CAROLINA FLOOD SOLUTIONS LLC

Innovative Solutions for Complex Issues

NFIP Policy Rating Analysis: Summary of Findings and Recommendations for Improvements

CONSULTANT REPORT

March 3, 2016

Carolina Flood Solutions LLC

Prepared by:

Lisa Sharrard (Jones) CFM, CPM, ANFI

Prepared for:

National Association of REALTORS®
500 New Jersey Avenue, NW
Washington DC 20001-2020

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About Carolina Flood Solutions LLC

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

About the Author

Lisa Sharrard (Jones) founded Carolina Flood Solutions LLC in 2013. She is the former Chair of the Association of State Floodplain Managers and a recognized leader in her profession. Her successful work as an advocate for her clients prompted the National Association of REALTORS® to request Congress to create the Office of the Flood Insurance Advocate within the Federal Emergency Management Agency, modeled after her advocacy example.

Lisa has over 28 years in the public and private sectors having served as the State Coordinator in South Carolina, overseeing the implementation of Risk Map, federal regulatory compliance at the state and local levels, and flood mitigation and response. Lisa has had the pleasure to serve FEMA in numerous task forces over her career including FEMA's CRS Task Force. After leaving public service, Lisa worked as a trainer for the NFIP Direct. She is one of the few individuals, across the country, which has direct experience in all aspects of the NFIP. Lisa is the former National Chairperson of the Association of State Floodplain Managers (ASFPM). She currently serves the Association of State Floodplain Managers as Co-Chair of the Regulations Committee and as a member of the Certified Floodplain Manager-Certification Board of Regents. Lisa is a licensed Property & Casualty Producer in both NC and SC.

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Background

The ***Biggert-Waters Flood Insurance Reform Act*** and the subsequent ***Homeowners Flood Insurance Affordability Act*** (HFIAA) of 2014 continue to have major impacts on the cost of flood insurance. Unfortunately, the acts failed to resolve major factors contributing to what policyholders pay for federally backed flood insurance, administered under the umbrella of the National Flood Insurance Program (NFIP).

The NFIP is a complicated program for the consumer. Insureds have very little control over how their policies are written and interpreted (underwritten). They rely on licensed professionals, as "trusted advisors," to fill out the application correctly and to notify them of program changes that may benefit them.

In the legal system, you are innocent until proven guilty; however, in most cases, the current NFIP policies or procedures consider you guilty until you prove your innocence. Often times, an underwriter makes a judgement, resulting in the insured being billed for more premium money, with little or no explanation offered to the insured and no direction to further assistance. In some cases, the mortgage company, which escrows the premium, pays the increased premium amount thus raising the insured's monthly mortgage payment. Agents have little knowledge of what transpired, as they are notified when the insured is. There is no appeal process, or clear help line, like there is with the Internal Revenue Service. The timing of the re-underwriting of a policy also seems random and/or arbitrary to the insured.

Summary

Since the *Biggert-Waters Flood Insurance Reform Act of 2012* and the subsequent *Homeowner's Flood Insurance Affordability Act of 2014,* much attention has been paid to proper rating of flood insurance policies, much of it at the expense of policy holders and the equitability and fairness that Congress envisioned. This report highlights cases in which insurance agents, Write Your Own (WYO) companies, or the Bureau and Statistical Agent failed to provide adequate customer service or due diligence, causing policy holders to be given higher or excessive quotes or premiums for flood insurance policies or to pay too little or too much for their respective flood insurance policies. Mortgagees or lenders also play a major role in the process with their enforcement of the mandatory purchase act. This report also highlights how the NFIP's processes appear one-sided, favoring the program, WYO companies, and the insurance agency—not the policy holders.

Let's begin by looking at the roles of the four major players: the Federal Emergency Management Agency, Write-Your-Own companies, mortgage companies, and insureds.

The Federal Emergency Management Agency and the National Flood Insurance Program

The National Flood Insurance Program was created by Congress in 1968 to make flood insurance more generally available and affordable for widespread purchase. The program was originally administered by Housing and Urban Development (HUD) until President Carter created the Federal Emergency Management Agency (FEMA) on April 1, 1979. At that time, the program was transferred to FEMA and has remained there ever since.

Both the *Biggert-Waters Flood Insurance Reform Act of 2012 (BW-12) and the subsequent Homeowner's Flood Insurance Affordability Act of 2014 (HFIAA 2014)* directed FEMA to make big changes in the insurance, mapping, and mitigation programs that support the NFIP. However, FEMA got off to a slow start in making those reforms. For instance, there were key leadership changes within FEMA, specifically, with Roy E. Wright being named the agency's Deputy Associate Administrator for Insurance and Mitigation in 2015. In addition, there were delays in implementing some of the reform directives, such as the startup of the Office of the Flood Insurance Advocate in 2014 (HFIAA 2014), led by David Stearrett, which were intended to nurture a greater understanding of the issues and need for internal changes.

I have worked with the Office of the Flood Insurance Advocate to help resolve some of my clients' issues that otherwise could not have been resolved so expeditiously. While I think we are off to a better start now, FEMA and the NFIP still have a long way to go in terms of internal reform, customer service, support, and the necessary revisions to the NFIP, for both the direct (federal) and private markets.

The Write Your Own (WYO) Program

Background

The Write Your Own (WYO) Program began in 1983 and is a cooperative undertaking of the insurance industry and FEMA. The WYO Program allows participating property and casualty insurance companies to write and service the Standard Flood Insurance Policy in their own names. The companies receive an expense allowance for policies written and claims processed while the Federal Government retains responsibility for underwriting losses. The WYO Program operates as part of the NFIP, and is subject to its rules and regulations. The goals of the WYO Program are to increase the NFIP policy base and the geographic distribution of policies, improve service to NFIP policyholders through the infusion of insurance industry knowledge, and provide the insurance industry with direct operating experience with flood insurance. [1]

Currently, there are 78 companies enrolled in the WYO Program. The majority of the 78 WYO participating companies outsource the administration of the NFIP to seven processing companies.

[1] FEMA website https://www.fema.gov/what-write-your-own-program

WYO Expense Allowance & Agent Compensation

WYO companies are paid an expense allowance[2] of approximately 31.3% through their contractual relationship with FEMA/NFIP. These funds are used for servicing the flood insurance policies (writing, endorsing, etc.) and processing claims. This includes providing training to their agents writing the policies as well as to customer service and underwriting staff.

Under the current compensation package offered by the NFIP, WYO companies pay their captive or independent insurance agents writing flood polices a commission based on the percentage of the premium. These commissions vary widely, from 15 percent (NFIP Direct) up to 23-25 percent. Once a policy is in-force, agents are required to do little else in terms of updating or maintaining the accuracy of the policy for an insured building. Most changes or endorsements (such as name changes or increases in coverage), regardless of their impact on rating, are initiated by the insured or their mortgage company, not the agent.

Agents typically do not review or revisit the insured property unless requested to do so by the WYO or the insured. Mistakes aren't typically caught unless there is an underwriting review. One example would be in a post-disaster environment in which the WYO insurance claims adjuster discovers inconsistency between actual conditions and the flood policy declarations page or application (e.g., building description, flood zone, etc.). Unfortunately, as a result of the South Carolina floods in October 2015, I have first-hand knowledge that this cross-check is not being done.

Agents typically write both the homeowners and flood policies. Most insurance companies require the agent to update the policies every 3-5 years by making sure there have been no changes to the insured structure, updating the replacement cost value (done annually) and providing new photographs. While the insurance companies require this level of attention and maintenance of homeowner's policies, neither FEMA's NFIP or the WYOs require this level of attention to detail for flood insurance policies. This leads to insureds paying too much or not enough premium for the coverage they have or to being under- or over-insured.

