



**GREATER NEW ORLEANS**  
INC  
REGIONAL ECONOMIC DEVELOPMENT

# National Flood Insurance Program

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## Challenges and Solutions

August 23, 2013



***SERVING SOUTHEAST LOUISIANA***

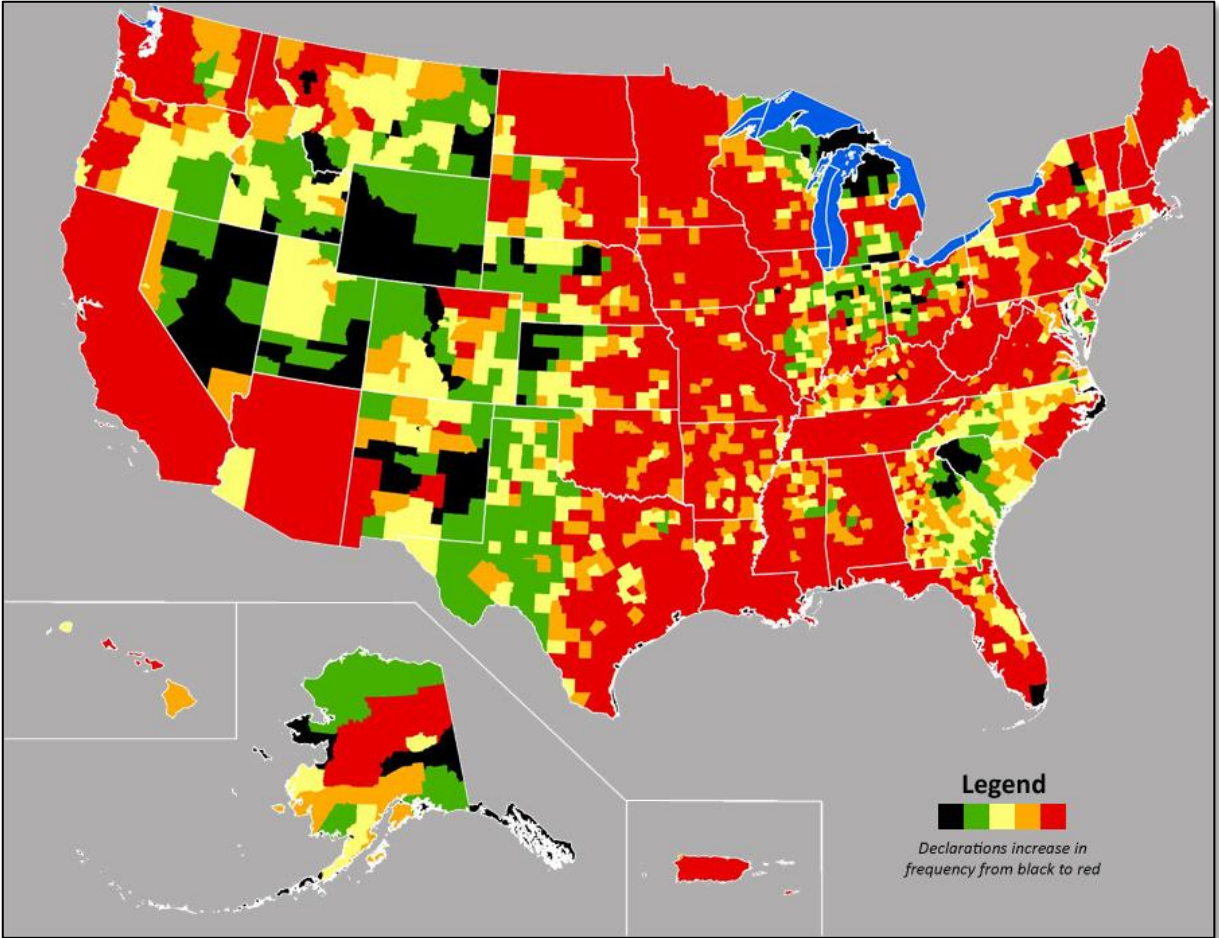
# The National Flood Insurance Program

- The National Flood Insurance Program (NFIP) was created by Congress in 1968
- NFIP enables property owners to purchase insurance from the government against losses from flooding
- Flooding is both coastal and riverine
- Private industry will not provide this insurance
- Close to 6 million homes participate in NFIP, with the majority in Texas and Florida
- All 50 states participate in NFIP



# National Implications

Nearly all 50 states have experienced flood disasters.



