

Testimony of  
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Committee on Banking, Housing, and Urban Affairs  
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Chairman Bunning, Ranking Member Schumer, and Members of the Subcommittee, I am Anthony S. Lowe, Federal Insurance Administrator and Director of the Mitigation Division of the Federal Emergency Management Agency (FEMA) of the Department of Homeland Security. On behalf of the National Flood Insurance Program (NFIP), we welcome and appreciate the invitation to appear today before the Economic Policy Subcommittee of the Senate Banking, Housing and Urban Affairs Committee.

We are pleased to report to the Subcommittee that the state of the NFIP is sound. The NFIP is implementing a number of results-oriented initiatives to build upon the program's past successes and current strengths while making the necessary adjustments for the future.

It has now been over 35 years since Congress first authorized the NFIP.

Since 1968, the NFIP has met and continues to meet an important property insurance need: to offer flood insurance to those exposed to flood hazards across the country – coverage that is virtually unavailable from the private insurance market.

The series of devastating hurricanes and storms in the early to mid-60's underscored the need for this coverage. However, two features of the original design significantly hindered the NFIP from becoming broadly successful. The program was voluntary both for the local community and for the individual property owner. Flood-prone communities faced no economic consequences for not joining the program. Property owners at risk were not required to buy flood insurance. As a result, the NFIP remained under-utilized, with 5,500 participating communities and only 273,000 flood insurance policies at the end of 1973.

When a series of severe floods in the early 1970's revealed that very few of the flood victims had flood insurance, Congress passed legislation to address these shortcomings. The Flood Disaster Protection Act of 1973 placed requirements on both the local community and the property owner. First, the Act encourages community

participation by offering identified flood-prone communities with a clear choice: either join the NFIP or face the loss of Federal financial assistance in their high-risk flood areas. Second, the 1973 Act places requirements on individual owners of property located in flood hazard areas. These individuals must purchase flood insurance to either be eligible for federally related mortgages or to receive other Federal assistance, including federal disaster assistance. As a result of these changes, participation in the NFIP greatly increased over the following 20 years. By 1994, there were over 18,000 participating communities and 2.8 million policies.

But the Midwest Flood of 1993 revealed that participation in the NFIP still needed to be greater. It became clear that the program needed reforms to ensure compliance by lenders with the flood insurance purchase and retention requirements of the 1973 Act. Lenders were given those tools through the passage of The National Flood Insurance Reform Act of 1994. This Act has enabled the program to grow, and today there about 4.4 million policies totaling about \$650 billion in coverage.

A major benefit is that claim payments for flood damage under the NFIP reduce the burden on taxpayers for Federal disaster relief. These claims payments have exceeded \$12 billion in the history of the NFIP.

The NFIP now stands as the largest, single-line property insurance writer in the United States.

But the success of the NFIP is not measured only in the number of policies issued and the flood damages that have been paid but also in losses avoided. Today, the nearly 20,000 participating communities across America have adopted and are enforcing the program's mitigation standards to protect new buildings from flood hazards. The floodplain management standards these communities are implementing are part of an overall strategy. The strategy benefits the entire floodplain, and, in a number of cases, holds the line altogether on new construction in the flood hazard areas. The mitigation standards of the program to elevate or flood-proof new construction are reducing America's flood damages by an estimated \$1 billion each year.

Mr. Chairman, besides the obvious successes the program is enjoying, I am also happy to report that the NFIP is once again debt-free.

As you know, the program does not receive appropriations to pay for its operations. It is self-supporting through premium income from our policyholders enabling us to pay losses which are have averaged approximately \$750 million per year. However, flood losses for a specific year can vary significantly from this average. When flood losses exceed NFIP reserves, we have the authority to borrow funds from the U.S. Treasury to pay for those losses. Whenever we have to borrow from the Treasury to pay for historically high losses, we must repay with interest what we borrowed. Since 1986, when the program received its last appropriation, we have borrowed and repaid approximately \$2.7 billion.

In June of 2001, for example, Tropical Storm Allison battered the Gulf Coast and East Coast States. After final losses were tallied, Allison became, sadly, the program's first billion-dollar storm. The NFIP had to borrow \$660 million from the Treasury. We repaid that debt-- with interest--as of October 2002. So once again the NFIP is operating debt-free, and the program continues to stand on solid financial ground.