Since there is no penalty or consequences for doing a poor job, inaccurately completing the application, or making any other egregious mistakes that affect rating and because there is no requirement to update the application periodically, the agent and WYO are the source of higher premiums or underrated policies which drive the costs of the program up. The current compensation structure is a disincentive for agents and WYOs to provide the necessary customer service or servicing of the policy that helps insureds reduce their flood insurance premium rates and help FEMA/NFIP keep premiums lower. This report does not intend to portray agents, insurance companies, WYOs, or others in an unflattering light nor does it assign blame to them. This report merely points out some shortcomings and loopholes that the NFIP's current structure and business practices allow.

[2] http://bsa.nfipstat.fema.gov/manuals/accounting_manuals/WYO_Accounting_Procedure_Manual_04302015.pdf

WYO and the New Private Market

Some WYOs are entering into the private market while still servicing NFIP policies. One of the case studies that follow shows the conflict the agent faces and the possible conflicts of interest that affect the extent to which the insured receives the best product.

WYO Case Studies

The following nine case studies illustrate some of the deficiencies in the WYO Program, particularly as they relate to agent practices in rating analysis and assignment and how these practices affect policyholder premium rates.

Overview of V-Zone Rating

Because several of these case studies relate to V-Zone ratings, let's first look at the complexity of the how insurance rates affect premiums in Coastal Zones. Insurance rates are based on a number of factors. A primary factor is the flood zone in which the structure is located. However, V-Zone ratings are more complicated to rate as they take into account more factors, including:

1. Date of Construction
2. Size of Enclosures (300 sq. ft. or greater)
3. Replacement Cost Value (RCV)
4. Mechanical equipment below Base Flood Elevation (BFE)
5. Foundation Type

The size of enclosures and RCV (items 2 and 3 above) play a big role in V-Zone rating. Let's look at them individually.

1. Size of Enclosures (300 sq. ft. or greater)
2. Replacement Cost Value/Ratio (Rate Pages 22-23)

Agents assign a replacement cost value to the structure on the application, and no supporting documentation is required to sustain the figure. This value is only used in determining the insurance to value ratio for Post-FIRM (***Flood Insurance Rating Map***)buildings located in the V, V1–V30, and VE zones using Tables 3E or 3F, or the Specific Rating Guidelines for rating. The estimated building ***replacement cost***[3] is used in conjunction with the amount of the building insurance desired to determine the insurance-to-replacement cost ratio. The NFIP Agent Manual instructs the underwriter not to take into account or include any excess lines coverage (available through the private market) in place when determining the amount of coverage purchased. The underwriter can only include building coverage purchased through the NFIP. FEMA does not require agents to substantiate with documentation the RCV on the application for any policy type other than Residential Condominium Building Association Policies (RCBAP). RCBAP polices must submit new RCV documentation every three years.

[3] This term and others appearing in boldface italicized type are defined in the Glossary at the end of this report.

Rating illustration 1: RCV is $200,000; the lender required the maximum amount of insurance available of $200,000 building coverage, resulting in a replacement cost ratio of 100%.

$$\frac{\$200{,}000}{\$200{,}000} = 1$$

Rating illustration 2: In this example, the insured purchases the maximum amount of insurance available ($250,000), and the agent assigns the RCV at $600,000, resulting in a replacement cost ratio of 41%.

$$\frac{\$250{,}000}{\$600{,}000} = 0.41$$

Both structures are two feet above the Base Flood Elevation on piles with no enclosure. Now let's look at the NFIP Rate Table that applies.

TABLE 3E. REGULAR PROGRAM – POST-FIRM CONSTRUCTION RATES

ANNUAL RATES PER $100 OF COVERAGE

ELEVATION OF THE LOWEST FLOOR ABOVE OR BELOW BFE ADJUSTED FOR WAVE HEIGHT[2]	1981 POST-FIRM V1–V30, VE ZONE RATES[1] — ELEVATED BUILDINGS FREE OF OBSTRUCTION[3]				
	CONTENTS		BUILDING		
	Residential	Non-Residential	Replacement Cost Ratio .75 or More[4]	Replacement Cost Ratio .50 to .74[4]	Replacement Cost Ratio Under .50[4]
+4 or more	0.54	0.54	0.90	1.19	1.83
+3	0.57	0.57	1.03	1.41	2.11
+2	0.85	Illustration 1	1.42	Illustration 2	2.86
+1	1.19	1.24	2.06	2.71	3.79
0	1.62	1.74	2.70	3.48	4.82
-1	2.32	2.39	3.58	4.62	6.37
-2	3.32	3.50	4.80	6.19	8.39
-3	4.34	4.60	5.58	7.09	9.27
-4 or below	***	***	***	***	***

As you can see from the rate table above, the rate or cost of insurance coverage per $100 increases, as the insurance coverage to replacement cost value ratio declines.

Example 1: V-Zone Policy Misrated, Resulting in Lower Premium in Error

Our first example is a single-family structure located in a V17 (VE) Flood Zone.

As shown in Figure 1 below, RCV on the homeowner's policy is $551,616, while the NFIP Declarations Page in Figure 2 below shows a RCV for the flood policy to be $250,000. This is inconsistent; the two RCVs should match.

Figure 1: Homeowner's Policy Coverage and RCV

POLICY COVERAGES:

SECTION I - PROPERTY	LIMIT OF LIABILITY:
A. DWELLING	$ 551,616

Figure 2: Rating Information - NFIP Policy Declaration Page

Rating Information

Building Occupancy: Single Family	[redacted]
Primary Residence: Y	
Number of Floors: Two Floors	
Building Indicator: Elevated	Program Status: Regular Grandfathered: No
Basement/Enclosure/Crawlspace:	Flood Risk/Rated Zone: V13
No Enclosure or Crawlspace	
Condo Type: N/A	
Replacement Cost Value: 250,000	Elevation Difference: 5

Discoveries:

The current premium of $2,790 plus policy fees and surcharges (NFIP Manual, June 2014), as shown in Figure 3, is based on 100% insured-to-replacement cost value. If we compare the RCV of the homeowner's policy (which is required by the carriers to be adjusted annually) to the NFIP Policy building coverage, we calculate the following ratio:

$$\mathbf{250{,}000 \div 551{,}616 = 0.45}$$

Figure 3: NFIP Policy Declaration Page

Coverage		Deductible	Premium
BUILDING	$250,000	$1,250	$2,250.00
CONTENTS	$100,000	$1,250	$540.00
		ANNUAL SUBTOTAL:	$2,790.00

Based on this ratio, rather than using the "Replacement Cost Ratio of .75 or More" value, the agent and WYO company should have used "Replacement Cost Ratio under .50" value (Table 3E below, from the NFIP Manual, June 2014). Because the agent placed the RCV at 100% ($0.90 per $100 of coverage), the insured is paying a significantly lower premium than he should be paying. The proper rate should have been $1.83 per $100 of coverage for building coverage. Under this scenario, the insured should have paid **$5,115** plus policy fees and surcharges, for the flood insurance premium. This almost doubled the current rate the insured is paying.

