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REVIEW AND OVERSIGHT OF THE NATIONAL FLOOD INSURANCE PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND COMMUNITY OPPORTUNITY

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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REVIEW AND OVERSIGHT OF THE NATIONAL FLOOD INSURANCE PROGRAM

Thursday, April 14, 2005

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 11:08 a.m., in Room 2128, Rayburn Office Building, Hon. Robert W. Ney [chairman of the subcommittee] presiding.

Present: Representatives Ney, Waters, Frank, Scott, Fitzpatrick, Ruppersberger, Hart, Neugebauer, Cleaver, and Green.

Also Present: Representatives Blumenauer, Davis, and Kelly.

Chairman NEY. I am going to bring the subcommittee to order.

Today, the Subcommittee on Housing and Community Opportunity meets to conduct review and oversight of the National Flood Insurance Program. Specifically, the hearing will focus on the administrative problems facing the National Flood Insurance Program and the steps currently being taken by FEMA and the private insurance industry to resolve those problems that are out there. Also, it is my hope to discuss the current funding difficulties affecting the implementation of the Flood Insurance Reform Act.

Last year, this committee spent considerable time and effort on legislation to reauthorize and reform the National Flood Insurance Program, and on June 30, 2004, President Bush signed into law the Flood Insurance Reform Act. This legislation re-authorizes the National Flood Insurance Program through September of 2008. It includes provisions to strengthen the operational and financial aspects of the National Flood Insurance Program by providing States and local communities with an additional 40 million a year for flood mitigation efforts for repeatedly flooded properties and allows for increases of flood insurance premiums on properties that refuse government mitigation offers.

In addition to repetitive loss and re-authorization, the legislation requires FEMA and insurance companies to provide better information to flood insurance policyholders to ensure they are fully aware of the details of their policies so they will know the rights that they have. During the deliberations on the re-authorization legislation, however, many concerns were raised regarding the administration of the program and these concerns were brought to the attention of FEMA. Policyholders often did not have a clear understanding of their policy. Insurance agents often did not understand what they were selling or how to process claims correctly. Many policy-

holders did not know of or understand the appeals process and many questioned the adequacy of payments and the adjustment of the system.

Of course, you can imagine the trauma people go through. We had three floods, major flood incidents, in my district. People are going through a lot of trauma, and there are members here today that are concerned about what is going on with people, and to add problems to it, the confusion I think further, obviously, made things so difficult for so many people.

The lack of coordination between private insurers, NFIP, and FEMA and inadequate training were listed as possible sources for some of the administrative problems affecting the program.

The goal of today's hearing is to focus on which administrative problems face the program and what steps are currently being taken by FEMA and the private insurance industry to resolve those problems. Floods have been and continue to be one of the most destructive and costly hazards to our Nation. During this past year, as I stated earlier, there have been three floods in the district I represent. All three of these incidents qualified for Federal relief granted by the President. Recent flooding in January of this year resulted in historic levels in several local dams, and in Tuscarawas County, three communities that I represent were forced to evacuate and displaced 7,000 people. I was able to witness this devastation firsthand when I toured those properties with people that were affected in many of the counties.

The National Flood Insurance Program is a very valuable tool in addressing the losses incurred throughout this country due to floods and ensures that businesses and families have access to affordable flood insurance that would not be available on the open market.

And I would want to get approval for members who are not on this committee to sit here today.

Without objection, we have Mrs. Kelly and Mrs. Davis and Mr. Blumenauer. Is there anybody else that is not regular? Mr. Frank is always an officio member and our ranking member. And they have concerns, so without objection, they will be participating members of this today.

The gentleman from Massachusetts.

[The prepared statement of Hon. Robert W. Ney can be found on page 62 in the appendix.]

Mr. FRANK. Thank you, Mr. Chairman. This is a very important hearing. Some issues that we deal with are very controversial. They are weighted with ideology, and they attract a lot of attention. They are important, but there are also some important things that we do that are more technical in nature, but less ideological. One of the main accomplishments for which this committee in particular obtained credit in the last Congress was the substantial amendment to the Flood Insurance Program. It was thoroughly bipartisan. The gentleman from Oregon, not a member of our committee who is with us now, Mr. Blumenauer, and the gentleman from Nebraska, formally a member of this committee, a very distinguished one, Mr. Bereuter, took a very important lead. We did a very good job, and I note that the director and administrator said that what we did was give a vote of confidence in the program.

That is partially true, but it was, frankly, not a vote of confidence in the existing program, and one of the things that the chairman of the full committee, my colleague from Ohio, and I had made clear, people will remember, is that we were prepared to block an extension of the program as it then existed.

There were serious concerns from groups that don't always work together, but major taxpayer groups, groups concerned with inefficient government spending, environmental groups, united to be critical of the old program, and it was a condition made very clear by the chairman of the full committee and myself, speaking on behalf of the great majority of members of this committee that re-authorizing the program was conditional on our getting these kinds of improvements, and that is why I and some others are disappointed that we have not seen nearly as much progress that we had hoped for this much after the bill passed last June in getting those improvements implemented, both financially and otherwise. We are not talking about huge amounts of money, but the lack of money, the lack of attention to the pilot program, the fact that we don't have the rules and regulations. I worry that this will jeopardize not just the amendments of last year, but the whole program, because it should be very clear had there not been the effort by the gentleman from Nebraska, the gentleman from Oregon, and others which the chairman and I were able to support, this program would not have had the support to get through the House of Representatives. This program would have ended.

I believe that what we did last year was not just to improve the program, but to rescue it and to greatly improve it, and if that is not fully implemented, we are going to be back in that sort of crisis. So I hope that we are going to hear today and that when I read the testimony of the acting director, I don't to my disappointment see a lot about, the commitment to these newer approaches, and they are essential.

So I hope that we will come out of today with a commitment that we are going to see this both funded to the extent possible, and we are talking about millions of dollars, not even tens of millions in some cases with the pilot program, and that we will get the rules and regulations passed. Let me say if there is anything in the legislation that causes problems—I haven't heard that there is—but if anybody feels charged with the responsibility for this, the legislation needs to be clarified or whatever, we are here to do that. In fact, previously I think we have already acted and reacted, and I hope the other body will soon to make clear that the compensation would be tax exempt. Obviously you don't always legislate perfectly. So as things come forward, we are ready to straighten them out.

But this really is essential to the program. A broad coalition of groups put this package together last year. I think it deserves a more energetic effort at implementation than it has been getting, and I hope that that is what we will see today.

Chairman NEY. I thank the gentleman for his comments.

The gentlelady from New York.

Mrs. KELLY. Thank you, Mr. Chairman. I appreciate the opportunity to sit with the subcommittee today to represent the needs of my constituents in Deer Park and Port Jervis, New York. They

are coping with an aftermath of massive flooding which has damaged homes, businesses, and public property in our area. FEMA and the local officials have been assessing the extensive damage together over the past week, and about an hour ago, Governor Pataki of New York requested Federal disaster aid for Orange County and 13 other counties in New York.

