

**Testimony of
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before
The U.S. House of Representatives
Committee on Financial Services
Subcommittee on Housing and Community Opportunity
April 1, 2003**

Chairman Ney, Ranking Member Waters, and Members of the Subcommittee, I am Anthony S. Lowe, Federal Insurance Administrator, and Director of the Mitigation Division of the Emergency Preparedness and Response Directorate of the Department of Homeland Security. On behalf of the National Flood Insurance Program, we welcome and appreciate the invitation to appear today before the Subcommittee on Housing and Community Opportunity.

I would like to address the issue of repetitive flood loss properties within the entire context of the National Flood Insurance Program (NFIP) and its history.

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

To measure how far the program has come, it is helpful to revisit its origins.

This summer marks 35 years since Congress first authorized the NFIP.

The NFIP was one of three property insurance programs Congress authorized in the late 1960's to fill serious gaps in the private insurance market.

In 1968, the Riot Reinsurance Program and the Federal Crime Insurance Program commanded immediate national attention because of their topical interest and their mission to serve disenfranchised property owners in the Nation's cities. Many urban property owners had been denied or were in danger of losing the most basic forms of property insurance protection simply because of where they lived or conducted business. Since insurance is the cornerstone of credit, these programs became an urgent stopgap to provide property insurance coverage essential for the survival of America's cities.

The NFIP met a different property insurance need: to offer flood insurance, virtually unavailable in the private market, to those exposed to flood hazards across the country. The series of devastating hurricanes and storms in the early to mid-60's underscored the need for this coverage. The program at the outset, however, was

voluntary. Flood-prone communities faced no economic consequences for not joining the program. Property owners at risk from flooding were not required to buy flood insurance as a condition for direct Federal financial assistance or for a federally-related mortgage. The program started with a handful of policies and grew to only about 272,500 policies by the end of fiscal year 1973 under the voluntary program. But two pieces of legislation changed the program's levels of participation.

As a result of devastating floods in the early 1970's, when relatively few flood-prone communities and property owners took advantage of the flood insurance program, Congress enacted the Flood Disaster Protection Act of 1973. The 1973 Act mandated the purchase of flood insurance as a condition for federally-related mortgages and for direct Federal financial assistance, such as Federal disaster assistance or FHA or VA loans, if the property was in a special flood hazard area. The 1973 Act also required the identification of the nation's special flood hazard areas and offered identified flood-prone communities the choice of either joining the NFIP or facing the loss of Federal financial assistance in their high-risk flood areas. As a result of these provisions, the number of communities in the NFIP grew from roughly 5,520 to more than 18,600 during the next 20 years. Also, by the end of fiscal year 1994, the number of flood insurance policies in force had grown tenfold, as a result of the mandatory provisions, to 2.8 million policies.

Over time, it was clear that the program needed reforms to ensure compliance by lenders with the flood insurance purchase and retention requirements of the 1973 Act. The National Flood Insurance Reform Act of 1994 mandated reforms and gave lenders compliance tools to ensure that all appropriate borrowers bought and maintained flood insurance protection, as required by the 1973 Act. The reforms of that legislation increased the number of participating communities from about 18,600 to roughly 20,000 today. The reform legislation also resulted in another surge of policies in force from 2.8 million policies to more than 4.4 million policies today totaling \$637 billion in coverage.

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

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 that these participating communities are implementing form part of an overall strategy that benefits the entire floodplain, and, in a number of cases, hold the line altogether on new construction in the flood hazard areas. As a result, every property owner in those participating communities can buy flood insurance protection.

Claim payments for flood damage under the NFIP reduce the burden on the taxpayers for Federal disaster relief. The mitigation standards of the program to elevate or flood-proof new construction in flood-prone areas 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 the premium income from our policyholders. When flood losses exceed our reserves, we have authority to borrow funds from the U.S. Treasury to pay for those losses. But whenever we do have to borrow from the Treasury to pay for historically high losses, we must repay with interest what we borrowed. We have done this twice in our history.