TABLE 3E. REGULAR PROGRAM – POST-FIRM CONSTRUCTION RATES

ANNUAL RATES PER $100 OF COVERAGE

ELEVATION OF THE LOWEST FLOOR ABOVE OR BELOW BFE ADJUSTED FOR WAVE HEIGHT[2]	1981 POST-FIRM V1-V30, VE ZONE RATES[1]				
	ELEVATED BUILDINGS FREE OF OBSTRUCTION[3]				
	CONTENTS		BUILDING		
	Residential	Non-Residential	Replacement Cost Ratio .75 or More[4]	Replacement Cost Ratio .50 to .74[4]	Replacement Cost Ratio Under .50[4]
+4 or more	0.54	Ex. 1	0.90	Ex. 1	1.83
+3	0.57	0.57	1.03	1.41	2.11
+2	0.85	0.91	1.42	1.89	2.86
+1	1.19	1.24	2.06	2.71	3.79
0	1.62	1.74	2.70	3.48	4.82
-1	2.32	2.39	3.58	4.62	6.37
-2	3.32	3.50	4.80	6.19	8.39
-3	4.34	4.60	5.58	7.09	9.27
-4 or below	***	***	***	***	***

To complicate matters, the structure has an enclosure greater than 300 square feet. Per the NFIP Manual, this means that Table 3F (shown on the next page)—and not Table 3E—should have been used to calculate the premium. Table 3F indicates that the rate of $4.29 per $100 for building coverage and $1.01 per $100 for contents coverage should have been used. The actual premium calculated for building and contents coverages under this scenario (actual conditions) is **$11,735** plus policy fees and surcharges. As recommended, the client is reducing the enclosure to less than 300 square feet and addressing the discrepancy between the two different RCVs with his insurance agent.

TABLE 3F. REGULAR PROGRAM – POST-FIRM CONSTRUCTION RATES

ANNUAL RATES PER $100 OF COVERAGE

1981 POST-FIRM V1-V30, VE ZONE RATES[1,2]

ELEVATION OF THE LOWEST FLOOR ABOVE OR BELOW BFE ADJUSTED FOR WAVE HEIGHT[3]	ELEVATED BUILDINGS WITH OBSTRUCTION[4]				
	CONTENTS		BUILDING		
	Residential	Non-Residential	Replacement Cost Ratio .75 or More[5]	Replacement Cost Ratio .50 to .74[5]	Replacement Cost Ratio Under .50[5]
+4 or more	.70	.70	1.95	2.59	3.84
+3	.75	.75	2.09	2.75	3.97
+2	1.01	1.01	2.31	Ex. 1	4.29
+1	1.27	1.33	2.68	3.47	4.93
0	1.75	1.84	3.26	4.23	5.93
-1[6]	2.39	2.53	4.15	5.37	7.47
-2[6]	3.41	3.65	5.46	7.05	9.64
-3[6]	4.46	4.73	6.18	7.87	10.38
-4 or below[6]	***	***	***	***	***

Example 2: Grandfathering Not Applied, Resulting in Higher Premiums and Higher Agent Commissions and Jeopardizing Real Estate Transactions

A Realtor contacted me for assistance regarding a quote for a federally backed flood insurance premium of $30,233 (annual) for $250,000 building coverage only, with a $5,000 deductible. The structure is post-FIRM located currently in a VE Zone. A subsequent quote (Figure 4) was obtained, lowering both the annual premium ($10,044, as compared to the previous $30,233) and deductible ($3,000 as compared to the previous $5000) for the same level of building coverage ($250,000).

Figure 4: Quote 2

COVERAGE/PREMIUM INFORMATION				
Coverage	**Limits**	**Deductible**	**RPH Basic**	**RPH Additional**
Building	$250,000.00	$3,000.00	4.73	4.15
Discount/Surcharge				$1,233.00
1 Year Premium				$10,044.00

Discoveries:

The structure is a two-story townhome with enclosure built in 1986. The FIRM used as the basis for the quote was dated in 2007 and placed the structure in a VE Flood Zone with a 15-foot BFE. The elevation certificate (Figure 5) clearly indicated in the comments section that the structure was eligible for grandfathering for Flood Zone A10 and a BFE of 12 feet. With a little research, we were able to verify that the structure was built in compliance with a prior FIRM.

Figure 5: Elevation Certificate Comments

The structure was built around 1986 and at that time it was in Flood Zone A10 with a BFE of 12'.

In addition, while the structure was originally constructed in an A flood zone with a BFE of 12, it did not have openings in the enclosed area in accordance with 44CFR§60.3¶(b)5. While this requirement was enacted on October 1, 1987, after the structure had been built, the NFIP Manual requires that these openings be installed in order to qualify for the "built in compliance" grandfathering provision.

Had the insurance agent or underwriter read and understood the documentation that was submitted to them, they clearly would have done things differently, as we advised our client.

We advised the seller to install three Smart Vents (two words), manufactured in South Carolina by an American-owned company, Smart Vents, Inc. Smart Vents are ICC-ES Certified engineered openings that provide 200 square feet of flood protection each. Three Smart Vents were installed at a cost of $1,100. Once the Smart Vents were installed and the grandfathering applied, a new flood policy (Figure 6) was obtained for $449 that provides $250,000 building coverage and $100,000 contents coverage, each with a $2,000 deductible. The sale of the townhome went through, and the new owner is fully insured.

With a few hours of work to install the Smart Vents and applying the NFIP rules, flood insurance was made affordable. All the tools were pre-existing. It did not take an act of Congress or FEMA intervention; all it took to make the difference was someone knowledgeable on the program basics. Had the client been left with the first two flood insurance quotes, the real estate transaction would have failed to go through and the buyer would have walked away.

Figure 6: Grandfathered Quote

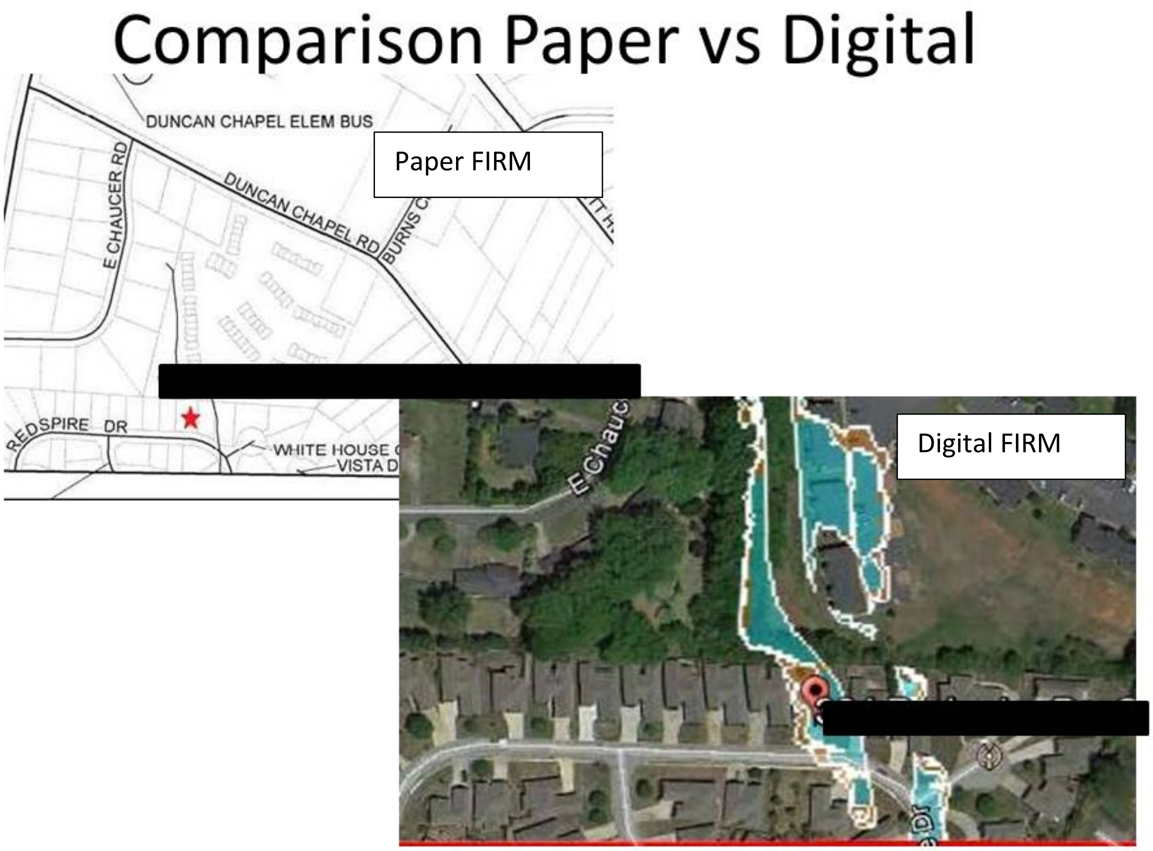
ANNUAL SUBTOTAL:		*$450.00*
INCREASED COST OF COMPLIANCE:		$4.00
COMMUNITY RATING DISCOUNT:	15%	($68.00)
RESERVE FUND ASSESSMENT:	5.0%	$19.00
PROBATION SURCHARGE:		$0.00
ANNUAL PREMIUM:		*$405.00*
FEDERAL POLICY SERVICE FEE:		$44.00
TOTAL:		$449.00