More recently, in September 2003, Hurricane Isabel caused extensive flood damage in six Mid-Atlantic states and the District of Columbia. To date we have paid \$263 million on 16,776 flood insurance claims to insured victims of that event. We expect to pay out approximately \$450 million on the total 24,725 flood insurance claims from Hurricane Isabel. We will not need to borrow any funds from the U.S. Treasury to pay Hurricane Isabel claims.

The NFIP however, does not just react to disasters and pay claims. In the past year the NFIP began major outreach campaigns to inform the public about the importance of flood insurance. For example, the NFIP recently entered into an agreement with a major advertising firm to build a flood insurance marketing strategy, which will include a comprehensive multi-media campaign. After the California wildfires, we also supplemented our flood insurance marketing in California to make certain that residents understood the increased flood risk and benefits of flood insurance. The NFIP is also working to assure that our customers and industry partners understand flood insurance restrictions in Coastal Barrier Resource Systems, and to this end we are collaborating with the Fish and Wildlife Service on a comprehensive CBRA outreach strategy. These outreach tools raise public awareness of flood hazards and the role of flood insurance, and are designed to increase NFIP policy growth by 5% annually.

I am also pleased to report that we are maximizing the program's insurance mechanism to achieve mitigation. We have increased the benefits under our Standard Flood Insurance Policy to help property owners pay for mitigation measures necessary to comply with State and local ordinances after substantial or repetitive flood losses. These mitigation measures include assistance with elevations, buyouts and relocation of flood-prone properties. An increase in benefits from \$20,000 to \$30,000 became effective on May 1, 2003. We consider this coverage an important mitigation tool that enables our policyholders to protect their properties after a substantial flood loss and break the cycle of flood damage and repair. This is an example of how FEMA is using flood insurance protection to reduce costs to taxpayers and provide a bridge to mitigation that prevents future losses.

But the NFIP is not without challenges or issues of concern.

Before addressing the need for the reauthorization of the NFIP, I want to particularly thank the Banking Subcommittee for its leadership in reauthorizing the program for 2003 and the first quarter of 2004. For the first 13 days of 2003 the program's authorization lapsed. Through the Committee's efforts we were able to maintain operations and service to the 4.4 million policyholders as well as to the lending and real estate industries that rely on the program for protection against flood losses. The

temporary disruption to the NFIP underscored the importance of flood insurance to the American economy.

The NFIP is currently reauthorized annually and has several distinct authorities that must be changed during each reauthorization. We believe that it would be beneficial if the NFIP were reauthorized on a five-year basis. Of course, it would be our pleasure to work with the Subcommittee on appropriate changes.

Let me now address the issue of repetitive flood loss. It is a national problem, and a problem with both a human impact and an economic impact. The majority of the repetitive flood loss buildings are primary residences, meaning that many families find themselves in a flood-rebuild-flood cycle. The 48,000 repetitive flood loss buildings account for about 25 percent, or \$200 million, of the flood claims payments each year. By itself, our Repetitive Loss Target Group, which is a subset of the 10,000 worst repetitive loss properties, accounts for \$80 million in annual losses. These losses increase pressure each year to raise rates for other policyholders and, when combined with a higher than average loss year, make it more likely that the program will have to borrow from the U.S. Treasury.

Paying claims for the same properties time and again is not good public policy, not sound business practice, and not prudent stewardship. We are spending far too much money on just a handful of properties-- a costly drain on the NFIP and its policyholders. Reducing the number of repetitive loss properties is one of our top priorities.

The problem of repetitive flood losses is largely a vestige of the past. Congress structured the NFIP as an agreement between the Federal Government and local communities.

To participate in the NFIP, communities must adopt and enforce flood mitigation standards for new construction in their high-risk flood areas. In return, flood insurance is made available to all properties built before the availability of detailed flood maps at premium rates that do not fully reflect the true risk. Congress directed discounted premium rates for such existing properties so as not to penalize those who bought or built in the floodplain without full knowledge of the flood hazard. As such, these property owners are permitted to pay subsidized premiums for flood coverage.

We call these properties “Pre-Flood Insurance Rate Map” or “Pre-FIRM” properties. Repetitive flood loss properties are for the most part a sub-set of these Pre-FIRM structures, with Pre-FIRM properties accounting for close to 90 percent of all repetitive loss properties nationwide.

There were good public policy reasons for providing insurance to these older properties at less than full-risk premiums. However, properties that flood over and over again lock their owners into a dismal cycle of damage and repair—with diminishing property values.

