	153.8	☑ feet	☐ meters

Example 2: Misrating

Client wanted to determine if installing vents would lower her flood insurance premiums and to determine why she lost full coverage five years ago. The client had a quote of approximately $20,000 to restore full coverage to the structure. In 2006, according to the declarations page (Figure 3) the insured was rated Pre-FIRM, elevated, and located in flood zone B. Later that year, the insurer (WYO Company), requested more information from the agent and the insured's coverage of $250,000 was reduced to an amount for the premium received. The revised NFIP policy issued for building coverage in the amount of $19,000 (Figure 4) on a building whose replacement cost of the building is $650,000. The building was then classified as Post-FIRM, non-elevated and located in an A zone.

An underwriting review of all documentation revealed a number of mistakes. The wrong date of construction was used; an incorrect determination flood zone determination was made and the policy was now a "submitted for special underwriter review" resulting in a loss of its "grandfathering" status and CRS discount. Typically, structures that are determined to have the lowest floor two or more feet below the base flood elevation cannot use the standard rate tables from the NFIP Manual and therefore are referred for "special underwriting review."

Once the misrating was corrected and, the policy was properly underwritten with correct information, the insured received a $4,336 refund for five years of overpayment. The Insured was initially denied the multi-year refund by the Insurer (WYO Company) and it was only after the consultant appealed their decision to FEMA did the WYO Company issues the refund. The policy now provides full building and contents coverage for a lesser amount than the insured paid for the last five years.

Figure 3, Example 3 2006 Declarations Page

BUILDING DESCRIPTION
Single Family
Three or More Floors
Elevated Building

Coverage Limitations May Apply, Refer to your Standard Flood Insurance Policy for details.

CONTENTS LOCATION
N/A

PROGRAM
Regular

FLOOD ZONE
B

CONSTRUCTION
Pre-Firm
Construction

COVERAGE & RATING INFORMATION

BUILDING		CONTENTS	
Coverage:	$250,000	Coverage:	N/A
Deductible:	$500	Deductible:	N/A
Rates:	.640 / .140	Rates:	N/A

PREMIUM PAID

Premium Subtotal:	$600.00
Previous Premium Subtotal:	$.00
ICC Premium:	$4.00
CRS Discount:	$30.00
Expense Constant:	$.00
Federal Policy Fee:	$30.00
Endorsement Amount:	$.00
Total Premium:	$604.00

Figure 3 Example 3 2006 Declarations Page

Property Info

Premium Payor: Insured
Rated Zone: A10
Current Zone:
Community Number: 45 0025 0159 E
Community Name: BEAUFORT COUNTY*
Grandfathered: No
Post-Firm Construction
Program Type: Regular

Building Description:
Single Family
Three or More Floors
Slab On Grade

Replacement Cost:
Number of Units: 1

Coverage & Rating

Type	Coverage	Rates	Deduct	Discount	Sub Total
Building:	19,000	6.090 / 3.080	1,000		1,157.00
Contents:					
Contents Location:					

Premium Calculation	
Premium Subtotal:	1,157.00
ICC Premium:	34.00
CRS Discount:	.00
Federal Policy Fee:	40.00
Probation Surcharge:	.00
Endorsement Amount:	.00
Total Premium Paid:	1,231.00

Figure 3 Example 2 2013-2014 Declarations Page

Property Info

[redacted]

Principal/Primary Residence: N
Premium Payor: Insured
Flood Risk/Rated Zone: B
Current Zone: A10
Community Number: 45 0025 0008 B
Community Name: BEAUFORT COUNTY*
Grandfathered: Yes
Post-Firm Construction
Program Type: Regular

Building Description:
Single Family
Two Floors
Slab On Grade
Main House/Building

Elevated Building: N

Replacement Cost:
Number of Units: 1

Coverage & Rating

Type	Coverage	Rates	Deduct	Discount	Sub Total
Building:	250,000	.960 .250	5,000	263-	788.00
Contents:	100,000	1.460 .450	5,000	176-	527.00
Contents Location:	Lowest Floor Above Ground Level and Higher Floors				

Premium Calculation	
Premium Subtotal:	1,315.00
ICC Premium:	4.00
CRS Discount:	132.00
Reserve Fund Assmt:	.00
Federal Policy Fee:	40.00
Probation Surcharge:	.00
Endorsement Amount:	.00
Total Premium Paid:	1,227.00

Coverage Limitations May Apply. See Your Policy Form for Details.