Example 3: Incorrect FEMA Digital Flood Maps Leave Senior Citizen with No Place to Turn

A client contacted me regarding her mortgagee's insistence that she buy a flood insurance policy even though her house was located in Flood Zone X. The client is an unemployed senior citizen, living on a fixed income. The mortgagee had sent her a letter, requiring her to purchase a flood insurance policy under the Mandatory Purchase Act or they would force place the policy for her.

Our investigation revealed that the paper FIRM and the digital FIRM were different (Figure 7). While both are published by FEMA, the paper FIRM is the official map. We immediately contacted the community and FEMA's contractor who produced the map. They agreed that an erroneous version had been uploaded instead of the final version and have reported the error to FEMA. With the widespread use of GIS, we found the erroneous digital layer on Google Earth and on FEMA's website. Furthermore, FEMA had provided the digital layer to the county for their website.

Figure 7: Both FEMA FIRMs



The client purchased a ***preferred risk policy*** at a cost of $334 for $125,000 building and $50,000 contents coverage. On behalf of the client, we appealed the decision of mortgagee, one of the largest in the nation, by providing the official paper FIRM to them on two separate occasions. The mortgagee's response was that they have determined that the flood hazard area is an AE flood zone and that the mandatory purchase requirements apply. Additionally, the mortgagee sent a letter instructing our client to increase coverage by $10,100 within 45 days or they would "force place" the policy for her. The preferred risk building/contents coverages are prescriptive; therefore, the insurance agent and client would have to "over insure" to comply with the mortgagee's request for additional coverage, which means obtaining the next level of combined $150,000 building/$60,000 contents coverage and paying the difference in premium of $22. Let's look at the costs to date for a structure that is not located in a flood zone per the FEMA paper map and errantly placed in a flood zone by FEMA on the digital flood map.

$$flood\ insurance\ Premium\ \ \$344 + additional\ coverage\ \$22 = \$356$$

+ Consulting fees $900 = **$1,266.**

This is a clear example of where Section 18 of the HFIAA (Reimbursement to Homeowners for Successful Map Appeals) should apply. First, this is a FEMA/FEMA Contractor error to the digital flood map layer that was uncovered by and has negatively affected the client with the unnecessary expenditure of funds. Further, based on this error, the mortgagee is holding the property owner at gunpoint with the threat of force placing a flood policy. The cost of a forced placed policy is an exorbitant premium of approximately $6,755 for building-only coverage.

Additionally, we appealed to the map determination company with the argument that the paper map is the "official map." The mapping company argued that their conversations with FEMA indicate that both the paper *and* the digital versions are "official" maps, although the digital map does not go through the same review process as the paper map. One assumes that the maps would match, but in this case, they did not.

In attempting to resolve this issue, we have applied for a ***Letter of Map Amendment*** "as shown," which could take up to 45 days for FEMA to respond.

Example 4: Flood Policy Held Hostage

On October 30, 2013, while the Biggert-Waters Flood Insurance Reform Act of 2012 was in effect, a buyer made a cash purchase of an improved property located in the floodplain. The buyer purchased the property with cash to avoid the lender's mandatory purchase of flood insurance, as the flood insurance premium quote was $37,180. By comparison, for the policy term in effect at the time of the sale, the seller's flood insurance premium was $834 and grandfathered

Additionally, the buyer was informed by the seller's insurance agent that they would only allow the assignment, and not a transfer, of the seller's NFIP policy to the buyer's own insurance agent. Further, this assignment was contingent upon the seller's agent being allowed to write all buyer's insurance needs related to that property address. In essence, the seller's agent was holding the NFIP policy, backed by the federal government, hostage for all the buyer's insurance needs.

At the time, it made no difference whether the buyer bought the policy then or later, so he decided to shop around. In March 2014, Congress passed the Homeowners Flood Insurance Affordability Act (HFIAA). HFIAA repealed Section 205 (g) (2) of the Biggert-Waters Act, which imposed the huge premium increases that negatively affected by real estate transactions. However, buyers who did not purchase a policy at the exorbitant premiums were left out. To this day, this class is still impacted by high premiums or quotes, as Congress did not repeal or offer relief to Section 205 (g) (1), which states *"any property not insured by the flood insurance program as of the date of enactment of the Biggert-Waters Flood Insurance Reform Act of 2012…"*

There was no advertised relief for this affected class, being those who purchased a house after July 6, 2012, but not an NFIP policy, due to affordability. Therefore, people who sought to purchase a flood insurance policy after July 6, 2012 but could not afford the exorbitant annual flood insurance premiums to this day may remain uninsured and may end up qualifying for disaster assistance, of some sort, in the future.

Example 5: Policyholder Punished for Possible 15-Year-Old Record Keeping Error and Grandfathering Unfairly Removed After 15 Years as a Loyal NFIP Customer

The insured purchased the house in 2005 with an existing flood insurance policy in effect that the seller assigned to buyer. The seller had maintained continuous coverage since the NFIP policy originated in 1999. The structure is Pre-FIRM. The assigned policy had been "grandfathered for continuous coverage" since 1999, in an A13 flood zone. In 1995, the FIRM map changes placed the subject property in a VE Zone. The grandfathered policy renewed in September 2013 with a premium of $1,818.

In 2014, the insured added a home equity loan. The WYO company re-underwrote the policy, requesting the insured to provide proof of the existing flood insurance policy prior to 1999, when the insured did not own the structure, in order to prove eligibility for continuous coverage. Again, the insured did not own the structure until 2005. The insured's premium jumped to $4,219 for the 2014-2015 policy term. The monthly escrow payment more than doubled, from $151.50 to $351.58, related solely to the removal of the grandfathering provision.

Since the insured did not own the structure from 1995 to 1998, how could he prove the existence of a flood insurance policy? The NFIP recognized this grandfathered status for nearly 15 years, and the insured feels that it is inherently unfair to have to prove something that was never questioned when the policy was assigned to him.