Presidential  
Flood  
Disaster  
Declarations  
Since 1965

## We believe in key principles about NFIP:

### NFIP should:

1. Be long-term sustainable
2. Be actuarially responsible
3. Protect home and business owners who have “played by the rules”
  - Built to code
  - Maintained insurance
  - Not had repetitive losses
4. Be part of a larger resiliency strategy



## There are current myths about NFIP:

**Myth:** Only people who ignored building code or have had repetitive loss will be hurt.

➔ **Reality:** Individuals who have followed the law, maintained insurance and never flooded will be hurt.

**Myth:** Only rich people will be hurt; these are vacation homes.

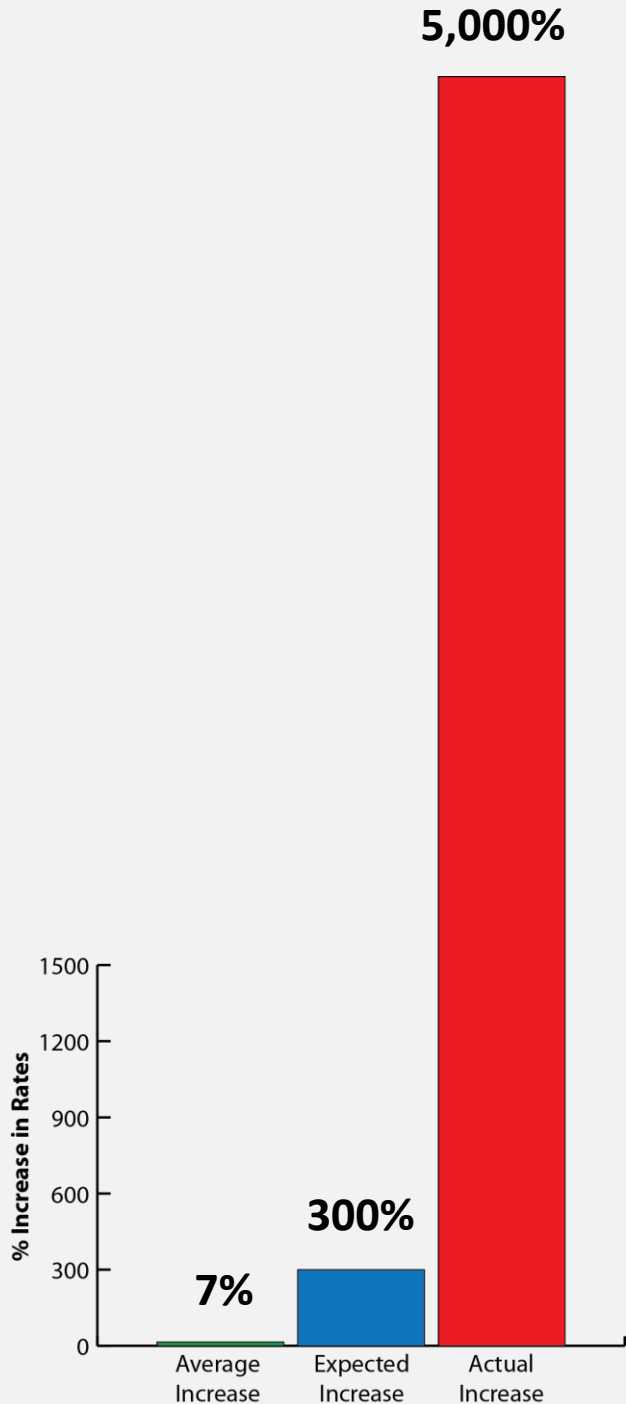
➔ **Reality:** Working class people will be hurt; these are primary residences and businesses.

**Myth:** A phase-in of higher rates makes loss of grandfathering manageable.

➔ **Reality:** When insurance goes from \$600 to \$29,000 per year, a 20% per year (\$5,700) phase-in is still unaffordable.

# Current Challenges

The reality is, rate increases are far greater than envisioned.



- Sources:
- NFIP
  - CBO
  - GNO, Inc. research



## Example #1 – Primary Residence

Premium will go from **\$633** to **\$28,554** per year.