Today the Department of Homeland Security has mitigation programs that can, and are, being used to reduce the nation's repetitive flood loss problem. However, the participation in our mitigation programs is voluntary. We have not always had the needed leverage or incentives for repetitive flood loss property owners to accept grant offers intended to reduce or eliminate the flood risk.

FEMA is making strategic changes to focus on our repetitive loss problem. We have targeted about 10,000 repetitive flood loss properties as the highest priority for mitigation in our repetitive loss strategy. These 10,000 high-priority properties, which are currently insured under the NFIP, have had *four* or more flood losses, or two or three losses that cumulatively exceed the value of the building. These 10,000 are the "extreme cases," ones that we have paid close to \$1 billion in flood insurance claims over the last 25 years. This small set of properties now cost the NFIP about \$80 million in claims each year. We are targeting these properties for mitigation actions that will remove them altogether from the floodplains, elevate them above the reach of floodwaters, or apply other mitigation measures to significantly reduce their exposure to flood risk.

We are now building a consensus on the best practices and latest technologies to use to mitigate repetitive loss properties. For example, we recently gathered some of the nation's leading experts in the repetitive loss problem for a 3-day workshop to discuss their experiences in addressing this issue. The result of this workshop is a *Repetitive Loss Action Plan*, which is being finalized. We will use this action plan to guide our efforts in the coming months and years.

With this current grant cycle we are emphasizing the importance of addressing repetitive loss properties to States and communities. For FY 04 we will direct all funding for the Flood Mitigation Assistance program toward mitigating repetitive loss properties. We will place a National priority on the Pre-Disaster Mitigation applications addressing the mitigation of repetitive loss properties.

We are also undertaking additional steps to address the repetitive loss problem. The policies on these properties are serviced separately to better coordinate claims handling. We are reviewing all of our repetitive flood loss databases and making accurate flood loss data available to State and local governments for mitigation projects. We are also offering incentives under our Community Rating System, or CRS, program to communities to address this issue locally. CRS provides premium discounts of up to 45 percent for local mitigation actions.

The steps we have taken to date have only partially addressed the repetitive loss problem. Even with our proposed increased emphasis in the grant programs, we will make limited progress in addressing this serious problem. To aggressively address this problem, we will need additional tools.

We commend the House Committee on Financial Services on the passage of H.R. 253, the Flood Insurance Reform Act of 2003, which reauthorizes the NFIP for five years

and provides resources and a structure to reduce repetitive flood losses. We would be pleased to work with this Committee on furthering these efforts.

Mitigation projects are most successful when State and local governments are involved in their development and execution. Certainly where there is a non-Federal cost share requirement, State and local governments have a stake in the process and outcome. However, there will be instances in the interest of protecting lives and property, where we will need the authority to address individual properties that are not part of any larger mitigation effort.

A broad effort that has the flexibility to recognize individual circumstances will give us the means to address the repetitive loss problem in ways that can be refined based on what we learn about these properties. We can achieve results that are good for the community, the individual property owner, and the National Flood Insurance Program.

These measures I have described will strengthen our ability to remove the costliest risks from the NFIP and help people end the devastating cycle of damage-repair-damage.

Mitigating the highest risks, which include repetitive flood loss properties, also requires accurate risk assessment. This is why our Flood Map Modernization initiative is critical to our efforts to reduce the exposure of people and property to flood hazards. Congress appropriated \$150 million in fiscal year 2003, and \$200 million in 2004, for flood map modernization. This will be added to the approximately \$50 million in funding from NFIP fees that contribute annually to the mapping program. This combination of funds enables us to continue a multi-year effort that will cost approximately \$1 billion.

We approach this multi-year effort with the certainty that to be successful we must leverage all of our partnerships—State, local, and regional entities, as well as other Federal agencies and the private sector.

Managing our flood map modernization and hazard mitigation efforts will also help build a foundation for the Department of Homeland Security to safeguard the nation from the full range of hazards, natural and manmade, including repetitive flood loss properties.

How we fully address the repetitive loss problem still needs to be resolved, but we are all in agreement that we need to address the problem. This problem affects both individual property owners and entire communities that flood time and again.

Again, we appreciate the help of this Committee in re-authorizing the NFIP through the end of March. As you face the upcoming task of renewing our authorization, we strongly believe that a multi-year authorization – preferably five years – will best serve the policyholders and the real estate and lending industries.

In closing, I appreciate the opportunity to represent the Department of Homeland Security before the Economic Policy Subcommittee. I am pleased to answer any questions you may have.