In June of 2001, for example, Tropical Storm Allison battered the Gulf Coast and East Coast States. After the final losses were tallied, Allison became, sadly, the program's first billion-dollar storm, and we had to borrow \$660 million from the Treasury to pay for losses that exceeded our reserves. We repaid that debt, with interest, as of October 2002, as we did once before after heavy losses in the late 1990's.

On the human scale, however, 30,000 of Allison's victims received claim payments from the NFIP rather than relying on Federal disaster relief. The benefit of flood insurance is farther-reaching than just that number since many of those policyholders had families and businesses that benefited directly and indirectly from the program, proving again the value of the flood insurance program, which helps America recover from the devastating effects of flood.

So once again the NFIP is operating debt-free, and the program continues to stand on solid financial ground.

I am also pleased to report that we are making the most of the program's insurance mechanism to achieve mitigation. We have increased the benefits of Coverage D of the Standard Flood Insurance Policy (Coverage D is the benefit under our flood insurance policy to help pay for the increased costs of complying with State and local laws or ordinances that require elevation or flood-proofing or other mitigation measures after substantial or repetitive flood losses.). The increase in benefits from \$20,000 to \$30,000, to become effective May 1, 2003, is an important mitigation tool and enables more of our policyholders, through their flood insurance policies, to comply with State or local laws to elevate, flood-proof, or otherwise mitigate their building after a substantial flood loss. (The benefit is also available to mitigate repetitive flood losses in those communities that have voluntarily adopted and are enforcing repetitive flood loss ordinances.)

This benefit, which supports any number of mitigation techniques—elevation, demolition, flood-proofing, or relocating the structure so that it prevents flood damage—helps break the devastating cycle of flood damage and repair and further damage.

Many of our partners at the State and local levels of government have been eager to see the increase in this benefit. This is one more example where flood insurance provides the bridge to mitigation to prevent future losses. It is another example where

the program is reducing costs to the taxpayers, and I am pleased to report that a new actuarial analysis permits us to offer this increase in benefits to our policyholders at no increase in premium.

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

During the floor debate on January 8, 2003, Members of the House Financial Services Committee discussed the reauthorization of the NFIP within the context of reforms, and particularly the problem of repetitive flood loss properties.

I would like to preface any discussion of possible reforms for the NFIP, and especially the problem of repetitive flood loss properties, with a description of the management initiatives we have undertaken that will improve the overall operation of the NFIP. Systemic changes must be in place in order to make the most effective use of the program.

To increase efficiencies in our flood insurance operations, the NFIP is in the process of modernizing its existing systems used to process flood insurance. We are moving to an E-commerce model, which will make flood insurance more "user-friendly" and position the program to increase the number of policies-in-force, while minimizing the total cost to the program along the entire value chain.

Additional reforms that we have inaugurated for the NFIP include:

- “managing for results” with a clear emphasis on outcomes and results rather than process or activity;
- leveraging resources from the State, local, regional levels of government as well as the private sector to make the most of our funding in map modernization and mitigation;
- taking advantage of economies of scale in our hazards studies so that we focus on basin-wide studies, wherever possible, rather than a community-by-community approach;
- building capability among those with the greatest stake in our programs, namely the State and local governments, the first-line of defense for flood hazard mitigation; and
- applying a “metrics-approach” to our resources so that we account for every dollar, every contract component, and every staff hour and apply them solely to outputs that serve the basic mission of the program, namely, to reduce the losses of life and property from floods.

These management reforms apply not only to our Flood Map Modernization Program but also to the mitigation funding opportunities that will address, among other concerns, repetitive flood loss properties.

Mitigating the highest risks, which include repetitive flood loss properties, also requires accurate risk assessment. That is why our Flood Map Modernization initiative is critical to our efforts to reduce the exposure of people and property to flood hazards. Modernizing our flood maps, however, requires time and money.

Congress appropriated \$150 million in fiscal year 2003 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 embark on 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.

