



National Flood
Determination Association

**Oral
Testimony**

Before the
House Committee on Financial Services
Subcommittee on Housing and Community Opportunities
on the
Multiple Peril Insurance Act of 2007
H.R. 920

by
Cheryl A. Small, Policy Advisor
National Flood Determination Association
9249 S. Broadway 200-435
Highlands Ranch, CO 80129

July 17, 2007

Chairwoman Waters, Ranking Member Biggert, members of the subcommittee, ...on behalf of the National Flood Determination Association, I am pleased to comment on the Multiple-Peril Insurance Act of 2007, H.R.920

The NFDA shares the concerns for the viability of the National Flood Insurance Program and for the homeowners in coastal regions who need reliable and affordable insurance coverage to protect against losses from flood and windstorm. We respect that fact that Congressman Taylor has introduced H.R. 920 which creates a federal program that would make these coverages available to homeowners located in coastal communities.

The NFDA is a professional association of companies that work with federally regulated lenders to facilitate compliance with the NFIP's mandatory purchase requirements by helping to ensure that structures located in the Special Flood Hazard Area are covered by flood insurance. Lending institutions provide the compliance mechanism for the NFIP. Depending on the market, our industry completes 20 to 30 million flood risk determinations per year. We respond to approximately 1.25 million telephone inquiries from lenders, insurance agents and homeowners regarding NFIP and flood compliance matters.

The NFDA recognizes and appreciates the critical place the NFIP holds by bringing together floodplain management, hazard mitigation, mapping, planning and flood insurance. We want to see the foundation of the NFIP supported and strengthened by thoughtful action. While we support the motives and the spirit behind the bill, we strongly urge the committee to consider the implications associated with creation of a federal multi-peril insurance program and suggest that the committee require a study to include a comprehensive assessment of the loss exposure due to windstorm, the market for voluntary windstorm insurance, the effect on the NFIP and the private insurance industry, and the implications on flood compliance for federally regulated lenders.

The NFDA's concerns center around the financial and administrative impact this program may have on the National Flood Insurance Program, the potential impact to federally regulated lenders in the form of inconsistent compliance guidelines, gaps in coverage and possible

exposure to litigation. Although actuarial rates will be implemented they may not produce sufficient premium income to bear program administration costs and losses in the event of a natural disaster.

I will articulate the NFDA's concerns by presenting a number of questions:

- Currently, WYO companies provide a sales channel through insurance agent networks, conduct training, administer claims and provide policyholder service including policy issuance. What mechanism will be used to provide these services within the multi-peril program?
- What will be the extent of the administrative burden to the NFIP? Will FEMA require additional staff and expertise pertaining to underwriting, actuarial science, policy development, claims and program oversight and management?
- What will be the cost in time and money for FEMA to modify the NFIP databases and systems to include management reporting and

requirements for financial and statistical reporting of policies, premiums and claims?

- Would the federal multi-peril wind and flood program be authorized to borrow from the U.S. Treasury to cover shortfalls?
- What would be the flood compliance implications for lenders if a mortgagor whose property is in a Special Flood Hazard Area drops an optional windstorm/flood policy?
- Will gaps in coverage be created when lenders initiate the process to lender place flood insurance?
- Will there be a notification obligation for lenders to inform their borrowers of the availability of this higher limit coverage?
- What additional exposure to liability will lenders face related to separate policies under the NFIP, standard flood versus multi-peril?

We are in favor of prudent action which considers the impact on all of the various stakeholder groups and I hope the Subcommittee continues the dialogue among these groups to develop a course of action which addresses the problems but does not, inadvertently, create new ones.