- 14272 Highway 23, Plaquemines Parish, LA
- \$350,000 current value
- Built in 1998, fully to code
- Built 2' *above* FEMA required elevation at the time
- House never flooded



## Example #2 – Primary Residence

Premium will go from **\$388** to **\$23,946** per year.

- 113 Dixie Drive, St. Charles Parish, LA
- \$171,900 current value
- Built in 1975 before flood maps; Pre-firm property
- Never flooded





## Example #2 – Business

Premium will go from **\$5,698** to **\$53,662** per year.

- Car Dealership
- St. Tammany, LA
- Built fully to FEMA requirements at 9' BFE
- Employs 65
- Never flooded



## Example #2 – Business

Premium will go from **\$1,522** to **\$103,197** per year.

- Microtel Inn and Suites by Wyndham
- Belle Chasse, LA
- Built fully to FEMA requirements at +1 BFE
- Never flooded



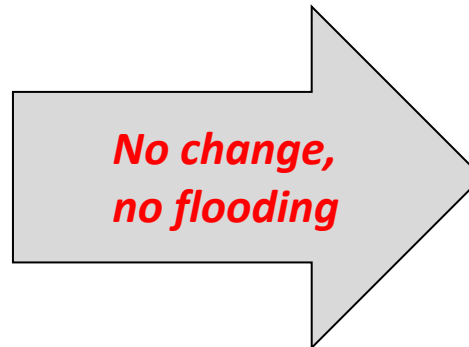
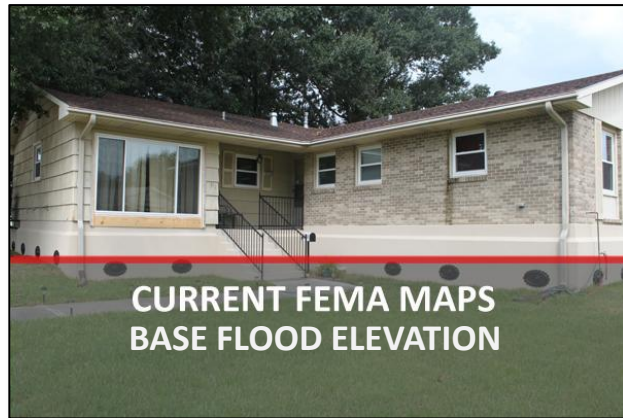
These drastic increases are being driven by three factors:

- 1. Phase-Out of Grandfathering**
- 2. Incomplete and Inaccurate Mapping**
- 3. Questionable Costs & Calculations**

# Factor #1

## Phase-Out of Grandfathering

The Biggert-Waters Act of 2012, which reauthorized NFIP, phases out “grandfathering.” That is, properties that were built in accordance with all FEMA requirements and applicable codes may now be considered out of compliance – *even if the owner has done nothing wrong, and there has been no flooding.*



NOW OUT OF COMPLIANCE

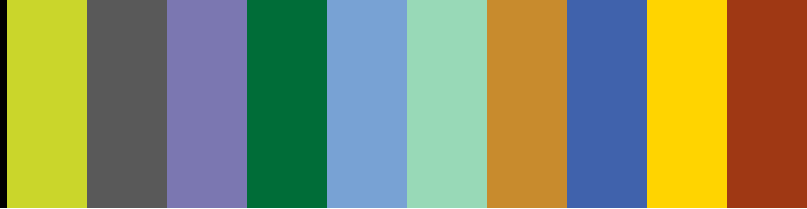
## Factor #2 Incomplete Mapping

New FEMA maps, which outline new base flood elevations, do not recognize protection offered by unaccredited or local levees, or any other mitigation elements (e.g., pumps).



# Factor #3

## Questionable Costs & Calculations



Calculations do not seem to make sense relative to risk or value.

**\$1,522 → \$103,197**

**\$344 → \$23,946**



Never flooded –  
has risk gone up 6000%?



Never flooded –  
Should premium buy a  
brand new home in 7 years?