Example 3: Home for Sale, Numerous Inconsistent Quotes

This structure is for sale and the Insured is trapped by the misinformation regarding the implementation of the October 1, 2013 NFIP changes for the Biggert-Waters NFIP Reform Act of 2012. The Insured is currently rated with an elevation difference (ED) of +5, located in an AE zone (current zone: VE), grandfathered, post-FIRM and the premium based on the May 31, 2013 Flood Insurance Manual was $403. The Insured approached more than 6 different insurance agents and received a variety of quotes as seen below (Figure 5). All agents provided quotes applying the Biggert-Waters NFIP Reform provisions even though the structure is clearly post-FIRM. In my opinion, after reviewing these quotes, I observed that all the quotes used different dates of construction, different elevation differences, none applied grandfathering, and the CRS discount even though they qualified had the quotes been completed properly. The CRS discount in this community is 25%.

Quote No.	DOC	ZONE	Pre/Post FIRM	ED	# FLOORS	Applied CRS Discount	Grand-fathered	Premium
1	10/10/1986	V09	Post	-3	2	N	N	$34,688
2	9/29/1986	V09	Post	-2	2	N	N	$10,194
3	6/1/1986	V09	Post	-3	3	N	N	$16,543
4	6/1/1986	V09	Post	-4	3	N	N	$21,793
5	5/1/2000	V09	Post	-4	2	N	N	$21,409
6	?	?	?	?	?	?	?	$21,775

After reviewing the current policy I determined it was misrated based on today's standards as the enclosure below the base flood elevation did not contain sufficient openings and therefore should have been rated using an elevation difference of +2, not +5. Lastly the 3 quotes in red (quotes 3-5) were submitted to the same WYO Company by different insurance agents. Each of these agents submitted difference rating factors resulting in three different quotes ranging from $16,543 to $21,793. As this structure is post-FIRM and a primary residence it is not impacted by any of the Biggert-Waters provisions implemented thus far and the client has lost two sales of her home over the Biggert-Waters scare of higher premiums at the time of sale.

Example 4: Quote Review of Home for Sale

I was provided a quote of $87,574 for a 1319 square foot home located in a VE flood Zone with a base flood elevation of 17 feet NAVD and was asked to review the quote and note observations. The quote provided for $250,000 Building Coverage and $100,000 Contents Coverage with a $1,000 deductible and an elevation difference of -8. The house is for sale at $279,000

In addition to the quote, I was provided the MLS listing, and the elevation certificate which included photographs. I was not able to confirm if structure is currently insured or the building value, as I was not provided a current NFIP declarations page, or a property appraisal for comparison.

Discoveries:

According to the MLS report the date of construction of the home was 1986. FEMA's Community Status Book reveals that the initial FIRM Date for the Community was 1984. In comparing of these two dates we categorized the structure as Post-FIRM. If there is a current flood insurance policy in effect, the owner could assign the NFIP policy to the new owner. The buyer would assume the existing NFIP policy, with the grandfathered rate, provided that it is utilized as a primary residence and it is not a severe repetitive loss structure or other trigger under Section 205 of the Biggert-Waters Reform Act of 2012.

I continued the review of the quote, as I could not confirm that there was an effective NFIP policy in place.

Online research of the County's tax assessor's website revealed a land value of $187,000. Therefore, I estimated the building value to be $92,000 (sale price minus land value) for the purposes of this review, as no property appraisal was available.

After reviewing the Elevation Certificate I determined the elevation difference to be -8 feet. Using FEMA's Special Rating Guidelines, applying base rates, loads and fees, I estimated the premium to be a little more than $24,400, rather than $87,574 initially quoted.

Based on the information provided, this is a clear example of a quote that appears to significantly over insure the owner. This, along with the elevation difference and the insured not being offered optional deductible, results in an exorbitant premium. Had the quote reflected an optional deductible of $5,000, then the premium would have dropped to a little over $18,300.

