

**Testimony of  
David Pressly**

**On Behalf of the  
National Association of Home Builders**

**Before the  
United States Senate  
Committee on Banking, Housing and Urban  
Affairs**

**Hearing on  
Proposals to Reform the National Flood  
Insurance Program (NFIP)**

**February 2, 2006**

Chairman Shelby, Ranking Member Sarbanes and members of the Senate Banking, Housing and Urban Affairs Committee, I am pleased to appear before you today on behalf of the National Association of Home Builders (NAHB) to share our views concerning efforts to reform the National Flood Insurance Program (NFIP). We appreciate the invitation to appear before the Committee on this important issue.

My name is David Pressly and I am the 2006 President of NAHB and President of Pressly Development Company, Inc. of Statesville, North Carolina. I am a home builder with more than 25 years of experience constructing single-family homes and apartments and light commercial projects in the Statesville area.

Mr. Chairman, NAHB represents more than 225,000 member firms involved in home building, remodeling, multifamily construction, property management, housing finance, building product manufacturing and other aspects of residential and light commercial construction. The Federal Emergency Management Agency's (FEMA) National Flood Insurance Program (NFIP) plays a critical role in directing the use of flood-prone areas and managing the risk of flooding for residential properties. The availability and the affordability of flood insurance gives homebuyers and homeowners the opportunity to live in a home of their choice in a location of their choice, even when the home lies within a floodplain. The home building industry depends upon the NFIP to be annually predictable, universally available, and fiscally viable.

A strong, viable national flood insurance program enables the members of the housing industry to continue to provide safe, decent, and affordable housing to consumers. The choices American consumers make when they are buying homes are some of the most critical aspects of the home buying process. Through decisions about where to live, where to shop and how to get around town, consumers apply the power of the marketplace to shape the nation's communities.

The NFIP, by enabling the choice of purchasing a home in a floodplain, allows consumer preferences to shape towns and cities into communities that maximize quality of life and economic development.

Without the NFIP, many communities would be unable to provide affordable housing to many of their citizens. Despite a decade of unprecedented prosperity, many communities are seeing a growing gap between the supply and demand for housing. Families across the economic spectrum are finding it increasingly difficult to find a home that meets their needs. One of the leading causes of the housing affordability problem is the shortage of buildable land. By guaranteeing affordable flood insurance, the NFIP allows communities to use land that would otherwise be too costly due to high flood insurance premiums. Through the NFIP, flood insurance policies remain available and affordable and residential structures can be constructed in floodplains as long as they are built to withstand flooding. Therefore, the NFIP provides the means by which communities can address housing needs by making homeownership in areas prone to flooding safe, affordable and practical.

The NFIP provides flood insurance to more than 4.8 million policyholders, enabling them to protect their properties and investments against flood losses. Further, the NFIP creates a strong partnership with state and local governments by requiring them to enact and enforce floodplain management measures, including building requirements that are designed to ensure occupant safety and reduce future flood damage. This partnership, which depends upon the availability of comprehensive, up-to-date flood maps and a financially-stable federal component, allows local communities to direct development where it best suits the needs of their constituents and consumers. This arrangement has, in large part, worked well.

Unfortunately, the losses suffered in the 2004 and 2005 hurricane seasons, including the devastation brought about by Hurricanes Katrina, Rita and Wilma, have severely taxed and threatened the solvency of the NFIP. According to FEMA, between the NFIP's inception in 1968, through 2004, a total of \$15 billion has been needed to cover more than 1.3 million losses. The 2004 hurricane season required close to \$2 billion dollars in NFIP coverage, and the 2005 hurricane season resulted in payments totaling over \$13.5 billion – more than the total amount paid during the entire 37-year existence of the NFIP program. While these losses are severe, they are clearly unprecedented in the history of this important program and, in our opinion, not a reflection of a fundamentally broken program. Nevertheless, NAHB recognizes the need to support efforts to ensure the long-term financial stability of the NFIP and looks forward to working with this committee to implement needed reforms.