We are counting on FEMA to review and to approve this Federal disaster request immediately. Hundreds of people have been displaced from their homes. Small businesses and livelihoods have been shut down indefinitely. Time is so critical in this rebuilding process, and there is no time to waste. The damage I viewed in Deer Park, Port Jervis, Warwick, and Washingtonville is among the worst I have ever seen from a natural disaster in the Hudson River Valley. Washed out roads in towns and villages throughout Orange County are further compounding public and individual damage totals. The flooding in the Black Dirt Agricultural Section is likely to cause serious problems for our local farmers during their upcoming growing season and has already done so.

Nevertheless, local residents and local leaders have very impressively shared a valiant and very positive spirit toward recovery and the selfless efforts of our emergency volunteers, and they have been nothing short of remarkable.

I will be back there again frequently in the days ahead as well as another in other areas like Warwick and Washingtonville to help in any way that I can. I have been working with local officials and the FEMA, the Federal Emergency Management Agency, to facilitate prompt and effective Federal response in order to provide the assistance my constituents need in the most immediate manner possible.

FEMA needs to have public meetings throughout our region in the days ahead to help our affected residents and get their questions answered and the Federal support that they are relying on. A vital part of the recovery from this disaster and earlier floods along the Delaware River is the National Flood Insurance Program. The NFIP has been vital in relieving the costs to my constituents and making coverage available to those who rebound and who want to rebuild their homes and their small businesses, but we have got to work together to ensure that this program is as well managed as possible and that my constituents and the program administrators, adjusters, and the sales people have the best information about their opinions and their resources from my people.

I am really hopeful that this hearing will help ensure that the people in Deer Park, Port Jervis, and throughout Orange County who have suffered extreme damage to their homes and their businesses and their farms will receive the best possible assistance from the NFIP and have the means to rebuild, and I look forward to the testimony today, but I also look forward to your working with us immediately, consistently, and straightforwardly with the people of Orange County.

Thank you, Mr. Chairman. I yield back the balance of my time.

Chairman NEY. I want to thank the gentlelady also for prompting us to have this hearing and supporting this hearing.

The gentleman from Georgia, Mr. Scott.

Mr. SCOTT. Thank you very much, Mr. Chairman.

I too want to congratulate you on having this important hearing. Our Nation has suffered drastically from flooding and other natural disasters. In my home State of Georgia, we have had numerous examples of that same tragedy with the overflowing of our Flint River down in southwest Georgia. Farms have been affected. Small businesses have been affected, even in our metro area with constant flooding in the Nassie Creek area.

I think it is very important that we are holding this important hearing today regarding the future of the National Flood Insurance Program. I think it is very important that the committee continue to monitor implementation of the program which Congress reauthorized that last year. I support the National Flood Insurance Program because I believe that it provides an important service to people who have had property hit by natural disaster.

With the budget battles that are currently being waged in the house, we need to find the best ways to target scarce Federal dollars, including flood assistance; however, Congress must also ensure that consumers are protected and given adequate compensation for their losses.

I certainly want to thank the distinguished panel of witnesses today before our committee, and I certainly look forward to the testimony. I do believe the central question that we are faced with today is this, that in view of the fact that this Administration did not authorize funding for the flood insurance program in the Fiscal Year 2006 budget, the question is, where do we go from here? How do we maintain the program? How has the Administration's budget decisions affected the effectiveness of the program? And what will the Appropriations Committee do? And what level of funding will this program receive?

I think the American people are very anxious to get some answers to these questions, and so am I. Mr. Chairman, I look forward to the testimony.

[The prepared statement of Hon. Sue W. Kelly can be found on page 61 in the appendix.]

Chairman NEY. Thank you.

The gentleman from Pennsylvania, Mr. Fitzpatrick.

Mr. FITZPATRICK. Thank you, Chairman Ney. I have seen firsthand the devastation that flooding can create. I was up to my knees in water helping the residents of Pennsylvania's Eighth District when we thought we had experienced the worst flood possible last September after Hurricane Ivan hit; however, flooding the weekend before last was even worse. It forced more than 6,000 of my constituents to evacuate. The district suffered damage in the tens of millions of dollars. More than 500 houses sustained major damage. Another 500 sustained minor damage, and 100 businesses felt the affects of the worst flooding in the region over half a century.

As a former Bucks County commissioner, now as a Member of Congress, I have heard from my constituents about the administrative problems plaguing the National Flood Insurance Program like the claim processing and inconsistencies and interpretations about the standard used to determine claim amounts.

I want to know what the Federal Emergency Management Agency is doing to educate policyholders on their coverage under the

policy to see that insurance agents clearly articulate the terms and conditions of the policy at the time of sale and know how to process claims correctly and inform policyholders of the appeals process. Mr. Chairman, we must ensure that we are protecting families that have to endure the destruction of a flood. The families in the Eighth Congressional District in Pennsylvania will continue to be discouraged until we resolve these problems which are facing the program.

I yield back my time.

Chairman NEY. I want to thank the gentleman.

Mr. Blumenauer.

Mr. BLUMENAUER. Thank you, Mr. Chairman, for your courtesy in permitting me to join with you again. I appreciate your leadership personally and that of this subcommittee in fashioning important reform for this program.

Chairman NEY. Thank you.

Mr. BLUMENAUER. One is sympathetic to the problems that we have already heard you and other members reference in terms of the devastation that flooding can have. It is the most common and most damaging natural disaster that is afflicted upon our citizens. That is why we were able to work with you in crafting some specific provisions to make the tragic stories that have been witnessed by these members less frequent. In particular, dealing with repetitive flood loss, something that we had focused on, understanding that for the last 25 years, 38 percent of all flood insurance claims have dealt with one percent of the properties, and I salute you for designating that there would be an additional $70 million set aside that potentially in the pilot project could have helped 7,500 severely repetitive loss properties from being put in harm's way.

When we think of 10,000 properties in this country that have suffered repetitive loss four times or more or have received payments in excess of the value of the property, the benefit for accelerating our efforts is clear, and I have appreciated over the course of the last 6 years we have been working with FEMA with our administrator and his predecessors to try and craft a way to make it work better, but I too am concerned, as Mr. Frank, about the pace with which we are moving forward, in part, because this was crafted in consultation with the committee and with people from FEMA for the last two administrations.

We thought that we had targeted this, but as yet we haven't yet promulgated the regulations to implement the pilot project, nor have we seen funding requested for the full authorized level.

Now, it may have been understandable because we passed it late last year after the budget had been submitted, but this year, it is troubling. It is troubling that there is only $8 million, the potential new money that has been authorized. As Mr. Frank says, yesterday we were talking about trillions and hundreds of billions of dollars. To be talking about less than a hundred billion dollars sounds like small change around here, but for the people in harm's way, some of whom I suspect are here today, being able to adequately fund the program and help move them out of harm's way can make a huge difference in terms of their lives and livelihood, and every person that we move out of harm's way is less pressure on millions of people to not pay higher premiums and it means that we will

save millions of dollars every month in the future from future losses.

