

May 2, 2016

To:	NAR Insurance Committee
From:	Scott Louser, Chair, Flood Insurance Work Group
Subject:	Interim National Flood Insurance Report

EXECUTIVE SUMMARY

After meeting with Congressional offices and FEMA, the Flood Insurance Work Group believes that FEMA could adapt existing mitigation grant programs to keep flood insurance rates affordable. Currently, the Work Group is pursuing an expedited rulemaking strategy to increase access to these programs and will follow up with Congress if FEMA is unable to expedite the following changes:

- **Increased Cost of Compliance (ICC)** currently provides grants to elevate, relocate or buyout properties and reduce risk-based premium rates. The amount available should be increased to at least \$75,000 and removed from the \$250,000 coverage limit. Access should be allowed before a property floods, rather than waiting until after there is substantial damage.
- **Community Rating System (CRS)** offers flood insurance discounts from 5%-45% to property owners in participating communities. The CRS application process and paperwork should be streamlined so more communities can join.

In the longer term, the Work Group is also working with Congress and FEMA on:

- **Improving Flood Maps using Light Detection and Ranging (LIDAR).** Currently, FEMA may use LIDAR (like radar but with laser pulses from an airplane) to improve mapping accuracy upfront but, instead, relies on property owners to buy expensive elevation surveys and appeal incorrect risk determinations. The Work Group believes that LIDAR is critical to shifting the burden from property owners back to the federal government. FEMA's budget should be increased in order to achieve this.
- **NFIP Risk Rate 2.0.** FEMA is working on overhauling the number of NFIP rate tables in accordance with Milliman actuaries' recommendations in a report commissioned by NAR. NAR should educate NAR members about Risk Rate 2.0 and work to obtain the LIDAR elevation data requested by FEMA in order to pilot test these tables and evaluate their affordability.

WORK GROUP CHARGE AND BACKGROUND

Earlier this year, NAR Insurance Committee leaders met with key Congressional offices and FEMA to discuss NAR principles for National Flood Insurance Reform. During the meetings, NAR leaders learned that FEMA is developing a framework to address NFIP affordability and will report back to Congress if additional authority or funding is required. FEMA estimates that by 2019-2020, NFIP rates could return to levels that led to the public outcry after passage of the Biggert Waters Act.

The Flood Insurance Work Group was formed to identify a) existing FEMA programs which could be adapted to address NFIP affordability, and b) any statutory or funding barriers that could hinder those programs. The Work Group met with FEMA program experts, contractors, state and local floodplain managers, and NFIP reform advocates on April 4-6, and on two conference calls on March 1 and 25, in order to prepare. What follows are the Work Group's findings.

EXISTING FEMA AFFORDABILITY PROGRAMS

The Work Group has identified the following FEMA programs to keep NFIP rates affordable:

- **Increased Cost of Compliance (ICC).** ICC offers grants up to \$30,000 to NFIP policyholders to elevate, relocate or buyout properties and reduce risk-based premium rates, but only after a property substantially floods. FEMA confirmed that it currently has statutory authority and the funding to raise the amount available and provide ICC before flooding, but has not completed the rulemaking needed to implement these changes. The Work Group is pursuing an expedited rulemaking at FEMA to raise the grant amount available at least to \$75,000, remove ICC from the \$250,000 coverage limit, and provide property owners with access for pre-flood mitigation.
- **Flood Mitigation Assistance (FMA).** FMA offers \$200 million a year to state governments to elevate, relocate or buyout repetitive loss properties. Unlike ICC, which distributes 100% of the grant directly to policyholders, FMA relies on the states to apply, share the cost and distribute the funds to property owners, which often takes years. FEMA has piloted programs to provide grants directly to property owners, and the work group is exploring whether these programs can be expanded to pre-flood mitigation projects.
- **Improving Flood Mapping using Light Detection and Ranging (LIDAR).** To accurately determine whether properties are located ‘in’ Special Flood Hazard Areas (SHFA), where flood insurance is required for a mortgage, FEMA must survey the first floor of the structure relative to the 100-year or Base Flood Elevation. Currently, the burden is on the property owner to buy the first floor survey (\$500-\$1,500) and prove the structure is ‘out,’ or else buy flood insurance. The state of North Carolina, on the other hand, has taken over FEMA’s flood maps for the state and moved away from survey-based maps. Instead, North Carolina uses LIDAR (like radar but with laser pulses from an airplane) to pinpoint the first floor elevations statewide at a fraction of the cost (\$15 per property). FEMA has been authorized to spend part of its mapping budget on LIDAR but the budget is limited. The Work Group is working on obtaining a cost estimate for LIDAR elevations across the nation, and believes this data holds the key to shifting the burden from property owners back to the federal government. The Work Group is also reaching out to North Carolina to find out how to replicate its mapping program in other states.
- **Community Rating System (CRS).** CRS offers flood insurance discounts from 5%-45% to communities that adopt floodplain standards above national minimums. Some communities participate but don’t know how to improve their rating. Others push back on the application process and paperwork (e.g., “600 page application”). The Work Group is exploring changes to the process with FEMA.
- **NFIP Risk Rating 2.0.** Currently, there is only one risk-based rate table, so properties with different risk across the county are paying the same rate. In a report commissioned by NAR, Milliman actuaries recommended dividing this table into coastal and inland subzones in order to encourage NFIP participation and strengthen solvency. FEMA agrees, and is now working on overhauling the number of rate tables. This is a top priority for FEMA’s leadership. FEMA is currently developing new tables and plans to pilot them as early as next year. In the meantime, FEMA has requested NAR assistance with obtaining the LIDAR elevation data necessary to assess their affordability. FEMA also believes that 10% of NFIP policies are being incorrectly