While NAHB supports reform of the NFIP to ensure its financial stability, it is absolutely critical that Congress approach this legislation with care. The NFIP is not simply about flood insurance premiums and payouts. Rather, it is a comprehensive program that guides future development and mitigates against future loss. While a financially-stable NFIP is in all of our interests, the steps that Congress takes to ensure that financial stability have the potential to greatly impact housing affordability and the ability of local communities to exercise control over their growth and development options. Therefore, NAHB supports several reforms that we feel can be achieved quickly and provide needed reform to the overall program. As part of a coalition of interested industry trade groups, NAHB has publicly forwarded a list of consensus NFIP program reforms that can be implemented immediately. However, NAHB has strong reservations on several additional reforms that have been put forward in this debate, namely the proposals to expand the regulated flood plain beyond the current 100-year standard, and

mandating coverage for those sited behind flood protection structures within the 100-year flood plain. While these reforms may be feasible, NAHB believes that adoption of such reforms without proper documentation that quantifies the risks, hazards, and costs of such reforms would be pre-mature at this time.

Allow me to expand on these general themes further.

#### **I. NAHB Supports Thoughtful NFIP Reforms**

The unprecedented losses suffered in 2004 and 2005, including the devastation brought about by Hurricanes Katrina, Rita and Wilma, have severely taxed and threatened the solvency of the NFIP. While these events have been tragic, sobering, and have exposed shortcomings in the NFIP, any resulting reforms must not be an overreaction to unusual circumstances. Instead, reform should take the form of thoughtful, deliberative, and reasoned solutions. A key step in this process is to take stock of where we are today, what has worked, and what has not.

An important part of the reform process is determining what area or areas of the NFIP are in actual need of reform. Unfortunately, a key tool in the NFIP's implementation, the Flood Insurance Rate maps (FIRMs), have been recognized by Congress to be inaccurate and out-of-date. Through the strong leadership of this Committee, FEMA is in the midst of a multi-year map modernization effort aimed at digitizing, updating, and modernizing the nation's aging flood maps. The first of these updated maps is just now being rolled out, and in some areas there are large discrepancies between what was mapped as the 100-year floodplain decades ago and what the 100-year floodplain is today. Clearly, this information will help to ensure better and more-informed decision-making. Accordingly, thoughtful consideration of the overall effectiveness of the NFIP, including those provisions relating to mandatory flood insurance purchase, can only

come after the critically important FIRMs are modernized, updated, accepted, and reflected upon.

A. Increases to premiums and payouts

In an attempt to improve both the solvency of the program and its attractiveness to potential policy-holders, NAHB supports a number of reforms designed to allow FEMA and the NFIP to better adapt to changes to risk, inflation, and the marketplace. Providing FEMA the authority to allow for slightly higher annual premium increases, to a maximum of 15%, for example, would allow the agency to reduce its indebtedness to the federal Treasury. Increasing coverage limits to better reflect today's home values would provide more assurances that losses will be covered and benefit program solvency by generating increased premiums. Similarly, creation of a more expansive "deluxe" flood insurance option, or a menu of insurance options from which policy-holders could pick and choose, could provide additional homeowner benefits while aiding program solvency. Finally, increasing the minimum deductible for paid claims would provide a strong incentive for homeowners to mitigate and protect their homes, thereby reducing potential future losses to the NFIP.

B. Mandatory flood insurance purchase requirements

NAHB believes that modifying the numbers, location, or types of structures required to be covered by flood insurance may play an important part in ensuring the NFIP's continued financial stability. Two options that have been widely considered include mandatory flood insurance purchase for structures located behind flood control structures, such as levees or dams, and all structures in a floodplain, regardless of whether or not they currently hold a mortgage serviced by a federally-licensed or insured

carrier. Both of these strategies would increase the number of residences participating in the NFIP, buttressing the program against greater losses. While this seems simple in reality, it is much more complicated.

The NFIP and its implementing provisions were not created solely to alleviate risk and generate premiums -- they were created to balance the needs of growing communities with the need for reasonable protection of life and property. Accordingly, NAHB believes that before any reforms are enacted to change the numbers, location, or types of structures required to be covered by flood insurance, FEMA should first demonstrate that the resulting impacts on property owners, local communities, and local land use are more than offset by the increased premiums generated and the hazard mitigation steps taken. Only after such documentation is provided, documentation that includes the regulatory, financial and economic impact of reform efforts, can Congress, FEMA, stakeholders, and the general public fully understand whether or not such actions are appropriate. For this reason, NAHB recommends that FEMA conduct a study of the feasibility and implications of such a change in the NFIP's mandatory purchase requirements prior to enacting any changes. Likewise we applaud FEMA for recognizing the need for such a study, as reflected in testimony delivered to this committee on January 25, 2006.

## **II. NAHB is Concerned with Potential Negative Reforms**

As Congress considers strategies to bolster the financial stability of the NFIP, NAHB cautions against those reforms that have far-reaching and unintended consequences, including reforms that decrease housing affordability and the ability of communities to meet current and future growth needs. Chief among these concerns are changes that would expand the Special Flood Hazard Area (SFHA), fail to take into account flood protection structures when setting

premiums, or expand the current federal minimum residential design, construction, and modification standards.