So Mr. Chairman, I do appreciate your courtesy, the leadership of this subcommittee, of Ranking Member Frank and Chairman Oxley in providing a united front to help improve this vital program for our constituents, and I look forward to an interesting and productive hearing today. Thank you.

Chairman NEY. I want to thank the gentleman and I appreciate his comments.

The gentlelady, Ms. Davis.

Mrs. DAVIS. Thank you, Mr. Chairman, and I want to first thank you for holding this, what I think to be a very important hearing, and also thank your staff. They have been absolutely wonderful in helping us put this all together, and thank you for the hospitality of inviting me and allowing me to sit in on it.

In September of 2003, Hurricane Isabel struck the eastern United States, doing so much damage it was actually one of the worst disasters in Virginia's history. There was damage exceeding $1.5 billion. Strong winds knocked out power lines. Trees were downed everywhere, and storm surges flooded many homes. The First District of Virginia was devastated in many of its areas.

Today, two of my constituents, Larry Bearekman and Ginger Stelyn both had their homes flooded, and they are here. You will hear their stories. I want to thank them both for coming today to testify and to share their difficult times that they have had. Both faced tremendous strain and difficulty attempting to rebuild their homes and their lives, and unfortunately they are not alone. Many residents from my district and across the country continue to face challenges in rebuilding their lives from many of these disasters.

Many of these challenges, in my opinion, are because of the National Flood Insurance Program. My office received many, many calls from constituents that they felt they were unfairly treated, that the process was inadequate and that they were just totally misled, and I felt it my responsibility as their representative to do all that I can to help them.

I have concerns with the administration and oversight policies of the National Flood Insurance Program. Thousands trust and rely on their flood insurance to restore their property that was destroyed by flood waters, but many, many, have been disappointed to find that their claims adjustment process has, as I said, been unfair and inadequate.

Today, I hope that we will be able to get to the bottom of it, that we will be able to find out why my constituents and many folks' here constituents felt they were told one thing and then another thing was done. I just hope that the committee can get to the bottom of it and come up with regulations, find out what the real truth of the matter is, and make sure that our National Flood Insurance Program is being run adequately and correctly and operating as we in Congress intended.

I want to thank you again, Mr. Chairman, for holding this important hearing and for allowing me to join you today.

Chairman NEY. I thank the gentlelady.

The gentleman from Maryland, Mr. Ruppersberger.

Mr. RUPPERSBERGER. Chairman Ney, thank you very much for allowing me to participate in this hearing, also Ranking Member Frank. This is a very important hearing, as we all know, concerning the National Flood Insurance Program and the problems that we face concerning this program.

Before I get started, I would like to recognize the Maryland Insurance Commissioner, Al Redmer, who is going to be on one of the panels. I also would like to recognize over 50-plus victims from my district of Hurricane Isabel and who have come down to participate in this hearing and also Steven Kanstoroom from Ashton, Maryland, who I believe is one of the panelists. I know what you have gone through, and we are going to try to help you out.

As we discuss these proposed policy changes concerning the National Flood Insurance Program, I hope that we will all remember that ultimately what we are talking about is families. In my State of Maryland, we still have families that have not received a settlement and some that are, sadly, still in FEMA trailer housing, and this is wrong.

We are here today to talk about the National Flood Insurance Program. In September 2003, Hurricane Isabel tore through the east coast and devastated Maryland's Second Congressional District. This storm did well over $200 million in damage and devastated the lives of thousands of Marylanders. In my district, the Bowleys Quarters Fire Department became Hurricane Central. During the storm, these firefighters pulled people from homes that were quickly overcome by storm waters. The Bowleys Quarters Fire Department distributed rations, supplies, and helped provide hot meals, and I want to thank them for their involvement as the other fire departments that were involved throughout the Second Congressional District.

Thousands of Marylanders banded together to help each other rebuild and get back on their feet, and they should all be applauded for their actions. After Hurricane Isabel, there was a lot of misinformation. There was a lot of confusion and a lot of education that had to occur. Thousands of Marylanders were shocked to learn that flood insurance coverage they purchased was inadequate and would barely restore any of the life that they had built. It was truly heartbreaking to hear some of these stories.

The most frustrating part from my perspective was that thousands of Marylanders were run around in circles to only come into dead ends. It was very frustrating for them. Some people had their claims processed while others had claims denied or their settlements were remarkably low. We had to keep fighting to get these people the money they deserved.

The biggest problem was that many of my constituents dealt with untrained agents and adjusters that provided at times inaccurate information and data. The biggest problem was that pricing guidelines literally varied from one agent to another, from one adjustor to another. For example, an adjustor would tell someone that dry wall would be repaired at $10 per sheet, only to get a settlement for the dry wall which was $3 per sheet. The obvious affect is the victim does not get as much money to rebuild, which is frustrating and confusing and wrong, and they couldn't afford it.

This confusion coupled with losing a home and all of one's belongings created an angry and frustrated community. We cannot allow this to happen again. We have a chance here to make strides in changing the program to make it workable in the future.

What is the solution? We need plain English description of a homeowner's flood insurance coverage with what is and is not covered. We need to have timely training for adjusters and agents and not crisis training. We need to have the insurance companies at the NFIP work together to develop standards and procedures so that everyone is on the same page, and, finally, I hope that we will all get a better understanding of where there are deficiencies in the program. We need to understand this so that we can fix it and not have the problems that have arisen in the past.

I look forward to hearing from the witnesses so that we have a complete understanding of the situation and find out what we need to do to fix the problem for our constituents. Thank you, Mr. Chairman.

Chairman NEY. I thank the gentleman.

The gentlelady from Pennsylvania, Ms. Hart.

Ms. HART. Thank you, Mr. Chairman. I especially appreciate the opportunity to be here today as a former member of your subcommittee and somebody I think like the other Members who have joined us today that have unfortunately similar situations to report.

I am not sure how many of us have actually seen the commercial on television for the National Flood Insurance Program. Some of you may not even notice that is what it was for, but there was a nice pretty frame house that you see and then you see all these bad things happen to the house except one thing, a flood, and at the end of the commercial, they say your homeowner's insurance covers all these things except one thing, and then the waters come and they surround the home, and on the screen comes a little logo for the NFIP, and it says if you are in a flood zone, you need to get national flood insurance because it will help you if you have this incident happen.

Well, unfortunately, I think for folks who are going to testify here today, that ad is a pretty cruel joke. You know, we have made this program, I think the Members of Congress, believing that it would provide assistance to people who face that very situation of the waters and flooding. Everybody knows that when you get a mortgage and you are in a flood zone, you are required to get this flood insurance. It is something that people expect will help them in the occurrence of a flood.

