

Subcommittee on Housing and Community Opportunity

Hearing on the National Flood Insurance Program  
April 1, 2003

Congressman Richard H. Baker  
Sixth District, Louisiana

Good afternoon Chairman Ney and members of the subcommittee. I appreciate the opportunity to testify on the reauthorization of the National Flood Insurance Program (NFIP). Quite frankly, flood insurance is important to my constituents and to the state of Louisiana. My state represents one of the largest users of the program with 367,111 policies and \$151, 285, 082 of written premium in force. My constituents rely on the NFIP and the program must be continued.

The need for reauthorization presents us with the most viable opportunity in almost ten years to examine the effectiveness of the NFIP and to determine if any reform is necessary. I believe the program should remain largely unchanged, but there is broad consensus that reform is necessary in one area: repetitive loss properties. Around \$200 million per year in claims are paid to repetitive loss properties. Out of this \$200 million, \$80 million is directed to about 10,000 properties, roughly 2,900 of which are located in Louisiana.

The problem has become so severe (FEMA estimates that over 48,000 insured properties have received repetitive claims) that current resources provided the NFIP are not sufficient to address the problem. We must be bold in our thinking and take aggressive action to mitigate or otherwise limit these repetitive losses. However, we must not proceed with reform without regard for the impact our actions will have on homeowners and businesses. After all, the NFIP was created to help our constituents, not punish them.

### **Basic Problem Defined—Repetitive Loss Properties**

Repetitive loss properties are those properties that have flooded twice since 1978 with claims exceeding \$1000. As I mentioned before, there are currently over 48,000 such properties that are covered by federal flood insurance. Out of this 48,000, close to 10,000 properties account for \$80 million in claims each year with all repetitive loss properties accounting for roughly \$200 million in annual losses.

The problem of repetitive loss properties has persisted since the inception of the program due to two main reasons: many of these properties were grandfathered into the program

and FEMA has no resources to aggressively mitigate them. This resource mismatch has proved challenging and indeed, in spite of amendments to the program in 1994 to provide mitigation authority, the situation has improved at best only marginally. Congress needs to give FEMA a broad grant of authority to aggressively mitigate these properties and Congress needs to give the agency the resources necessary to get the job done. I have introduced legislation, both in the 107<sup>th</sup> and 108<sup>th</sup> Congress, that I believe achieves both of these goals.

### **Broad Grant of Authority to FEMA**

Under my legislation, H.R. 670, FEMA is given broad discretionary authority to identify and offer mitigation to repetitive loss properties. FEMA is granted the authority to take action against policyholders who refuse an offer of mitigation assistance. Under this provision, FEMA may raise insurance premiums, refuse to renew an existing policy or cancel an existing policy. Most observers, including FEMA, believe the vast majority of individuals that own a repetitive loss property will be eager to accept mitigation. I also believe this to be the case, and anticipate FEMA's need to exercise its new authority will be limited.

While granting FEMA broad authority to address the repetitive loss problem, my legislation also protects policyholders by recognizing that under some circumstances a policyholder may have legitimate reason to refuse a mitigation offer. The circumstances enumerated in my legislation are; 1) if offered a buyout option, the policyholder will not be able to continue in homeownership; 2) if mitigation activities will significantly disrupt or alter culturally and historically significant areas; 3) if flooding is a result of third party development; and 4) if the policyholder purchased the property in good faith reliance on FEMA flood maps. Finally, the legislation protects policyholder interests by creating an appeals process should FEMA take an action the policyholder believes is unjustified.

### **Making New Resources Available**

Granting new authority to aggressively mitigate repetitive loss properties accomplishes little unless FEMA is granted the resources needed to complete the task. The resource

mismatch is so great that FEMA will never be able to mitigate all repetitive loss properties using its current programs at current funding levels. While FEMA receives an annual \$20 million appropriation for the Flood Mitigation Assistance program, this amount of funding hardly maintains the status quo. While other programs exist in FEMA's portfolio—the Hazard Assistance Program and the Pre-Disaster Assistance Program—these programs are not specifically targeted at repetitive loss properties which further dilutes resources. Additional funds specifically earmarked for repetitive loss properties are necessary if a long-term solution to the problem is to be implemented.

Under current law, FEMA is authorized to borrow from the U.S. Treasury to cover premium shortfalls in years with large insurable events. Since 1986, FEMA has repaid this debt with premium income, not appropriated funds. This means that only those individuals participating in the NFIP bear the financial burden for repaying this debt. FEMA's record of repayment is exemplary. The agency's debt has been paid off on time and with interest each time its borrowing authority was exercised. My legislation proposes to build on this relationship by authorizing FEMA to borrow up to \$300 million from the U.S. Treasury for the purposes of mitigating repetitive loss properties.

According to FEMA records, the agency has identified all repetitive loss properties and maintains an actuarial study estimating future claims anticipated for each property. My legislation will require FEMA to mitigate the properties for which the greatest losses are anticipated with the borrowed funds. After mitigation of a property is complete, FEMA will direct their program cost savings to other mitigation efforts. Through such reinvestment, FEMA will be able to use premium income, not appropriations, to prevent future losses. This protects the program, protects taxpayers and will help thousands of families trapped in repetitive loss properties.

## **Reform Must Protect the Program and Policyholders**

The central focus of any reform considered to the NFIP must be to do no harm to the program. The NFIP enjoys broad acceptance by the American people and the public has

come to rely on federal flood insurance to play a key role in disaster recovery. The program should continue to be available to those in need and premiums should not be set so high as to price homeowners and businesses out of the program. Every dollar of premium paid—even from a repetitive loss property—offsets local, state and federal government disaster response costs. Furthermore, mortgages on homes in flood hazard areas are required by federal law to carry flood insurance. If this insurance is not available or is prohibitively expensive, the program could actually do harm to the progress our nation has made in the area of homeownership.

Reform efforts must also take into account the efforts of local communities to reduce flood losses in their area. In my district, we are beginning construction on one of the largest flood control projects in the state. Known as the Comite River Diversion Canal, this flood control project will lower flood levels in the targeted flood hazard area by one to six feet. A significant portion of the \$160 million necessary to construct the canal was raised by a property tax that local residents approved. My constituents are willing to pay higher taxes to fund this flood control project. I believe this contribution and commitment should be recognized. And, I believe that any community that takes action on its own to address local flooding should receive consideration from FEMA and the NFIP.

Finally, we must not overlook the amount of premium income that states—even those with a large number of repetitive loss properties—contribute to the program. As I mentioned earlier, Louisiana has about 2,900 targeted repetitive loss properties, but my state also contributes \$151, 285, 082 in premium income to the NFIP. In fact, the five states with the top identified repetitive loss properties currently have over \$1 billion of written premium in force. Congress, and this committee, must not be misled into thinking that flood prone communities around our nation are making no contribution to the NFIP or to flood control efforts. This is simply not the case.

Mr. Chairman, it is obvious that the NFIP faces a crisis in the repetitive loss problem.

However, in our efforts to address the issue, we must above all else protect the goodwill

and trust our constituents have placed in the program. Americans rely on federal flood insurance and this insurance must remain available at a reasonable price to the largest portion of our population. If we can create a partnership between FEMA and repetitive loss property owners, Congress can help families stay in the program and Congress can help families prevent additional flood losses.

I believe Congress and this committee are up to the task of reforming the NFIP to resolve the repetitive loss problem. I look forward to working diligently with all interested members to accomplish our common goals.