As I mentioned, we are implementing a results-based management system to accomplish this for fiscal year 2003 on time and within budget. There is a good reason for this: results-based projects encourage stakeholders to be innovative and find cost-effective ways of delivering services. By shifting the focus from process to results, we will achieve better outcomes.

This retooling will require resources as we develop the required systems and we improve our own capabilities to manage for results. The transition to a performance-based approach also requires that we further modernize some of our existing systems (e.g., data archiving and distribution) to take advantage of new technologies. We will help our State, regional, and local partners in this transition to develop management plans and identify the reporting tools that enable us to document program results.

We are also aware that many States, communities, and other government entities, such as flood control districts and regional planning commissions, are capable of producing high-quality, cost-effective flood hazard data. This number continues to grow and many States and communities realize the value of investing in programs that save lives and reduce property losses from flooding.

Our Cooperating Technical Partners (CTP) program has leveraged contributions from these capable entities to produce flood hazard data, increasing the value of the dollars we have spent in these jurisdictions by 220 percent nationwide. We plan to build further capability and increase the number of partnerships.

Where there is such knowledge and capability, we intend to develop cost-effective partnerships that promote community “ownership” of flood data as they are revised—ownership that will reduce the need for the Federal Government to undertake large-scale flood map updating in the future.

Local governments already implement the floodplain management standards of the NFIP. So, where the interest and capability exist, hazard identification activities should also be accomplished locally. We will continue to expand flood hazard identification training and technical assistance. This will increase the capability of our partners to produce and maintain flood hazard data. We will also continue to engage the private sector, and, where appropriate, utilize the private sector in support of our mission. The end result will be a decentralized system where those most affected by the flood hazard produce the data.

We plan to implement a two-pronged approach for updating the nation's flood hazard data inventory. First, with buy-in by our State and local partners, we are developing an approach that focuses on high-risk areas. Specifically, we will target areas with high growth, high population, and a history of significant flood losses. This will best serve our mission to reduce losses of life and property. To take advantage of economies of scale in these areas, we are investigating the feasibility of basin-wide studies. The second prong of our approach involves capitalizing on areas that have existing data that can be quickly and efficiently converted to flood hazard data that supports the NFIP. This approach provides a framework for prioritizing projects and is scalable to accommodate available funding. Ultimately, all outdated flood hazard data will be updated.

A key component of the Flood Map Modernization initiative is improving E-Government processes for flood hazard data creation and distribution. Through the Multi-Hazard Flood Map Modernization Program, we will enable easy access and exchange of flood hazard data through the Internet. This system will also provide tools that enable clients to more effectively use flood risk information. The geospatial nature of the data and the Internet delivery system will help facilitate not only the use of flood hazard data but also the sharing of its components for the management of all hazards.

The net result of these improvements will be higher satisfaction of the NFIP's stakeholders and customers who rely on flood hazard data to make crucial decisions that reduce their vulnerability to flood risks.

With the resources we have for this fiscal year, for both flood map modernization efforts and mitigation projects, we can focus on our highest priorities.

The strategic thinking and planning we have undertaken for our fiscal year 2003 funds is setting the stage for future economies, bigger payoffs, and even greater accomplishments with the funding levels proposed in the President's 2004 budget.

Our efforts this fiscal year will reduce the number of people, property, and infrastructure exposed to flood hazards and other natural perils.

What we are doing this fiscal year to manage our flood map modernization and natural hazard mitigation efforts will also help build a platform for the Department of

Homeland Security to secure the nation from the full range of hazards, natural and man-made, including repetitive flood loss properties.

But the problem of repetitive flood loss properties is complex.

We see repetitive flood losses as a national problem. From a national perspective, paying claims for the same properties time and again is just not good public policy, and it is not sound business practice or prudent stewardship. We are spending far too much in claims dollars on just a handful of properties, a costly drain on our program.

To a degree, the problem of repetitive flood loss properties is also a vestige of the past.

Congress structured the NFIP as an agreement between the Federal Government and local communities.