Well, the opportunity for this committee to work on improving this policy is one that I really find after what I know our constituents experienced is a very important one.

Following the September 2004 in Western Pennsylvania with Hurricane Francis and then Hurricane Ivan, my staff worked long hours to coordinate with Federal agencies to help assisting victims in securing relief. The damage was vast, covered a vast area. The damage in several areas was quite intense. The response of Federal agencies for the most part was immediate. Officials were on the ground. They worked with my staff and others to help clean up the

neighborhoods, to get people moved back into their homes, back into their businesses.

We knew it wasn't going to be an easy process. Hundreds of homes and businesses suffered severe damage, and we expected that it was going to take some hard work to get folks back on their feet. In many instances, they are back on their feet. We were able to help Federal agencies provide necessary assistance. Neighborhoods removed debris. Communities got involved. Other Federal programs certainly were utilized to help people put their lives back together.

Unfortunately, this hasn't always been the case, and in February of 2005, we really began to face the underlying problem. Months after the flooding, local citizens were organizing to ask for relief. We had town meetings. There were a number of different opportunities to sit down and talk with different agencies to figure out how they could move forward. Many still had not had their insurance claims settled. Their properties continued in that form that they were in right after the flooding. They were still damaged. Families were forced to live out of their homes, imposing on family and friends, using their savings to pay for hotels.

My office worked with other local officials to try to resolve these problems, and as we talked with our constituents, a pattern became clear. In addition, we also heard similar stories that we have heard from my colleagues today in Maryland and Virginia and North Carolina, and as the picture became more clear, many of these cases remained unresolved. We contacted the Financial Services Committee to raise the concerns, and I am very pleased that the committee is focusing on it with this hearing.

They fall into three categories really: Improper insurance coverage, inaccurate information about the insurance programs, about adjustments, concerns about what happened after the properties were assessed, low estimates, that sort of thing, and then after those low estimates were given, an impossible situation in trying to challenge those estimates and get the real damage assessment, the appropriate damage assessment.

I don't fault anyone in particular for these problems that my constituents have had with these programs, and I didn't write the committee about these issues to place blame on an individual or individuals. I contacted the Committee in order to address some of these concerns to make these programs operate better and more appropriately for the people that they are expected to serve.

I will wind up, I promise.

The failures of the Federal program are clear. The only way for us to address them is to discuss it in an open forum. I asked the Committee and they have offered the opportunity for one of my constituents, Beth Beam of Ellwood City, to come here and testify about the issues that she faced.

I see this as a starting point. These people have suffered not only devastating losses, but they have also suffered a lack of appropriate assistance through the National Flood Insurance Program. I thank Mrs. Beam for making the trip here, her husband, Mike, and her children who continue to live with their parents as a result of this problem.

And I thank you, Chairman Ney, for giving me the opportunity to be here today.

Chairman NEY. I want to thank the gentlelady.

Again, I want to thank members of both sides of the aisle for the amount of interest you have had in this and the true concern you have for your districts and constituents. I would ask to be included in the record, without objection, testimony of the Independent Insurance Agents and Brokers of America, the statement of William Griffin, Jr., the testimony of Gary Mosell, the statement of Congressman Steney Hoyer. Without objection, they will be made part of the record.

Panel one, we will move to David Maurstad, who is appointed Acting Director of FEMA's Mitigation Division and Acting Federal Insurance Administrator in June 2004. His areas of oversight include the National Flood Insurance Program, the National Earthquake Hazards Reduction Program, the National Dam Safety Program, and the National Hurricane Program. Previously, Mr. Maurstad served as Regional Director of FEMA's Region 8 where he coordinated FEMA activities six western States, including the State of Nebraska where he has served as Lieutenant Governor.

I would also note that our Ranking Member, the gentlelady from California, Congresswoman Waters had to speak on the rule and will be here later.

Thank you.

STATEMENT OF DAVID I. MAURSTAD, ACTING DIRECTOR AND FEDERAL INSURANCE ADMINISTRATOR, MITIGATION DIVISION, FEDERAL EMERGENCY MANAGEMENT AGENCY, EMERGENCY PREPAREDNESS AND RESPONSE DIRECTORATE, DEPARTMENT OF HOMELAND SECURITY

Mr. MAURSTAD. Good morning, Chairman Ney and members of the subcommittee. I appreciate this opportunity to appear here this morning. First, let me thank this subcommittee and Congressman Blumenauer for the work that it accomplished last year by re-authorizing the National Flood Insurance Program through Fiscal year 2008. I appreciate the priority that Congress and the President demonstrated through the re-authorization and the stability gained through a multi-year re-authorization.

The Flood Insurance Reform Act of 2004 enhanced the existing flood mitigation assistance programs and authorized a pilot and individual grant program for reducing severe repetitive loss properties. The President's Fiscal Year 2006 budget request includes an additional $8 million for the enhanced Flood Mitigation Assistance Program, and we are working on options that may allow us to implement the pilot program.

Since starting in this position last June, I found that the NFIP has been successful through its 37-year history, in part, because this program has integrated 95 of the country's property insurance companies and their agents that sell and service approximately 95 percent of the 4.7 million policies in force. Under our arrangement with the insurance companies, it is our responsibility to ensure their performance. To that end, FEMA conducts regular audits to assure each company is meeting its financial requirements, performance objectives, and adhering to program policies.

One of my goals is to ensure that flood insurance claims are handled fairly, equitably, and expeditiously. Based on my experience, I have found that the NFIP meets or exceeds industry standards in this regard. Even so, I want this subcommittee to know that I strive to challenge myself, my staff, and our partners to continuously improve.

Last year, the NFIP experienced a catastrophic loss year due primarily to an historic hurricane season. The NFIP received approximately 59,000 flood insurance claims in 2004, and we anticipate paying $1.6 billion to resolve these claims. This level of claim activity represents the single largest loss year in the history of the NFIP. As a result, the program has exercised its borrowing authority in the amount of $200 million to date. This is the fourth time since 1990 that the program has been in a position of borrowing, and as with previous times, we anticipate repaying the current Treasury borrowing with interest by the end of the year.

The claims adjustment process associated with flood loss has not ben without appropriate scrutiny. As you are aware, after Hurricane Isabel in September of 2003, there were a number of concerns raised. These concerns received a significant level of attention from policyholders, local and State officials and Congress. As a means of addressing these concerns, FEMA created a task force that undertook an unprecedented review of the Hurricane Isabel claims for every policyholder that requested a review. To ensure that policyholders were aware of the review option, FEMA implemented an outreach strategy that consisted of a targeted series of community meetings, newspaper ads, press releases, and a toll-free number to field policyholder questions as well as initiate a request for a review. FEMA mailed approximately 24,000 letters, received over 4,300 calls, and held over 40 outreach sessions in three States.