**In addition, key questions about the structure and management of NFIP remain.**

**How is the \$25B NFIP deficit  
calculated?**

***Over the last 30 years, \$6B more  
in premiums have been collected  
than have been paid out.***

**What accounts for the \$31B  
negative swing?**



**What portion of premiums actually goes towards coverage?**

**How many policy-holders will be  
affected by drastic (>500%)  
premium increases?**

**When will new rate tables  
be released to the public?**

**Was any money swept from FEMA  
accounts by the federal  
government in years of surpluses,  
and if so, how much?**

**40% of federally backed mortgages that are required to have flood insurance do not. Why is this not enforced?**

***Would the program be solvent if everyone who is required to purchase flood insurance actually purchased it?***

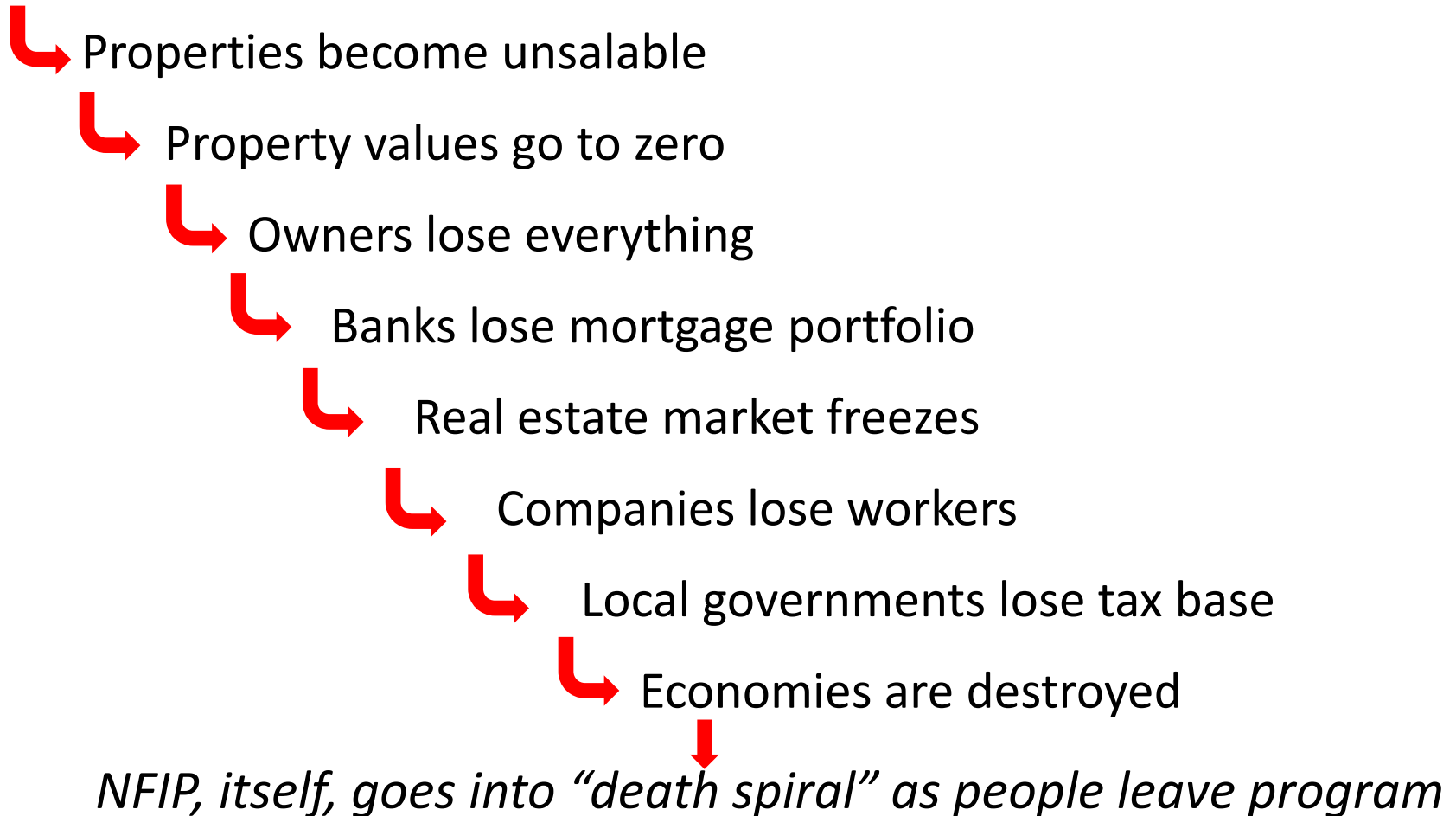
# An Important Final Question

Considering all of these factors, does the current NFIP represent an *illegal taking* of property from innocent home and business owners?