To offer a corollary of another federal agency, the Internal Revenue Service only audits taxpayers' records for the last five years. The IRS also does not require the burden of proof to meet today's standards for something that was deemed to meet the burden of proof in prior years. Even FEMA changed their refund polices in November 2015 to five years instead of six, citing federal records retention regulations. Yet FEMA's rules require insureds go beyond their policy ownership to justify eligibility for grandfathering. This is inherently unfair to insureds who, in good faith, have paid a premium.

Another example is an insured who purchased a house and was provided a quote of $700 the day before the closing, after initially being told the structure was not in a flood hazard area and that flood insurance was not required. Thirty days after closing, the insured learned that the premium is now roughly $2,200 a year. Had he known this before the closing, he would have never bought the house, as the high premium was a major factor in affordability to him and his young family, and a key factor in his decision-making process. Agents and WYOs are using quotes to hook insureds with low premiums until the policy is completely underwritten and a final premium is disclosed down the road. Since quotes are not binding, by the time the actually premium is disclosed, the insured is stuck and has no recourse to undo the purchase or go against an agent for errors or omissions claims.

As of the date of this report, I am currently working with six clients with similar situations to see if we can restore the prior rating with documentation. In all cases, the lack of documentation to support grandfathering goes back more than six years and all involve assigned policies (policies that transfer ownership from seller to buyer at the time of closing). In one case, clearly the agent made an error years ago, and while he recently discovered the mistake during the claims process, he creatively found a way to conceal the misrating from the insured and the NFIP. The sharp homeowner saw something amiss and asked me to track it down for fear of losing his affordable flood insurance all together. In these situations where the agent cleverly conceals an application error, FEMA should turn it over for investigation of fraud charges against agents, agencies, or WYOs and assist insureds with errors and omissions claims against the parties involved. The names of these individuals and agencies should also be turned over to the State Department of Insurance to investigate possible violation of state laws.

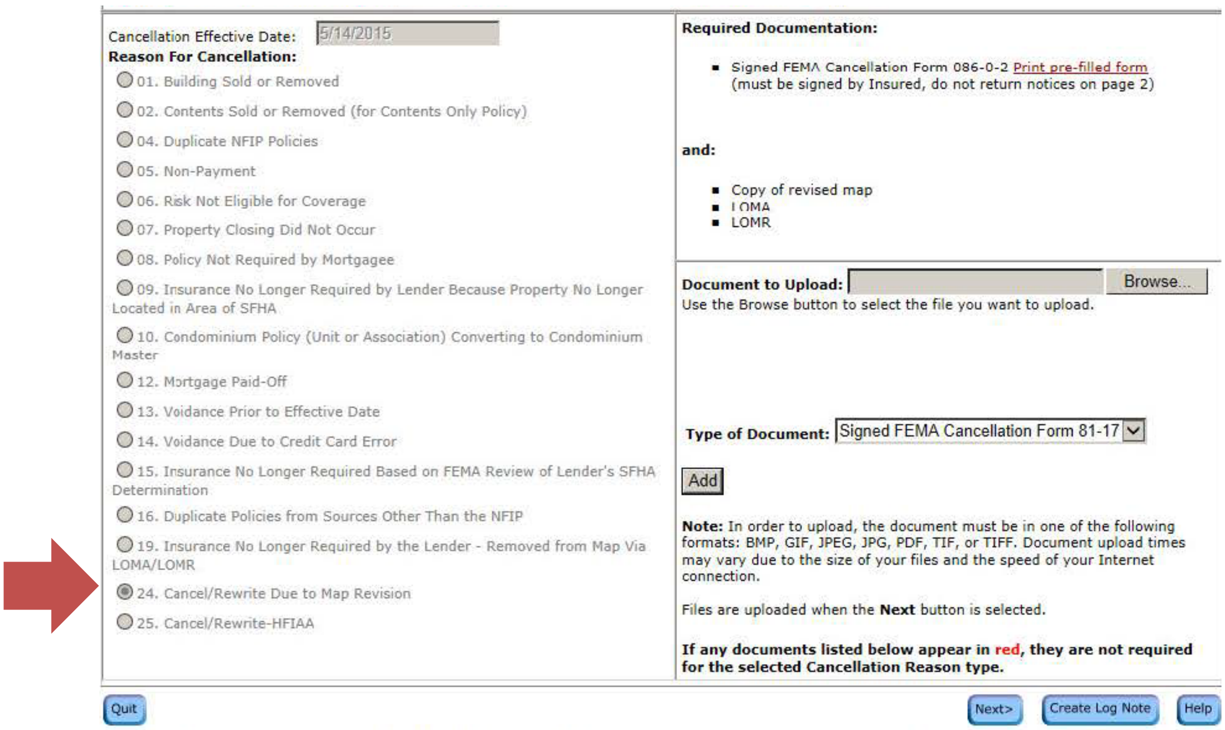
Example 6: Agent Limitations Would Not Allow Conversion of Standard "X" Policy to Preferred Risk Policy, Resulting in the Insured Paying Higher Premiums

The insured purchased a standard flood insurance policy in 1999 for a property that was located in the low-risk X Zone. At that time, the policy was written as a standard policy rated in an X Zone because the insured's property is and always has been in Zone X. The insured has never had a claim. The insured's agent never made the policyholder aware of the Preferred Risk Policy (PRP) program or her potential eligibility.

In 2015, at the insured's request, the insured's agent tried to convert the policy from a standard policy to a low-cost PRP. The agent's system has limited cancellation reason codes, so when calling the company for assistance, the agent was instructed to use cancellation Reason Code 24 (Cancel/Rewrite Due to Map Revision, LOMA, or LOMR), as shown in Figure 8. A Letter of Map Amendment (LOMA), was not issued or submitted as documentation to support Reason Code 24. The insured's property is and always has been in Zone X. Because the agent followed the instructions of the WYO company representative, the WYO's underwriter processed the request for Reason Code 24, converting a standard X Zone policy to a standard X Zone policy, and sent the insured a bill for additional premium—the exact opposite of what the policyholder expected.

Instead, the agent should have been instructed to use cancellation Reason Code 22, which converts the standard policy to PRP and provides for a refund of the current term only. Upon further investigation, and after conversing with the agent, the agent sent me a screenshot from their WYO system (see Figure 8), showing that Reason 22 is not one of the options that agents can select.

Figure 8: Screenshot of Agent's View



I requested the agent upload a paper PRP application, and I sent the documentation for this case to the newly established Flood Advocates Office within FEMA.

In this case, the WYO intentionally limits the options available to agents to service policies. The way their system is set up deters agents from submitting requests to convert eligible policies to lower cost policies (e.g., conversion of standard rate policies to PRP policies). If the agent is in error, the WYO underwriter could deny the conversion.

Additionally, if the property is and always has been in an X Zone and since no claim has ever been filed or paid, why would it not be converted to the cheaper policy and the insured refunded the overpaid premium for the last six years? In this case, a PRP was not an option at the time the policy was written, nor was the cheaper policy ever offered to the insured.

As this report was finalized, FEMA changed its refund procedures and has approved a multi-year refund to this insured.

Example 7: NFIP Changes and New NFIP Products Do Not Automatically Equate to Insured Savings

The NFIP created the Preferred Risk Policy (PRP) Program in 1989. The PRP policy insures structures located in low-risk flood zones (flood zones B, C, X). Example 6 is a clear example. While some insureds may have been sent a letter or seen TV advertisements regarding the availability of the product (policy), they did not understand the product and its benefits. Insureds' policies should have been pre-screened, eligibility determined, and the options presented to the insured to sign an endorsement converting the policy to the cheaper premium by their agents and the WYOs. To this day there are many people with standard flood insurance policies that are eligible for the PRP policy, but they are not aware of this fact. This is costing insureds hundreds and sometimes thousands of dollars in additional premium annually.