A. Revision of the SFHA standard has broad implications.

While changes to the NFIP's mandatory flood insurance purchase requirements present one set of issues, a programmatic change of the SFHA presents an entirely different and overwhelming set of concerns. Changing the SFHA from a 100-year standard to a 500-year (or .2% annual chance) standard would not only require more homeowners to purchase flood insurance, but would also impose mandatory construction requirements on a whole new set of structures. Furthermore, those homeowners who had been in compliance with the 100- year standards will suddenly find themselves below the design flood elevation for the 500- year flood. Although these structures may be grandfathered and avoid higher premiums as a result of their non-compliant status, this ends when the structure is sold or substantially improved. Placing these homes in this category impacts their resale value in a very real way, as any new buyer may be faced with substantially higher premiums or retrofit and compliance costs.

The revision of the SHFA standard not only affects homeowners, but also homebuilders, local communities, and FEMA. An expanded floodplain means an expanded number of activities taking place in the floodplain, and a corresponding increase in the overhead needed to manage and coordinate these activities. A larger floodplain would likely result in an increased number of flood map amendments and revisions, placing additional burdens on federal resources to makes these revisions and amendments in a timely fashion. Residents located in a newly-designated SFHA would need to be notified through systematic outreach efforts. Communities would likely need

to modify their floodplain ordinances and policies to reflect the new SFHA. In short, the entire infrastructure of flood management and mitigation practice and procedures institutionalized around the 1% standard would need to change.

Although a revision of the 1% SFHA standard has been considered in recent years, even specially-convened policy forums have failed to reach consensus on the issue. What has started to emerge, however, is a recognition of the tremendous implications that changing the SFHA would have on homebuilders, homebuyers, communities, and the federal government itself. NAHB strongly cautions against making such sweeping changes to the NFIP without first having all the facts in-hand. Only after Congress and FEMA have adequately documented that a drastic revision of the SFHA is absolutely necessary to the continued existence and operation of the NFIP, should a programmatic revision of the SFHA be considered.

B. Required purchase behind flood control structures must reflect reduced risk.

One important component of the NFIP is the ability of communities, with the assistance of the federal government, to design, install, and maintain flood protection structures. In most instances, residential structures located behind dams or levees providing protection to the 1% annual chance level are not required to purchase flood insurance. This is because most structures are removed from the 100-year floodplain or SFHA on the relevant FIRM through the Letter of Map Revision, or LOMR, process. Accordingly, any reforms that contemplate bringing these same residences back under a mandatory purchase requirement raise very real and powerful equity and fairness issues. Should Congress or FEMA produce adequate documentation indicating that the benefits of mandating flood insurance purchase for residences behind flood control structures

outweigh the costs to homeowners, NAHB would support these residences being charged premiums at a reduced rate to reflect their reduced risk. A great deal of time and taxpayer money were invested to provide additional flood protection to these residences, and it is only fair that homeowners in these areas, if required to purchase insurance, be recognized for their communities' efforts.

C. Building requirements must remain tied to the 1% standard.

While requiring mandatory flood insurance purchase is one option, another option may be to require that structures meet federal residential design, construction and modification requirements. NAHB is strongly opposed to expanding such requirements to new classes of structures, including those found behind flood protection structures and those affected by any programmatic change to the SFHA. These requirements would substantially increase the cost of new home construction and severely impact housing affordability. For example, on the Gulf Coast, elevating new structures could add \$30,000 to the cost of the homes, depending on the estimate source and size of the home. NAHB has conducted research that shows that a \$5,000 increase in housing price in New Orleans would eliminate 6,089 households from the housing market. It is easy to see the tremendous impact that such reforms would have not only on nation's home builders, but on the nation's home buyers. NAHB urges Congress to soften the impact of any programmatic changes to the NFIP by ensuring that construction requirements remain tied to the 1% standard.

**Conclusion**

Mr. Chairman, thank you for this opportunity to share the views of the National Association of Home Builders on this important issue. We look forward to working with you

and your colleagues as you contemplate changes to the National Flood Insurance Program to ensure that federally-backed flood insurance remains available, affordable, and financially stable. We urge you to fully consider NAHB's positions on this issue and how this program enables the home building industry to deliver safe, decent, affordable housing to consumers. I look forward to any questions you or other members of the committee may have for me.