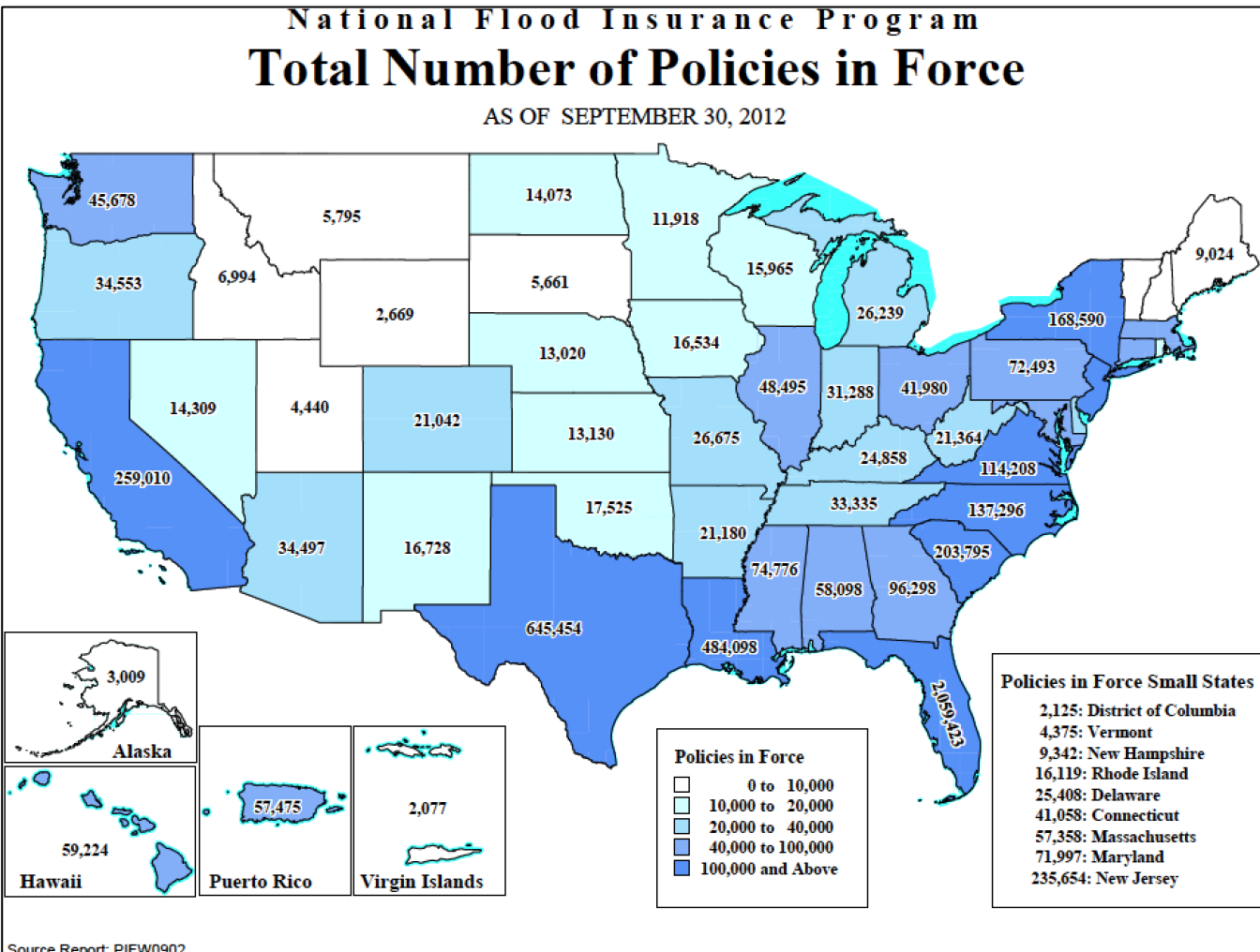
If unaddressed, the potential impact is devastating.