Example 8: WYO Use of Default Values Results in Insureds Paying Too Much or Too Little Flood Insurance Premiums

Too Little Premium Being Collected

The insured's policy transferred ownership (from buyer to seller) as a subsidized pre-FIRM policy, with "0000, suffix A" as the flood panel number and Flood Zone A11. Flood Map Panel "0000, suffix A" is a default value and, as such, is not an accurate portrayal of the flood zone determination. Neither the WYO or the insurance agent questioned the accuracy of the map when the policy was assigned or reissued. In this instance, the client is currently rated as plus three feet above the base flood elevation on the assigned current policy (see Figure 9). After I obtained the appropriate map information, I found the local government had found the structure to be substantially damaged by Hurricane Hugo. In addition, there is no evidence to support the plus three feet above BFE rating. The structure is currently in a VE flood zone with a 16 foot BFE. The evidence I found supports post-FIRM rating of an A8 zone with a 14 foot BFE, resulting in a plus one foot rating for flood insurance.

Figure 9: Default flood map panel as shown on Declarations page

Primary Residence: N	
Premium Payor: 1st Mortgagee	
Flood Risk/Rated Zone: A13 **Current Zone:** VE	
Community Number: 0000 A	**Elev Diff:** 3
Community Name:	**Elevated Building:** N
Grandfathered: Yes	Includes Addition(s) and Extension(s)
Pre-Firm Construction	**Replacement Cost:**
Program Type: Regular	**Number of Units:** 1

Type	Coverage	Rates	Deduct	Discount	Sub Total
Building:	250,000	.250 / .080	1,250	6-	296.00
Contents:	83,300	.380 / .120	1,250	3-	162.00
Contents Location:	Lowest Floor Above Ground Level and Higher Floors				

Premium Calculation	
Premium Subtotal:	458.00
ICC Premium:	4.00
CRS Discount:	92.00
Reserve Fund Assmt:	19.00
HFIAA Surcharge:	.00
Federal Policy Fee:	44.00
Probation Surcharge:	.00
Endorsement Amount:	.00
Total Premium Paid:	433.00

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

Too Much Premium Being Collected

The insured began questioning why her flood insurance premium was significantly more than her neighbor's premium. After reading an article on BankRate.com in which I was quoted, she contacted me for a review. After seeing the default flood panel indicator applied, I researched the flood maps and verified the flood zone. I was easily able to locate the correct flood map panel from FEMA's website (historic map panels). I noticed that the policy indicated the insured's property was located in V03 flood zone (see Figure 10), while the map showed the structure to be located in an A0 flood zone. The insured obtained an updated elevation certificate which indicated she was above the threshold and therefore could be rated in an AO Zone with an elevation certificate. The insured has had this policy for many years and is now entitled to a multi-year refund, which is estimated to be in excess of $17,000. Once the corrections were applied in September 2015, the insured's new premium was $490.

Figure 10: Default flood map panel as shown on Declarations page

Primary Residence: N
Premium Payor: Insured
Flood Risk/Rated Zone: V03 **Current Zone:**
Community Number: 0000 A
Community Name:
Grandfathered: No
Pre-Firm Construction
Program Type: Regular

Elev Diff: N/A
Elevated Building: N
Includes Addition(s) and Extension(s)
Replacement Cost: $106,700
Number of Units: 1

Type	Coverage	Rates	Deduct	Discount	Sub Total
Building:	250,000	1.480 / 2.540	2,000		5,714.00
Contents:	17,100	1.840 / 4.340	2,000		315.00
Contents Location:	Lowest Floor Above Ground Level and Higher Floors				

Premium Calculation	
Premium Subtotal:	6,029.00
ICC Premium:	55.00
CRS Discount:	.00
Reserve Fund Assmt:	304.00
Federal Policy Fee:	44.00
Probation Surcharge:	.00
Endorsement Amount:	.00
Total Premium Paid:	6,432.00

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

We submitted all the documentation to support the correction of the misrated policy in June 2015. The insured received two refund checks: one in September and another in October. Per the NFIP Manual, the WYO only has the authority to issue a refund check for the immediate two policy terms (current term and one prior term). Now the wait begins for the multi-year refund check to be issued, as the Bureau and Statistical Agent must approve the remaining four years. For reasons unknown to me, this leg of the process takes years for refunds to be issued to insureds, regardless of the amount of the refund. I know that FEMA is aware of the issue, examining the refund procedures and trying to improve the process.

Example 9: Rather than Identifying a Misrating, Agent Recommends Private Market Policy

October 2015 presented Columbia, South Carolina with torrential rains and multiple dam failures. While working with clients to determine their mitigation options, I had to calculate the return on their investment to elevate the house thus mitigating future flood losses. The insured has full coverage, ($250,000 building, $100,000 contents) with a $5,000 deductible, paying a $6,450 premium. Just prior to the flood, the insured increased the deductible to $10,000 which lowered the premium to $3,638. When the insured sent the elevation certificate to the agent and asked the agent what the premium would be if he elevated his flood damaged home 2 feet and 4 feet above the BFE, the agent responded.

> ***"Per our discussion regarding flood insurance pricing if you were to make your house flood compliant, I found out the following: You would have to completely fill in your basement with concrete or dirt and elevate your house by 4 feet in the front and 6 feet in the back. This is probably not a realistic solution.***

However, there are some new flood insurance markets competing with the National Flood Insurance Program (NFIP) that we could quote for you at your next renewal. If you have had no more than one flood loss in the past five years then we have a market in the range of $2,425 for $250,000 Building coverage, $100,000 Contents coverage and a $5,000 deductible on each.

Please confirm the number of flood losses you have had in the past five years and we will pend our file 60 days prior to your next renewal to quote some other markets, if possible."

Based on the agent's response in comparing the structure and ground elevations, it clear to me that the agent or the agent's advisor saw the elevation certificate. For this example, we will compare the full coverage using the original $5,000 deductible. Had the agent used the elevation certificate to calculate the full-risk rate premium, she would have informed the insured that using the elevation certificate would result in a premium of $3,589—a $2861 annual savings over the pre-FIRM subsidized rate he is currently paying. A subsequent quote from another WYO yielded that the insured would be paying $571 for 2 feet above and $490 for 4 feet above annually.

The biggest surprise to me is that had the agent even looked at the elevation certificate, she should have realized that the policy was misrated. The structure has a subgrade crawlspace (0.9 feet below the outside grade of the structure), not a basement. As a result of the misrating, the agent has been over-charging the insured premium for years. Additionally, because she did not discover the error prior to November 1, 2015, the insured is only entitled to a five-year refund, not six as had been the policy up until that time. Effective November 1, 2015, FEMA changed their refund procedures.

I immediately notified FEMA on October 31, 2015 of the error, hoping that the insured would be able to obtain the six-year refund as the agent did not discover the error in her response to the insured on October 30, 2015. I had hoped that the error would be discovered by the flood claim adjuster, who is supposed to confirm that the building description matches the actual construction. If it doesn't, the adjuster is to refer the building description to underwriting for correction. This check-and-balance test that FEMA put in place failed miserably, as the flood adjuster did not note any discrepancy.

Once the agent submitted the request for a multi-year refund, it was quickly denied by the WYO lead underwriter based on a misinterpretation of the NFIP Manual. The underwriter was only going to approve a one-year refund based on his interpretation of the refund procedures. I had to get FEMA underwriters involved to get the WYO to approve the multi-year refund. Even after the underwriter received an email from FEMA directing the multi-year refund, the WYO lead underwriter requested the eligibility and FEMA's interpretation. FEMA has directed the WYO to honor the six-year refund. This leaves me to question as to why the underwriter did not know or comprehend the correct refund policies and how many prior requests for refunds were denied based on this misinterpretation. I doubt the WYO company will do an internal audit to determine how many refund requests were wrongly denied and seek to refund the insureds the money they are entitles to.