As a result of this effort, nearly 2,250 policyholders requested and received an additional review of their claim of which 1,101 received an additional payment. The amounts paid represents less than two percent of the over $453 million paid in claims for Hurricane Isabel.

It is my assessment that there is a fundamental misunderstanding of the intent of the NFIP. For example, some policyholders believe that if they paid premiums for a hundred thousand dollar limit of coverage on their dwelling, they were entitled to a $100,000 claims payment regardless of the actual flood damages sustained. Another common misconception is that the original intent was to restore homes or property to what has been referred to as a pre-flood condition which FEMA may have inadvertently contributed. It has come to my attention that there is a press release dated October 16, 2003, on the FEMA web site that states flood insurance can make you whole again. This statement is inaccurate. The press release has been removed from the FEMA web site.

This is the only instance that I am aware of that supports this misconception. In fact, my review of the legislative history, committee reports, the statute, the standard flood insurance policy, and how the program has been administered since its inception clearly indicates that the NFIP was never intended to restore policyholders to pre-flood condition. It was designed to help them recover.

There is a high risk associated with flood losses. In fact, prior to the establishment of the NFIP, a flood insurance policy was expensive and generally unavailable. In response, Congress created the NFIP in 1968. The design of the program as cited in Section 1302 of the National Flood Insurance Act of 1968 was to provide, and I quote, a reasonable method of sharing the risk of flood loss. The 1968 Act created a flood insurance mechanism that tied the availability of this insurance to a community's management of its flood risk.

This policy has been successful. The NFIP standards for new construction are now saving an estimated $1.1 billion annually in avoided flood damage. Additionally, it should be recognized that since 1968, the NFIP paid out from policyholder premiums approximately $14 billion in insurance claims, which in addition to helping homeowners, renters, and business owners recover financially from a flooding event, otherwise would have greatly increased taxpayer funded disaster relief.

The standard insurance policy has specific limitations and coverage for high-risk areas such as basements and areas below elevated buildings. The policy also does not provide for additional living expenses unlike a typical homeowner's policy and only allows replacement cost coverage in certain circumstances, and there is a statutory limit on coverage for residential buildings and commercial buildings.

Even more significant, FEMA regulations specify that communities require flood-prone properties be brought into compliance when a structure is substantially damaged; however, the program only provides partial funding for the cost of complying with that requirement.

[The prepared statement of David I. Maurstad can be found on page 174 in the appendix.]

Chairman NEY. If we could, because we have a vote, I want to ask one question because I have another commitment and Mr. Fitzpatrick will be chairing the committee. So if I could, and I am sorry to interrupt you, but I want to get my one question in that I have got and I will be, again, back later.

There is some type of huge disconnect that has occurred, some type of huge disconnect. Now, I know you had that up on the web site, and that was an error, and people might have assumed from that that in every single situation they were made whole. Beyond that, there still is a disconnect between what the citizen thinks that they are getting. So the question I want to ask is, what is FEMA doing to find out or work with what the agents think they are selling to people and what agents are telling people and what people think they are getting? Because there is some huge disconnect.

Mr. MAURSTAD. Sir, we continue to work with the 95 insurance companies that we rely on to service and sell the standard flood insurance policy. It is a part of the arrangement that they are required to make sure that their agents are trained appropriately to sell the flood insurance product. In addition, it is the agent's responsibility from a professional point of view, regardless of what, whether it is homeowner policy, an auto policy, or a flood insurance policy, for them to be adequately trained and have the necessary

education and knowledge to be able to provide what their policyholders deserve.

Chairman NEY. Do you think it has been effective, or how long has the Government been embarking on this? Because I really don't know the answer to that question.

Mr. MAURSTAD. Well, I would contend that those provisions that I spoke about have always existed, and, for example, 2 years ago, there were about 47,000 claims handled by the NFIP program, last year about 74,000 claims. The vast majority of those were settled to the satisfaction of the policyholder.

Chairman NEY. One thing I wanted to ask you, we have been doing this for years—and I am just going to tell you my personal experience because I have been in office 24 years, 10 out here and then 14 in the State legislature. Over the period of years, of course, you will get some people that will misunderstand something, but I have got to tell you honestly, in the last few years, it has just swelled in the amount of people that said I thought I was getting this and I didn't get it versus my entire time I have been in office. I can judge over the last 24 years. You know, things have peaks and valleys, but it has just went way up the charts of what I am hearing around my district, and I am hearing that from other members of both sides of the aisle. So I wonder why it is happening in the last, I don't know, 4 or 5 years.

Mr. MAURSTAD. I think we need to address it, sir, and I think that the companies are working with us. The agent associations are working with us to re-emphasize the need for agents to have the knowledge that their policyholders, their customers, expect from them. Anecdotally, just my opinion as I look at this, one factor that tends to stick out is if an area has not had a major flooding event within a relatively short period of time, there tends to be more misunderstanding by the policyholders and the agents in that particular area than areas that have frequent flooding events.

Chairman NEY. Unfortunately, we tend to flood all the time down the Ohio River and areas we are in. We really have had fairly consistent flooding over the years. So I just wanted to add that. Again, I used to not hear a lot, just a few occasional things. It has just grown by leaps and bounds. So there is something out there or something is not working, and that is going to be the purpose of why we will continue, of course, with the questions, and I want to work with you to help people.

With that, we are going to take a recess and we will return. Thank you.

[Recess.]

Mr. FITZPATRICK. [Presiding] The committee is now in order. We have a little bit of time between votes, and we would like to accommodate Mr. Maurstad's schedule.

Mr. Maurstad, as a new member and a Representative of a district that has experienced significant flooding, I really do appreciate your time and your testimony here today and your willingness to answer the questions. I just have one question for you.

About a year ago, in March of 2004, the Senate Subcommittee on Economic Policy held a hearing on flood insurance losses, and at that hearing, a variety of problems were outlined, such as policyholders who often do not have a clear understanding of their policy,

the limits, and what is covered. Insurance agents often do not understand what they are selling and how to process claims in an effective, quick, and efficient way. Many policyholders do not know or understand the appeals process. Many question the adequacy or the inadequacy of the payments they received.

At that hearing, Anthony Lowe testified in his capacity as the Federal Insurance Administrator, Mitigation Division Director, and at that hearing, he acknowledged many of these problems. Mr. Lowe indicated that FEMA was conducting a comprehensive review of what he called top to bottom. Furthermore, he indicated that the agency was taking steps to, quote, address these concerns on the front end by stepping up outreach efforts to explain the National Flood Insurance Program policy provisions and simplifying the claims procedure.

Mr. Maurstad, I was wondering if you could explain for the committee what steps have been taken since that hearing a year ago to address these concerns.

Mr. MAURSTAD. To specifically address the concerns from Isabel, the outreach effort that I talked about in my opening is the manner in which we, I believe, successfully attempted to provide that type of information during that process. Since then and since the re-authorization last June and the direction provided in the re-authorization to NFIP to institutionalize a number of those, we have been working actively with our stakeholders in trying to develop those various products and are in the rule-making process for establishing those and hope to have that completed by fall.