While I did not investigate the FIRM and flood Zone in effect at the time of construction, I suspect from the foundation type and rating below BFE, that it might have been constructed in a flood Zone beginning with an "A."

Example 5: Tentative Rate Quote – Purchase of a Home in October 2012

This is an example of someone who bought a house on October 26, 2012, who paid $2,776 for flood insurance for the first year, who was unaware that their flood insurance was subsidized and that the impending NFIP rate increases (effective a year later) could ultimately drive their premiums up to $47,000/year.

I was asked to review a quote of a *Tentative Rate Policy* of $10,331 ($6.00/$100 coverage), for a 862 square foot home located in a VE flood Zone with a base flood elevation of 14 FT NGVD. "*Tentative rates are used to issue policies when agents/producers fail to provide the required full-risk rating information. With tentative rates, a policy will be generated with coverage limits based on the actual premium received. Tentatively rated policies cannot be endorsed to increase coverage limits, or renewed for another policy term, until the required actuarial rating information and full premium payment are received. If a loss occurs on a tentatively rated property, payment will be limited by the amount of coverage that the initially submitted premium will purchase using the correct actuarial rating information.*"[i] Tentative Risk Rates range from $3 to $12 per $100 of coverage. Once the insured produces an elevation certificate the tentative rate premium is converted to a full-risk rate premium. With the removal of subsided rates for Pre-FIRM structures the full-risk rate premium could be substantially higher as estimated in this example.

The insured purchased a standard NFIP policy in October 2012 when they purchased the home. The declarations page provided to me indicated that the premium amount charged for year one (10/1/2012-10/1/2013) was $2,776. This policy provided for $193,000 Building Coverage and $0.00 Contents Coverage with a $5,000 deductible.

Discoveries:

This is a single family, one story structure as substantiated by the photographs attached to the elevation certificate. Per the NFIP Declarations Page the structure was built in 1950. A tentative rate policy is cannot be renewed. At the end of the one year the insured is required to submit an elevation certificate and the policy will be rated using the elevation information and full-risk rates will apply per Section 205 of the Biggert-Waters Reform Act of 2012. The structure became ineligible for subsidized rates at renewal on October 1, 2013, when the Section 205 subsidy removal was implemented for Pre-FIRM property sales that took place after July 5, 2012.

In comparing the elevation certificate, the photographs and the limited information on the declarations page, I noted that the building is elevated is pier, posts, piles or columns indicative of a Diagram 5 on the elevation certificate. There appears to be some homemade barrier around the pier, posts, piles or columns to prevent animals, etc. from going under the house but it appears to be relatively open as the area is not enclosed by solid walls. The rating description provided on the NFIP declarations page is “single family, elevated, and two floors with no enclosure.” Based on the information provided, a more accurate rating description per the NFIP Manual Lowest Floor Guide, would be “1 Floor No Basement/Enclosure/Crawlspace. “

Once the elevation Certificate is submitted, the insurer will be required to utilize FEMA’s Special Rating Guidelines to determine the premium for this structure. The lowest floor for rating will be depend on the attachment method and composition of the material surrounding the piers, posts, piles or column foundation.

- If the insurer determines the lowest horizontal member to be at 4.8 feet NGVD (Elevation Certificate C2a, 5.8 feet NGVD – 1.0) an elevation difference of -9feet may be used for rating purposes. This would result in an estimated premium of $47,900.
- If the insurer determines that the material surrounding the piers, posts, piles or column foundation is not a factor, then lowest horizontal member to be at 7 feet NGVD (Elevation Certificate C2b, 8.0 feet NGVD – 1.0) an elevation difference of -7feet may be used for rating purposes. This would result in an estimated premium of $28,400.

According to the tax records, the sale and transfer of title took place on 10/26/2012. The sale price was $610,000. According to the tax assessor’s records the land value is $361,000 and the structure is valued at $55,100. Without a property appraisal stating a definitive value of the structure, I am unable to determine if the homeowner is over insured, but since there is a vast difference it certainly warrants further investigation by the homeowner.