## Properties become uninsurable



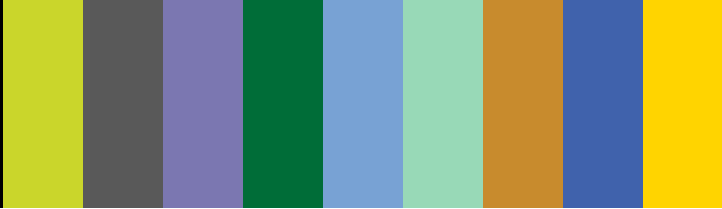
# National Implications

This is not just a Louisiana problem – NFIP policies are in force in all 50 states of the USA.





# National Implications



There are three general solutions to the challenges with NFIP:

1. Legislative (Congress)

*Reinstate Grandfathering*

2. Regulatory (FEMA)

*Develop Holistic and Accurate Maps*

3. Regulatory (FEMA)

*Confirm Accuracy of Calculations*

# Solution #1

## Reinstate Grandfathering

### Congress can amend Biggert-Waters:

1. Reinstate Grandfathering
2. Must be for properties, not policy holder
3. Only for properties built to required elevation at the time of construction, with maintained insurance and without repetitive loss
4. Implementation of Biggert-Waters can be delayed to allow time for correction and affordability analysis (However, real estate markets will be impacted until Biggert-Waters is fixed.)

## Solution #2

# Develop Holistic Maps

**FEMA can develop maps that include all flood mitigation elements.**

1. Should include non-accredited and <100 year levees
2. Should include pumps and other mitigation elements
3. Should include natural and man-made topography (e.g. railroad embankments)