Had the insured blindly followed the agent into the purchase of a private market policy and the private market company later decided not to allow him to renew, he would not be eligible to come back to the NFIP with a subsidized or grandfathered rate. Agents are not required to disclose the consequences of dropping an NFIP policy (loss of grandfathering or subsidized rate) to an NFIP insured.

A major defect in the NFIP reform and the surge of interest in the private market flood insurance policies is that the rules governing the program do not require FEMA to recognize private market as continuous coverage and protect insureds by disclosure of any differences (or consequences) between the NFIP and the private market policies. These loopholes may be a big black hole for some insureds in the future who get caught between the need for flood insurance and affordability.

Mortgage Companies

Mortgage companies are trying to do a better job in compiling with the mandatory purchase requirements. I am beginning to hear of some cases from insurance agents in which the mortgage companies are requiring policies that are legitimately eligible for grandfathering by rating with the current zone rather than the zone that provides the more favorable insurance premium for the insured. Apparently they are entitled to do so under the rules and regulation of the NFIP.

Example 10: Mortgage Company Requires More than the Value of the House

In the event of a claim on the flood insurance policy, the most that an insured can receive is the replacement of value or the face value of the policy, whichever is less. Some mortgage companies, including the U.S. Department of Veterans Affairs (VA), require an appraisal prior to sale, but they do not necessarily require the appraiser to establish separate values attributed to the land and structure. Keep in mind that the NFIP does not insure land, only structures. However, when you purchase an improved property, there is the value of the land and the value of the improvement (structure).

In this case, the buyer purchased waterfront property on the intercostal waterway for $285,000 and subsequently was required to purchase flood insurance for the maximum amount of $250,000 building coverage. The county property assessor's office assessed a tax value of the land at $100,000. A review of the appraisal completed for the VA loan revealed that the appraiser attributed 100 percent of the sale price to the structure and zero percent of the sale price to land value. The insured was required to carry the full $250,000 of building coverage, with no recourse to appeal to the mortgagee. These erroneous assumptions result in policyholders being over insured, paying a higher premium, and paying higher escrow payments—all a result of the mortgagee's standard of practice which holds that land has no value.

Review Findings & Programmatic Issues

As a result of my investigation and client experiences, there are areas in which some of the current NFIP policies could be revisited and hopefully improved, as discussed below.

Refund Process

FEMA's and the WYO companies' process for refunding insured parties for agent and WYO mistakes is "broken." In a case mentioned in my last report, the agent initiated a multi-year refund request in June 2013. The insured has received the refund for the current policy term and prior term for $6,010. The four additional years of refunds—totaling less than $400—were not approved until December 2015. Numerous inquiries were made to the WYO. It was only after querying FEMA's Office of the Flood Insurance Advocate and constant follow-up inquiries that the insured received the refund of $352 in December 2015.

Perhaps FEMA should consult the Internal Revenue Services (IRS) on their refund process. If you receive a refund you are not entitled to, then the IRS will recoup those funds. Two or more years is simply an unacceptable amount of time for FEMA or any agency to withhold refunds due to insureds who have been over charged, in some cases, far beyond the allowable recoupment period. I have two pending refunds in excess of $10,000: one initiated in July 2015, the other in January 2016. In both cases, the most recent two terms were processed by the WYOs immediately; however, the breakdown seems to occur when the refund requests for the remaining three to four years are sent to the Bureau and Statistical Agent (FEMA) for approval and processing.

Policy Accuracy and Completeness

One inherent observation is that many policies that were grandfathered use a default panel number "0000." For example, there are a lot of panel 0000 policies out there, and many people who have standard X Zone policies who have not been qualified for PRPs. The perception is that FEMA is quick to apply ratings that increase premiums, but slow to apply ratings that lower premiums. This is only one of many identified issues that lead to policy errors and misrating.

Agent Limitations

In my opinion, there is a ***serious programmatic issue*** if agents are not allowed to choose the appropriate cancellation/rewrite code in accordance with the NFIP Manual, which favors the agent and the WYO rather than the insured. FEMA should ensure that WYOs properly and expediently institute changes that are within program guidelines and are in the best interest of the insured when it comes to policy conversions.

Accountability

FEMA should start holding WYOs more accountable for training their agents and disseminating new product and procedural information to them, as required under their contracts. Furthermore, WYO audit performance should be public information. This will drive competition, as well as accuracy and accountability among WYOs. Congress should direct FEMA to make WYO audit findings public information. The major difference between annual tax returns and insurance policy renewals is the insured relies on a trained professional to fill out the tax return or application correctly and assumes that the professional completing the work know the rules of the program, similar to tax preparers. Tax preparers are not required to be licensed by the state; however, they have some liability if they are wrong or do the wrong thing. On the flip side, the only accountability by the NFIP for insurance agents who do the wrong thing is "sometimes" an adjustment to their agent commission.

NFIP Direct vs. Private Market Policies

In the growing interest for private market policies, we should keep in mind that the private market policy is not going to be a fit for everyone. There is room and a purpose for both public and private sector policies.

Recommendations:

Some of the following recommendations could be implemented by FEMA and NFIP participants without congressional authorization.

Require Agent & WYO Policy Maintenance

- ***Obtain and validate the Replacement Cost Value of insured structures.*** The NFIP should require agents to update the RCV for all policies, except PRP, once every three years at renewal. WYO underwriters should question RCVs that are out of line. There are various sources to obtain estimated RCVs. This could be accomplished simply with submitting a copy of hazards policy (homeowners) declarations page, which indicates the RCV.
- ***Provide or update invalid or default data.*** Agents should be required to verify or ascertain grandfathering eligibility for all post-FIRM and pre-FIRM qualified structures. Where the panel number on the declarations page is “0000,” the WYO should be required to ascertain the correct panel number.
- ***Photos:*** Insureds should provide updated photos every three to five years so that their agent can validate the insurance building description and other factors, assuring that premiums are still valid.
- ***Institute training for agents and adjusters on their roles in the validation process.***

Re-examine the NFIP Refund Process

The process needs to be not only examined to see what sweeping changes need to be implemented, but retooled to expedite insureds’ refunds of overpaid premiums, even if the WYO refunds the money while FEMA completes their review.

Change the FEMA/NFIP Application

We recommend that the application be changed to ensure more accurate rating. Rather than requesting the square footage, a more accurate method would be to ask for the dimensions of the enclosure. An adjuster or agent could easily verify the enclosure size. Most people guess the square footage when asked.

Allow Reimbursement of Property Owner's Expenses for FEMA Mapping Errors

When mapping errors occur that are not appealable due to FEMA's inadequate quality control procedures, FEMA should reimburse affected property owners for expenses related to those errors. If FEMA or its contractors lack the quality control procedures necessary to ensure that the paper and digital maps match, then affected citizens should be allowed to be reimbursed under the HFIAA Section 18.

Make FEMA Internal Training Mandatory

All employees providing flood insurance advice or information should be required to attend annual formal training on flood insurance in an attempt to make sure that responses and knowledge are up-to-date to prevent misinformation from being provided to insureds and the general public. Of the many FEMA regional and core insurance employees who are providing insurance advice to insureds, I can think of only one who is actually trained as an insurance professional.