Conclusions

Fundamentally, some of the inherent business practices of the NFIP perpetuate the situation of dissatisfaction with the program. FEMA alone cannot resolve these issues and restore confidence in the program. In order for these issues to be resolved it is going to take a fundamental change in business practices, performance and expectations and the formation of new partnerships and alliances between the public and private sectors

Recommendations for improvements:

The following are recommendations regarding the need to support the foundation of the NFIP so that the implementation of the NFIP Biggert-Waters NFIP Reform Act of 2012 can be fair and successful to all policy holders and improve the long-term solvency of the program.

Mandatory Professional Education (minimum 6 hours)

While requirements for continuing education are state requirements under the licensing provisions for each profession, FEMA and the states must partner together to enhance the quality and performance of agents in the area of flood insurance. Two types of professionals that can increase the likelihood of misrating if mistakes are made are: 1) insurance agents and 2) surveyors, engineers or architects who complete the FEMA Elevation Certificate.

FEMA currently has a 4 hour basic class for agents that is required only if the agent desires to write for the NFIP Direct Program. It gives an introduction to the NFIP products and services but does not teach the fundamentals of how to fill out an application for flood insurance. The current offering should be expanded to include basic and advanced training for agents. FEMA could modify their agreements with WYO Companies to mandate that a WYO Company require and/or provide training to those agents who write flood for them. Additionally, FEMA could require training for surveyors, engineers or architects who complete the Elevation Certificate as part of the Letter of Map Change process.

FEMA could reward participating states with enhanced CRS credit or more favorable cost share during disasters.

Redirect message of Flood Smart Marketing Campaign temporarily

Use direct public service announcements to explain Biggert-Waters Reform Act implications to the consumer. This is similar to the Preferred Risk Policy Outreach Marketing Campaign.

Loan vs. Cash Real Estate Transactions

When there is a loan closing involving a mortgage, the thirty-day waiting period is waived. Closings as cash transactions are required to wait out the thirty-day period before the NFIP policy will be in effect on a structure. This means that for the first thirty days the owner who paid cash is self-insuring and exposed, unlike lenders who are regulated by the federal government. When there is a real estate transaction in place, there should be a level playing field and no difference between a loan and cash.

Update NFIP Policy Information & Commissions (Agency & WYO Company)

The BW12 Reform is set to increase commissions for both the WYO and agents. Rather than cutting or capping that commission, require WYO Companies and agents to earn their increased commission. They should conduct new underwriting reviews of older NFIP policies to see if they are properly underwritten. Homeowners policies are reviewed/updated periodically with new pictures, new rules applied, etc., so why not NFIP (e.g., replacement costs. openings, vents, grandfathering, current map information, etc.)?

Other ideas and Suggestions

- Promote Optional Deductibles. FEMA should require Direct & WYO to add this information to the renewal notice as an option.
- Premiums paid in Installments. Initiate the rule making process to allow for the payment of flood insurance premium in installments for non-escrowed premiums – as provided for in Biggert-Waters.
- Non-mortgage Transactions- level the playing field by treating mortgage and cash transactions alike by waiving the 30-day waiting period for all transaction involving a sale or transfer of property.
- Special rating Outreach and Mitigation Education. Remove the cloak and start a mitigation awareness campaign to educate realtors, homeowners, and insurance agents about mitigation and those structural modifications that can be made to lower premiums. This includes residential elevators and other construction practices that would lower premiums.
- Disclose potential full-risk rate premiums early. This helps homeowners make decisions about the return on investment opportunities as well as mitigation actions early on in the process.
- Replacement Cost Value (RCV) Documentation. Require Documentation to support Replacement Cost Value (RCV) where RCV is a rating factor (V-Zones). Some agents are under reporting the RCV to keep premiums low for their clients and competitive; however, this results in an inaccurate premium being calculated.
- Community developed base flood elevations. FEMA has accepted community determined base flood elevation data, as best available data, for a while. This data is acceptable to FEMA and utilized for insurance rating purposes. One concern is that locally developed data does not have to be submitted to FEMA for review not does it have to follow the normal FEMA process for validating the accuracy of the hydrologic and hydraulic data or methodology. Community developed data is not assured the same public review or scrutiny that FEMA studies are required to adhere to. Since this data is locally developed and managed it is not appealable to FEMA. If Community's are going to utilize locally developed data it should be required to meet those same standards required of FEMA. The data should be required to be submitted to FEMA before the allowing the data to be utilized for insurance rating. Once this data is submitted and validated by FEMA, FEMA should then be required publicize the availability of the data, initiate an appeals process and incorporate the data, as appropriate.