## Solution #3

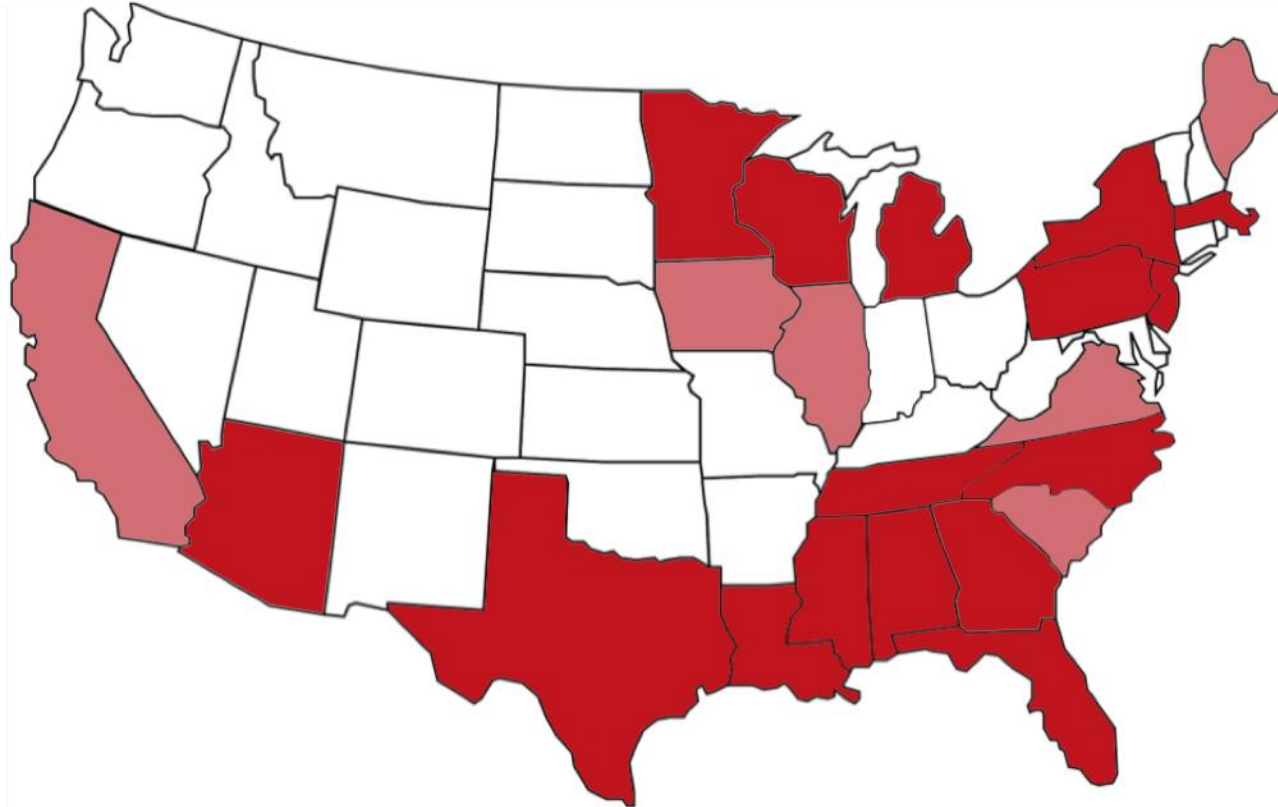
# Confirm Accuracy of Calculations

**Independent experts must verify the final actuarial calculations.**

1. Should reflect true risk
  - Should include relative sea level rise
  - Should include all flood mitigation elements
2. Affordability study should be conducted after accuracy confirmed

# A Growing Coalition

There is a growing national coalition to address the NFIP challenge – the Coalition for Sustainable Flood Insurance (CSFI)



coalition for sustainable  
flood insurance

**16 States (+6 in process), plus  
national associations:**

- National Association of Counties (NACo)
- National Waterways Conference
- National Levee Issues Alliance

## A number of Action Steps have been taken:

### Legislative

- U.S. House of Representatives passed an amendment to Homeland Security bill that would delay implementation for one year; U.S. Senate Appropriations Committee passed identical language on Homeland Security legislation
- Senator Landrieu has introduced the SMART NFIP Act
- Senator Vitter has introduced the Responsible Implementation of Flood Insurance Reform Act
- Congressman Richmond and Congresswoman Waters, along with rest of LA House delegation, has introduced legislation to delay problematic portions of NFIP changes

### Regulatory

- NFIP Head David Miller visited August 8, committed to accurate maps
- GNO, Inc. + key partners reviewing actuarial tables for accuracy

### Education and Outreach

- GNO, Inc. has reached out to similar organizations across America to educate and collaborate

### Research

- GNO, Inc. is partnering with The Water Institute of the Gulf to determine how these affects key regions across the country by comparing rate structures and topographies

## Key Next Steps include:

- 1. Work with Members of Congress from other affected areas to drive / refine legislation**
- 2. Work with FEMA to ensure holistic mapping**
- 3. Determine accuracy of actuarial rate setting**
- 4. Continuing building national coalition**



# An Important Question

**Until these basic questions about the structure and management of NFIP are answered, should innocent, tax-paying Americans be destroyed to support the program?**





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**For more information or to be included in future announcements,  
please email Caitlin Berni - [cberni@gnoinc.org](mailto:cberni@gnoinc.org)**



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## Appendix - NFIP Myths & Facts

*Myth: Prior non-actuarial and discounted premiums have caused the NFIP to be \$24 billion in debt.*

**Fact :** Accumulating FEMA's published data for the last 35 years, NFIP premium income has exceeded NFIP claims costs by \$6.2 billion.

*Myth: BW-12 will only impact structures that have repetitive flood losses.*

**Fact:** Because BW-12 will do away with "Grandfathered Structures," all buildings below the current or future Base Flood Elevations will be impacted.

*Myth: BW-12 is being suspended by legislative amendments so I don't have anything to worry about.*

**Fact:** BW-12 was passed in July 2012 and commercial and non-primary residence structures are already being impacted. It will take an Act of Congress to change the law.

## Appendix - NFIP Myths & Facts

*Myth: BW-12 will only impact Coastal States.*

**Fact : BW-12 will impact all 50 states not just coastal communities.**

*Myth: BW-12 only increases flood insurance premiums by 25% a year.*

**Fact : BW-12 , as currently adopted, will increase many current premiums by over 4,000% over a period of years.**

*Myth: “Grandfathering” is the same as a subsidy*

**Fact : Grandfathering is not a subsidy. Homeowners who built their home at or above the Base Flood Elevation (BFE) required by FEMA at the time of construction are paying the actuarial rate from that time.**

*Myth: This only impacts vacation homes and fishing camps*

**Fact : Louisiana has a “working coast.” NFIP impacts primary residences of fishers, oil rig workers and school teachers.**