The terms of the agreement call for communities to adopt and enforce 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 risk information at premium rates that do not fully reflect the true risk. Congress intended discounted premium rates for such existing properties in order not to penalize those who bought or built in the floodplain without full knowledge of the flood hazard. These property owners were permitted to pay less than full-risk premiums for flood coverage, which private insurance companies would not even offer.

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.

There have been good public policy reasons for providing insurance to these older properties at less than full-risk premiums, but properties that flood over and over again lock their owners into a dismal cycle of damage and repair—with diminishing property values and often no way out. We must find more efficient ways to address the highest risk properties.

Two Bills have been introduced in the 108th Congress to address the problem of repetitive flood loss properties.

I commend the sponsors for their leadership in focusing attention on this national problem and proposing remedies for people caught in the devastating cycle of damage-repair-damage.

I would like to preface any discussion of the tools needed to resolve this problem with an outline of some of the obstacles we have faced in trying to move the owners of repetitive flood loss properties out of harm’s way.

All of our mitigation programs are voluntary, so we have not always had the needed leverage for repetitive flood loss property owners to accept grant offers intended to reduce or eliminate the flood risk.

More importantly, there are financial constraints that sometimes prevent owners of repetitive flood loss properties from accepting offers for buyouts. Our mitigation programs, by law, require a 25 percent non-Federal cost-share. In a number of cases the responsibility for the match has devolved from the State and local government to the property owner. When buyouts are the most cost-effective option and the cost-share falls to the property owner, it is financially impossible for many of the property owners to assume that cost—25 percent of the fair market value of the property.

When there *is* a cost share available from the State or local government, the repetitive flood loss property owner often faces other problems that argue against accepting a mitigation grant offer. In some cases, the geography of the floodplain offers few, if any, flood-free, alternate living sites in the vicinity where the affected property owners work or their children go to school. If there *is* alternate housing in the vicinity, it may not always be affordable, which again makes it impossible for property owners to accept the offer and make the move. Communities implementing the program must also consider the mitigation remedy in the total context of a community's comprehensive floodplain management program, since repetitive flood loss properties are parts of neighborhoods and subdivisions and have a relationship to entire communities.

Those are realities and the realistic constraints of any mitigation grant program for the owners of repetitive flood loss properties. And with those constraints in mind, these are the tools necessary to address the repetitive loss problem:

Resources are clearly necessary. The more resources that are available to address repetitive loss properties, the quicker significant progress can be made.

Flexibility is key in determining the composition of repetitive loss projects and in defining our highest priority properties.

The involvement of State and local governments in the disposition of properties is important in keeping control at the local level and not having the Federal government become an owner of these properties.

And finally, there should be some consequence for a property owner that refuses a mitigation offer, without justifiable reason.

Mitigation projects are usually the most successful with State and local governments involved in their development and execution. Certainly where there is a non-Federal cost share requirement, these entities have a stake in the process and outcome. There will be instances, however, where in the interest of savings for the National Flood Insurance Program, we will need to address individual properties that are not part of any larger mitigation effort. And, we must also be mindful that there may be

individual circumstances where, with legitimate reason, property owners cannot avail themselves of mitigation assistance.

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

Currently, we have targeted 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 out close to one billion dollars in flood insurance claims over the last 21 years. We want to target these properties for mitigation that will remove them altogether from the floodplains, elevate them above the reach of floodwaters, or apply other measures to reduce significantly their exposure to flood risk.

The measures I have described would give us a complete set of tools to remove the costliest risks from the NFIP.

In the meantime, this is what we are doing to address the problem of repetitive loss properties: we have set up a special direct facility for selling and servicing flood insurance on these properties to better coordinate claims handling for them. We are making more 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. Under the CRS, we have expanded the premium discounts available for local mitigation actions.

How we fully address the problem still needs to be resolved, but we are all in agreement: we need to address the problem, which affects not only individual property owners but also entire communities since properties that flood time and again can diminish not only neighborhoods but entire communities as well.

In closing, I appreciate the opportunity to represent the Department of Homeland Security before the Subcommittee on Housing and Community Opportunity of the Committee on Financial Services. I am pleased to answer any questions you may have.