Mr. FITZPATRICK. Thank you, Mr. Maurstad.

At this time, I recognize Ms. Kelly for 5 minutes.

Mrs. KELLY. Thank you very much.

Mr. Maurstad, the names Francis, Ivan, Isabel, Hugo, Floyd, they are names given to tropical storms. They are names given to hurricanes. We in New York, as I mentioned in my opening statement, have just had our governor declare a disaster area for 13 counties on an unnamed storm. There are lots of storms that don't have those names. This storm has hit my people very hard.

You mention in your testimony the extensive outreach campaign that the flood insurance program conducted after Hurricane Isabel, that you sent out 24,000 letters, 40 outreach sessions for policyholders. I want to know what you have planned for my constituents in Orange County. Are they going to receive some intensive outreach from you?

Mr. MAURSTAD. What we have done and what we would certainly do to help is continue to participate in community meetings to try to share the information that is needed for policyholders to assist them in that claims handling process. Of course, we need to while we certainly work together distinguish between the efforts, the recovery efforts, that will go on and the meetings that will be held there with the communities on available assistance through the recovery, public assistance, and individual assistance. We will specifically assist in those cases where we can provide your constituents information that they need to have their claims adjusted appropriately if they are having difficulties with their agent or with the adjusters that are responsible for making sure that they are paid

appropriately and fairly within the provisions of the standard flood insurance policy.

Mrs. KELLY. You said that your flood insurance program, in your testimony, you say that it paid it two percent more because of the extensive outreach that you did on Hurricane Isabel. Frankly, I believe that FEMA ought to be paying out 100 percent of eligible claims, not 98, not two percent more. There shouldn't be two percent more. You have got a hundred percent record that I am looking for, and I expect FEMA to take additional outreach steps that you described in your testimony in New York because of this terrible flooding that we have just experienced.

I have walked in those fields with my people. I have watched them. I have been with them when they have opened the doors in their housing returning after the flood. It breaks my heart. We need you to get the outreach out there. We need you to do it rapidly. People can't wait, sir. The mold begins to attack the house. The problems are my farmers are having to re-dig the ditches in the fields. My sod farmers have had flooding that has covered over the sod, and now is the time when they need to sell that product.

We need your help and we need it now. Part of what I hear from my constituents and part of what you are hearing in the passion in my voice, sir, is a frustration with what appears to be just a bureaucracy that is hung up and not producing rapidly and producing for the needs of the people that we represent here. I think you have heard that from the members this morning.

I would ask you, Mr. Maurstad, to go back and tell your people, those people who are in those offices working for you that we here on Capitol Hill expect prompt response, and we expect it yesterday. We are the Federal Government. We should be helping these people. You are being paid by tax dollars. We expect these people to have their support, and we expect it immediately.

I am not blaming you, sir, but I am blaming the bureaucracy. You are in charge. The buck is stopping on your desk right now. Please get back there. Please get back to me. Don't let two weeks go by. Don't let four weeks go by. People need to reclaim their lives. I have got a whole lot of people along the Delaware River and Western Orange County who need your help and they need it now.

Mr. FITZPATRICK. The chair recognizes Mr. Ruppersberger of Maryland.

Mr. RUPPERSBERGER. Yes. Thank you, Mr. Chairman.

First, you can see how passionate people are because you disrupt families and their everyday life, and I know that FEMA and our engagement with FEMA and people involved are saying, Look, we can only do what we can do pursuant to the law, pursuant to our statute. I will say in the beginning, I was very impressed with the way FEMA came in in support for people who were dislocated and helped them, but then the problems started to rebuild and where are we going to go, and we still have people in trailers today.

So it is important that we get to the core of the problem, we learn from what has happened, and then try to fix it because there will be other floods.

There are a couple of issues I want to get into. The first thing, the issue of FEMA generally, and I am not sure—because you are a part of the large bureaucracy of Homeland Security, I am con-

cerned with the fact this FEMA is in Homeland Security. When we have a national disaster in our country, we are the best country in the world. It is a high priority to help people as soon as we can. And the fact that we are in such a large agency, it seems to me that FEMA should have a direct line to the President so that when we need to move, we can move quickly, and when we have problems, even though it might not be pursuant to the law, we can adjust what we have to do to help our people.

So my first question, do you feel that FEMA being in Homeland Security, you have your hands tied, you are not able to get the money quickly enough, you are not able to move through that bureaucracy, and would it be better when we have national disasters to go directly to the President and not be a part of a large bureaucracy whose real goal is to protect homeland security in areas such as ports and airports and all those other areas?

Mr. MAURSTAD. Well, sir, I believe that becoming a part of the Department of Homeland Security has actually been a benefit to FEMA in the way that we have been able to respond to the hurricanes of last year. I think we have demonstrated that a number of times. Because of the other entities that we are now partners with within the department, we are able to utilize what they bring to the table. The Coast Guard comes to mind, for example, in the assistance that they are able to provide FEMA in the response and the recovery associated with major disasters.

So I think that it certainly has not crippled our ability in being able to respond.

Mr. RUPPERSBERGER. I think that is something that we are really going to have to keep looking at because we need to produce in this area, and when there is a national disaster, our concern in Maryland is that all of a sudden there were hurricanes in Florida and then the people who were involved in Maryland were not getting service because people had to move to Florida. So I think that is something we have to look at.

You have standards in FEMA, evaluation goals. Do you have those same evaluation goals for the adjusters in the insurance program? A lot of what we saw and our staff personally saw and the people at least in my district, you had all sorts of inconsistencies. You had adjusters that seemed not to be trained. You had different price evaluations, different estimates, no standards.

Two questions: First, do we require the insurance companies to have that standard? And if we do, I think that we have not held them accountable for performance. I think that is something we have to look at, and basically we need a standard, to develop a standard, in natural disasters and the fact that FEMA is coming in and saying pursuant to the law we can only do this, then we need to change the law and we need to evaluate that and we need recommendations from you all and talking to our constituents and our people in the different States and our insurance commissioners from the States to find out what we need to do so that if this happens again, we can do it better.

Mr. MAURSTAD. Well, we do have a process by which we evaluate adjusters' performance with re-inspections and we also, of course, hold the insurance companies accountable for the work of their adjusters. We audit the claims process. We audit the work of those.

When we are able to identify that there are areas where a particular company or a particular adjustor within a company is not meeting the standards, then we take action with that company in correcting them.

Mr. RUPPERSBERGER. My experience has been that we had inconsistency all over the map. We didn't have people that were qualified, didn't know what they were doing. So let me ask you this: When was the last performance standard done?

Mr. MAURSTAD. Well, with adjusters, we do it routinely while the losses are occurring, and so it is an ongoing process with the adjusters. Now, companies, we do the large audit, performance audits, on a rotating basis.