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[i] NFIP Flood Insurance Manual U.S. Dept. of Homeland Security, FEMA – October 1, 2013

CAROLINA FLOOD SOLUTIONS LLC

Innovative Solutions for Complex Issues

Lisa S. Jones, CFM, CPM, ANFI

General Qualifications

As owner of her own business since 2011, Lisa works with client(s) to assist them with understanding, interpreting and applying the complexities of the National Flood Insurance Program (NFIP) to achieve desired outcomes within the framework of the NFIP regulatory and insurance programs. Lisa's expertise in all aspects of the NFIP enables her to be an effective negotiator between her client(s), local communities, technical, and insurance professionals. Lisa's institutional knowledge and expertise of both the NFIP insurance and regulatory programs allows her to quickly identify NFIP application or rating errors saving her clients, in some cases, thousands of dollars. Lisa then works with her clients and their agents to optimize annual premium savings and the return on their investment.

Experience

Lisa Jones is best known as ***Chair of Association of State Floodplain Managers (ASFPM)*** during the "No Adverse Impact" (NAI) launch and a ***Public Policy Leader***. Lisa is an active member of the ***ASFPM Leadership Team*** who ***engages*** with ***FEMA Leadership*** in Washington, DC and provides direct input on public policy.

Lisa is a proven leader with ***more than 28 years of diversified national experience*** both in flood insurance and as a Project Manager with proven capability on numerous regulatory, mitigation, mapping and federal/state partnership initiatives totaling millions of dollars. Lisa's high profile career and experience provides opportunities to serve on numerous federal task forces, including FEMA's ***Community Rating System (CRS) Task Force*** (2002-2009), as well as testifying before Congress. Lisa served as the departmental member of the ***Governor's Hazard Mitigation Interagency Coordinating Council*** (11 years), ***SC Department of Insurance Safe Home Board Member***, and ***co-founder the Silver Jackets Program*** in SC.

Prior to entering the consulting arena fulltime in June 2013, Lisa served a ***Senior Professional*** with CSC, specializing in ***training Underwriters and Customer Service Representatives*** on the National Flood Insurance Program to support the FEMA Direct (Flood Insurance) Contract. Preceding her move to the private sector she thrived in the public sector for 25 years as the ***NFIP State Coordinator*** with the SC Department of Natural Resources and as the Assistant State NFIP Coordinator for the NC Division of Emergency Management.

Most recently Lisa has been working with companies and professional organizations to digest the complexities of the new ***Biggert-Waters NFIP Reform Act of 2012***. Lisa is ***nationally recognized*** as a subject matter expert delivering numerous presentations and acts as a "consumer advocate" for her clients.

Carolina Flood Solutions LLC *provides a comprehensive array of consulting services in floodplain management, mitigation, flood insurance and flood mapping specialties as well as customized training programs.*

Professional Qualifications

- Certified Floodplain Manager (CFM), since 2004
- Certified Public Manager Program (CPM)- Class of 2007
- Associate National Flood Insurance (ANFI) since 2012
- SC Department of Insurance, Licensed Producer, Property & Casualty 2013

Affiliations

- Association of State Floodplain Managers (ASFPM), Member
  - *Past Chair*
  - *Regulations Committee Co-Chair*
  - *Certification Board of Regents (CFM)*
- South Carolina Association of Hazard Mitigation
- South Carolina Society of Certified Public Managers
- Home Builders Association of SC, *Advisor on Building Codes, BGEGS and CRS; SC Builder Journal, contributing writer*
- *HBA of Greater Columbia*, Member

Key Areas of Expertise

- Lowering flood insurance rates for homes, condos and businesses
- Identifying affordable low cost mitigation and insurance solutions
- Floodplain Regulatory Compliance Assistance
- Flood Insurance Rate (FIRM) Map Appeals