Institute Customer Service and Outreach to Insureds

FEMA should institute procedures to train staff on customer service techniques and set staff expectations of customer service goals. The Office of the Flood Insurance Advocate within FEMA should also institute a tracking system to log and follow-up with insureds who call asking for assistance. Currently, there is no tracking system to ensure customers were help or became frustrated and gave up. Additionally, FEMA should extend the deadline from April 1, 2016 for those who fell thru the cracks between the Biggert-Waters Reform Act of 2012 and today and utilize their TV marketing and advertising dollars to invite potential insureds back to the NFIP or at a minimum make them aware of their options.

Offer Insureds the Benefit of Rating Class Changes

As NFIP policies and procedures change, FEMA should require WYOs and agents to identify insureds who will benefit from rating class changes and offer the benefits of these changes to them.

- ***FEMA should require WYOs to offer PRP policies, at renewal, to all eligible standard rated policies that have not had a claim and disclose any lower premium they may be eligible for.*** At a minimum, WYOs should make the offer to the insureds and instruct them on what steps they could take to obtain the lower premium. If WPOs do not make this offer, then the insureds should be eligible for a multi-year refund.
- ***FEMA should require WYOs to offer the newly mapped procedure to all current or newly insured policyholders who qualify.*** If they don't, then the insured should be eligible for a multi-year refund.
- ***FEMA should use their marketing funds to bridge the gap of those people who were given quotes between the two reform acts but did not purchase a policy***. Beginning April 2016, FEMA implements penalties for those who did not purchase a policy. FEMA has done nothing to get the word out of the impending doom homeowners face if they do not have a NFIP policy in place.

- ***Recognize excess lines coverage***. In the calculation of the insurance-to-value ratio for post-FIRM V-Zone rated structures, FEMA should allow credit for excess lines coverage available through the private market.

Allow for the Portability of Private and NFIP Flood Policy Coverage

Like health insurance, flood insurance coverage should be portable as long as you can prove continuous coverage. Insureds should be allowed to move from the NFIP to the private market, and to return to the NFIP as needed without losing their grandfathering status or subsidies, which in essence penalizes them for being good consumers.

Update the *Mandatory Purchase of Flood Insurance Guidelines*

FEMA and the U.S. Department of the Treasury should jointly update the *Mandatory Purchase of Flood Insurance Guidelines* that FEMA rescinded. This publication clearly explained what the requirements are for mortgagees, mortgagors, and the lay person seeking clarity or information.

Give Notice to Lenders about Mandatory Participation in the Letter of Determination Review Process

FEMA has underutilized process by which mortgagors (borrowers) can appeal the interpretation of the mandatory purchase of flood insurance determination of their mortgagee for a small fee of $80. Currently, the lender must agree to participate and the request for a ***Letter of Determination Review*** (LODR) must be submitted within 45 days of the notice from the lender that flood insurance is required. If the LODR is granted in favor of the borrower, then the lender is relieved of their obligation to comply with the mandatory purchase requirements. The lender could still require a less expensive flood insurance, a preferred risk policy, if they so choose.

This process is much faster and cheaper when there is some confusion of when the mandatory purchase requirements apply. This should not be confused with the Letter of Map Amendment (LOMA) process, which removes structures from the flood hazard area based on the submission of additional data. It is my opinion that the insured should be informed of their right to appeal the lender's decision through the LODR process. I am aware of several instances where insureds would have saved a great deal of time and money had they been aware of and been allowed to request a review through that process.

Conclusion

The errors or omissions of flood insurance policies identified in this report offer a road map for reforms. Long-term solutions for the sustainably of the National Flood Insurance Program are not found in fixing or tweaking subsidies. Rather, solutions lie in identifying and implementing mitigation measures for individual structures (risk reduction), thus resulting in lower premiums for insureds and providing stability in the real estate and mortgage markets.

The solvency of the NFIP is dependent on the system working in tandem with interpreting the rating rules the same way. The current system involves insurance agents, insurance companies, WYOs and FEMA—all of whom must interpret the NFIP Manual. The difficulty is that they are not all interpreting it the same way. Each company has its own software, own underwriters, and own internal training. We know that WYO companies support their agents, but how much training do the WYOs provide their agents on the NFIP?

The current system, as it is set up now, is not inherently fair to insureds. In the case of rating errors, the system does not explain to the insured why rates are suddenly raised after years of lower premiums, nor does it explain how they could or what information could be offered to appeal a decision. The same fervor is not applied when policy changes (such as map changes and BFE information) benefit an insured in the form of lower premiums.

It is clearly understood that the refund process needs a major evaluation and overall. FEMA needs to delegate more authority and accountability to the WYO's and/or determine where the in-house, procedural breakdown is occurring in order to make some major changes. These procedural changes related to refunds apply to both whether the refund applies to the current policy term or multi-year and the length of time it takes for a multi-year refund to be processed.

Major inconsistencies exist in the system across the board. The involved parties must take the time to develop a plan to correct those years of the inconsistencies that is fair to the insured and provides implementation of accurate rating. This is in the long-term best interest of the program and it solvency.

We need a holistic approach and recommendations from all sectors. This could be accomplished through the formation of a bi-partisan commission on NFIP reform with all sectors represented.

Glossary

Base Flood Elevation (BFE)	The elevation of the projected height of the flood having a one percent chance of being equalled or exceeded in any given year.
Biggert-Waters Flood Insurance Reform Act of 2012 (BW-12)	A major reform Act of the NFIP passed by Congress and effective on July 6, 2012.
Federal Emergency Management Agency (FEMA)	The agency within the Department of Homeland Security that oversees the implementation of the NFIP.
Flood Insurance Rate Map (FIRM) [i]	An official map of a community, on which the Federal Insurance Administrator has delineated both the special hazard areas and the risk premium zones applicable to the community. A FIRM that has been made available digitally is called a Digital Flood Insurance Rate Map (DFIRM).
Homeowners Flood Insurance Affordability Act of 2014 (HFIAA)	A major reform Act of the NFIP passed by Congress and effective March 21, 2014, which rolled back some of the costly provisions if the Biggert-Waters Flood Insurance Reform Act of 2012.
Letter of Determination Review (LODR)	A process in which borrowers can appeal their mortgage companies interpretation of policies that determine if mandatory purchase of flood insurance is required.
Letter of Map Amendment (LOMA)	A process which removes structures from the flood hazard area based on submission of additional data.
National Flood Insurance Program (NFIP)	The flood insurance program created by Congress in 1968, and backed by the federal government, to make the sale of flood insurance more readily affordable and available for purchase.
Preferred Risk Policy (PRP)[ii]	A lower-cost Standard Flood Insurance Policy (SFIP), written under the Dwelling Form or General Property Form. It offers fixed combinations of building/contents coverage limits or contents-only coverage. The PRP is available for property located in B, C, and X Zones in Regular Program communities that meets eligibility requirements based on the property's flood loss history. It is also available for buildings that are eligible under the PRP Eligibility Extension.
Replacement Cost & Replacement Cost Value (RCV)	The amount of money required to replace or repair the insured building in the event of loss or damage, without a deduction for depreciation.
V-Zone Rating	Rating which applies in V-Zones as mapped by FEMA as shown on the FIRM. This is an area of special flood hazard extending from offshore to the inland limit of a primary frontal dune along an open coast and any other area subject to high velocity wave action from storms or seismic sources.

[i] 44 CFR Part 59 https://www.gpo.gov/fdsys/pkg/CFR-2010-title44-vol1/pdf/CFR-2010-title44-vol1-sec59-1.pdf
[ii] NFIP Agents Manual, FEMA, April 2015