Mr. RUPPERSBERGER. My time is almost up. Are we going to have another round, Mr. Chairman, of questions?

Mr. FITZPATRICK. We will not.

Mr. RUPPERSBERGER. Well, then let me go quick. I know the light is on.

I really want to get to the bottom of this. I think right now—you talk about standards and training—we don't have, really, the standards. I want to make sure that we take what we have now—you can take my district. You can take other districts and that we look at what the problems were and then re-evaluate those problems and the people involved, and sometimes the people, such as the adjusters, don't have the tools and resources either. This is something that has to be fixed and we have to learn from what has happened now and we have to take care of these people that are still out there.

Now, you have certain laws you have to abide by. There is no question, but we have to go further. We are the finest country in the world and it is not appropriate or fair that we cannot help people in need in our country.

So I really have more questions. I will submit those questions to you, and I would like you to get back. We have a long way to go here. I know that you are representing your agency. You have to take certain positions, but let us keep an open mind. It is about the families.

Thank you.

Mr. MAURSTAD. Yes, sir.

Mr. FITZPATRICK. We will make those questions part of the record as well if you submit them to the committee. Thank you.

The chair recognizes Ms. Davis of Virginia for 5 minutes.

Mrs. DAVIS. Thank you, Mr. Chairman.

Mr. Maurstad, I hope you took note. Representative Kelly said that she hoped two weeks, four weeks, wouldn't go by, and I hope you will recall that 19 months has gone by, and I still have constituents in little trailers.

Please don't take my time to clap. Let me get my questions in here, but I appreciate it.

You stated in your statement that you were aware of a release dated October 16, 2003, and I just want to know for the record, you were made aware of that release on the FEMA web site dated October 16, 2003, that stated flood insurance can make you whole again, because you were in my office the day before yesterday and

I asked you did you know it was on there, and you were not aware of it. I ask you now when was it taken off?

Mr. MAURSTAD. It was taken off as soon as I got back to the office.

Mrs. DAVIS. So this release that, Mr. Chairman, I would like to put in as part of the record, dated October 2003, one month after Hurricane Isabel hit my district has been on your web site from October 2003 until April 2005. It is no wonder constituents think that flood insurance can make you whole again.

I would like to submit this for the record, Mr. Chairman.

Mr. FITZPATRICK. Without objection, it will be made part of the record.

Mrs. DAVIS. You also talked about the flood insurance program being established back in 1968. You quoted from it, but let me quote from the program. It says the program was established to, in quotes, provide the necessary funds promptly to assure rehabilitation or restoration of damaged property to pre-flood status or to permit comparable investment elsewhere. It sounds to me like the program was started to restore it to pre-flood status. What do you think?

Mr. MAURSTAD. Well, in my looking at that, that is actually, I believe, from a Senate and House report in 1967 on a previous attempt to establish a flood insurance program.

Mrs. DAVIS. But it sort of says the intent of Congress, does it not?

Mr. MAURSTAD. In 1968, when the bill was actually put in place, that language was not a part of the legislation, nor was it a part of the Senate and House comments, and so my conclusion is that there was a conscious reason for having that language in a report that was not adopted versus a report on a bill that was adopted.

Mrs. DAVIS. But it seems clear to me if it was a Senate report, it was the intent of Congress. Here we are 19 months later since Hurricane Isabel, and as I said, I have constituents that still are not taken care of. What are you doing to address the length of time that it takes to process the claims? As you know, I have two constituents who will be testifying after you. One just has moved back into her home. The other gentleman is still in a rental place.

Mr. MAURSTAD. Well, at the end of the review process, we had either settled with all of the individuals that asked for their claim to be reviewed or we provided them with what was a final offer based on the coverages that are provided by their standard flood insurance policy.

Mrs. DAVIS. Do you think that your insurance providers believe that their insurance is there to make people whole?

Mr. MAURSTAD. No, I do not.

Mrs. DAVIS. I have a web site here from Travellers Insurance that says in their advertisement, and I quote: The Mitchells were very fortunate to have flood insurance, and then on and on and, "the cost to repair or replace the building was covered less the minimum $500 deductible. Wall to wall carpeting was replaced. Floors were dried and refinished. The walls were painted and cabinets and appliances were replaced."

If the everyday folk pull up something like this on the web site, and I am sure there are plenty more of these, they have to assume

that they are going to get replacement cost or that they are going to be restored, and that is wherein I think we have the problem.

And you and I had this discussion the day before yesterday, and I understand you are reading from the book and, you know, the rules are what they are, but the perception is reality in the United States of America, sir. If I have constituents that are sitting in trailers and they, because they looked at your web site one month after Hurricane Isabel hit, plus not to mention what they were told by people when they came into my district—how do I go back to my constituents and say sorry, the Government is not going to help you even though we have this on your web site? You said yourself in your statement it was an error. It is a mighty big error, sir. What do I tell my constituents?

Mr. MAURSTAD. What I indicated, it was inadvertently included in a press release.

Mrs. DAVIS. For almost two years.

Mr. MAURSTAD. I want to make sure that there is a distinction in that the benefit associated with folks having trailers provided under the individual assistance program in the recovery division of our agency and the benefits that are provided that are not a part of the standard flood insurance policy. And I do take very seriously my responsibility to balance the needs of the fund and the charge of Congress to make sure that flood insurance is affordable, and I also take a great deal of responsibility in making sure that the policy is followed because it is law and that is my responsibility to enforce it.

I don't have the discretion to be able to authorize claims to be paid that are not provided for under the standard flood insurance policy.

Mrs. DAVIS. My time is up. I wish we had more time, but I would say that it is your interpretation of the program versus my interpretation of the program, sir, and I think that is probably the problem throughout the agency.

Thank you, Mr. Chairman.

Mr. FITZPATRICK. Thank you, Mr. Maurstad, for your testimony. Clearly, we have a lot of work to do. I know that the committee looks forward to working with the Federal Emergency Management Agency and the National Flood Insurance Program, but we have to do a better job reaching more flood victims, repetitive flood victims, to be quicker, to be fairer, and I am sure that we are going to be working together toward that.

Before I dismiss panel one, the chair notes that some members may have additional questions for this panel which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

The first panel is dismissed.

Mr. FITZPATRICK. We would ask the second panel to please take their seats at the table, Mr Berginnis, Mr. Jenkins, Mr. Redmer, Jr., Mr. Griffin, Ms. Beam, Mr. Bearekman, Mr. Kanstoroom, and Ms. Stelyn. Please take your seats at the table. The subcommittee does need to recess until we conclude the votes of early this afternoon. The members will be back to conclude the subcommittee hearing.

The subcommittee is in recess until the sound of the gavel.

[Recess.]

Mr. FITZPATRICK. I would like to thank the individuals, the distinguished panelists who are here in the Nation's capital to testify as part of panel two.