rated by insurance agents, and is instituting new underwriting and agent training requirements to verify NFIP rates. FEMA noted that at one time, there was only one staff person to oversee 80 “write-your-own” insurance companies, but is now in the process of hiring additional staff.

PROGRAMMATIC BARRIERS TO AFFORDABILITY

The Work Group also identified several potential barriers to using the above programs to address NFIP affordability:

- **Rulemaking Requirements.** Most of the above programs would require rulemaking. The problem is that typical FEMA rulemakings take 5-10 years at the Department of Homeland Security where they must compete with nuclear, terrorism and security priorities. There have been exceptions to this, such as the Homeowner Flood Insurance Affordability Act which was deemed a priority and “fast tracked,” but it required the support of DHS leadership.
- **Scope of the Affordability Issue.** While FEMA can project what flood insurance rates could be in the future, the Agency does not have the data to determine the number of property owners who would actually pay extreme rates. This data is needed to determine the size of programs and funding needed to solve affordability problems. If, for instance, the data showed that just 1,000 properties faced unaffordable rates in the future, FEMA could probably address the problem today using existing resources. But, if there were closer to one million properties in need, that would require congressional action and “outside the box” thinking. It is also unclear what the definition of “affordability” is for purposes of program design. If the goal were, for example, to keep lower income families in properties no matter the flood risk, the program design would necessarily differ from one that aims to compensate those families for losses in home equity.
- **Paperwork and Red Tape.** Many communities do not participate in FEMA mitigation grant programs or CRS because of the process or burden (e.g., “600 page application”). The Work Group is exploring with FEMA if they have data on the average cost for communities to join these programs and whether to streamline the process by simplifying manuals, providing more timely “how to” community assistance, and considering minor violation forgiveness.

NEXT STEPS

The Work Group is working on:

- Arranging a meeting with FEMA leadership about expediting ICC rulemaking changes.
- Assessing Congressional support for persuading FEMA to prioritize these changes.
- Obtaining a cost estimate for nationwide LIDAR elevation data.
- Exploring opportunities to replicate the North Carolina-FEMA flood mapping partnership in other states.
- Educating NAR members about NFIP Risk Rate 2.0.
- Requesting that FEMA provide the affordability data they have and further explore what they need to “right size” ICC and other programs in an effort to keep flood insurance affordable.
- Working with FEMA and its contractors to develop or co-brand CRS educational materials and obtain average cost information for the typical community to join.

- Continuing to work with Congress on broader NFIP reauthorization and reform and explore legislative solutions if FEMA is unable to address NFIP affordability.

FEMA REPRESENTATIVES

- David Stearrett and Joe Cecil, Office of the Flood Insurance Advocate
- Andy Neal, Chief Actuary, NFIP Insurance Rates
- Carolyn McGill, ICC & Claims Program
- Ryan Janda, FMA Grant Program
- Jana Green, Risk Mapping, Assessment & Planning Program (RiskMAP)
- Bill Lesser, National CRS Coordinator

STATE/LOCAL FLOODPLAIN MANAGERS & OTHERS

- Chad Berginnis (Association of State Floodplain Managers) re: FEMA Mitigation Grants.
- Larry Larson (ASFPMP) re: National Academies of Sciences’ study on NFIP rate methods.
- Sue Hoegberg (Dewberry) re: the science of developing flood maps as a FEMA contractor.
- Maggie Mathis (Dewberry) re: increasing CRS participation as an advisor to communities.
- Scott Giberson (CoreLogic) re: need for FEMA flood maps and additional educational tools.
- Jenn Fogel-Bublick (Capitol Counsel); Steve Ellis (Taxpayers for Common Sense); and Josh Saks (National Wildlife Federation) re NAR’s coalition with SmarterSafer to renew the NFIP.

NAR WORK GROUP MEMBERS

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