First, I would like to recognize Ms. Davis of Virginia who wants to introduce two of her constituents who are here with us today.

Mrs. DAVIS. Thank you, Mr. Chairman. I appreciate the opportunity. As I told the chairman, unfortunately I am going to have to leave here at 1:30. So I hope I can get back, but I wanted to have the opportunity to introduce two of my constituents who have had to bear the brunt of some very unfortunate situations, and they are Mr. Larry Bearekman from Poquoson, and Mr. Bearekman, just for the record, is still in temporary quarters; and the other is Ms. Georgette, otherwise known as Ginger, Stelyn, and she lives in Seaford, York County, Virginia, and she has just recently gone back in her home.

I appreciate you both so much for taking the time to travel here to tell your stories that are so similar to so many other stories with the district.

Thank you.

Mr. FITZPATRICK. Thank you, Ms. Davis. The first witness on panel two is Chad Berginnis. Mr. Berginnis is the Flood Plain Management Program supervisor in the Division of Water with the Ohio Department of Natural Resources. He has co-authored a comprehensive revision of the Model State Flood Plain Regulations, drawing in part on his previous experience as the planning director of the Perry County Planning Commission.

Without objection, Mr. Berginnis, your written statements will be made part of the record. You will each be recognized for a 5-minute summary of your testimony, and it will go for each of those who are here today to testify.

Mr. Berginnis, you have 5 minutes.

STATEMENT OF CHAD BERGINNIS, CFM, ASSOCIATION OF STATE FLOODPLAIN MANAGERS, INC., CHAIR, STATE OF OHIO

Mr. BERGINNIS. Good morning and thank you, Mr. Chairman and the subcommittee, for giving the Association of State Flood Plain Managers the opportunity to testify.

I currently serve as chair for the ASFPM and I also work in the State of Ohio's Flood Plain Management Program which implements the National Flood Insurance Program at the State level. I and most of the 7,000 members of the ASFPM work as jack of all trades in the NFIP on a daily basis. We are the State and local officials that are involved in implementing the NFIP.

The 2004 Reform Act holds great promise. From our standpoint, it contains three significant elements: The creation of aggressive mitigation programs to address the repetitive loss program, changes to existing NFIP and mitigation programs to improve effectiveness, and the final two provisions which make positive changes to the insurance side of the program.

Repetitive flood losses are a significant threat to the NFIP, whether it be perception such as the black eye the NFIP receives when a homeowner who has made repetitive flood insurance claims

totalling several times the value of the home is profiled on programs like "Fleecing of America" or the reality that in the average year, claims for repetitive loss properties are $200 million. Repetitive flood losses threaten the financial stability of the NFIP. Furthermore, everybody pays for them. Policyholders in Ohio, where relatively few repetitive loss properties exist, bear the cost of increased flood insurance premiums which are at least partially due to the excessive repetitive loss claims.

The 2004 Reform Act repetitive loss mitigation programs should make in-roads into this problem, but they are meaningless until they are funded. This is why we are perplexed that the Fiscal Year 2006 budget requested only $8 million of the $70 million authorized. None of these funds authorized are new taxpayer dollars. They are a transfer from the National Flood Insurance Fund.

Acting quickly is critical. Over half of the newly authorized funds are for a pilot program that will fund 2009, and funds for this program were not even requested in 2006. The Reform Act doubled the funding for the basic Flood Mitigation Assistant Program, $20 million in new authorization, but only $8 million was requested. Why is that?

The FMA program already exists. While it is true that rule-making must occur, especially for the Repetitive Loss Mitigation Programs created in the Reform Act, we understand that part of the delay is debate over whether these funds should come out of premium dollars or fee dollars associated with the flood insurance policies. We submit that it can come out of either and should come out of both.

Some may argue that to take funds out of premiums opens the door for other programs to be similarly funded. That is nonsense. These programs were created specifically to mitigate properties that most impact the flood insurance fund. It is a literal investment in the fund to help protect the fund. Our written testimony also identifies other issues related to the implementation of the new mitigation programs.

Another important aspect of the Reform Act was to improve existing NFIP and mitigation programs. One such improvement is with increased costs of compliance benefits. The new mitigation tool created under the 1994 Reform Act, ICC, helps offset the cost to the property owner for making their buildings more flood resistant, as required by local and State codes. The maximum benefit under the ICC is $30,000. The surcharge on flood insurance policies to pay for this benefit yields over $80 million annually. Unfortunately, as implemented, ICC is not well utilized. The average ICC claim is well below the maximum limit, and data as of 2 years ago showed that less than $2 million was being spent nationwide; thus, nearly all ICC surcharge dollars are not being utilized for their intended purposes and, instead, likely cross-subsidizing the general flood insurance policy.

The Reform Act changes will help, but we also need FEMA's help to create a framework that meets the intent of the statute and not be so conservative in its interpretation that ICC is overly burdensome.

We would also like to highlight one of the new mitigation options that the Reform Act officially recognized, the demolish, rebuild, or

modify elevation option. For several years, FEMA has piloted this option as an alternative to existing mitigation. For some reason, the pilot use has stopped. We are unclear as to why and we are hopeful that FEMA will take quick action to again allow the use of this option.

Although our members are less affected by Title II provisions of the Reform Act, we would like to say one thing about flood insurance policies. The single largest complaint flood managers get across the Nation are that flood insurance policies are too expensive. We realize that there is a legitimate question made about what policy coverages should or should not be, but we also hope the committee recognizes that it will affect the cost of policies.

In conclusion, what I have highlighted are just some of the problems, but there is one problem in particular I would like to mention, and that is FEMA has several critical missions vital to nearly every community and State in the Nation. Its legacy missions, those that pre-date becoming part of the Department of Homeland Security, were to prepare for, respond to, recover from, and mitigate against flooding. FEMA's focus tended to be on natural hazards. Now that FEMA is part of the Department of Homeland Security, we are witnessing a systematic dismantling of some of their functions. Funds are being transferred or under constant threat of transfer. Staff positions are being lost, and FEMA has borne a large share of the DHS organizational and administrative costs.

I would, finally, like to thank both on behalf of the State of Ohio and the ASFPM for the good work that FEMA does with Under Secretary Brown and the folks that have helped us through the years. In Ohio, we have had seven Presidential flood declarations in the last 2 years, and recovery is always a very, very difficult thing, but we are doing the best we can, and I think FEMA folks do deserve some of the credit for that.

Thank you.

[The prepared statement of Chad Berginnis can be found on page 114 in the appendix.]

Mr. FITZPATRICK. Mr. Berginnis, thank you for your testimony.

There will be questions for the witnesses after all the witnesses have testified. Mr. Jenkins will testify next, but before Mr. Jenkins testifies, the members have been called for another vote. So we are going to recess this committee hearing for 15 minutes, and we will be back together at approximately 1:23 this afternoon.

Thank you.

[Recess.]

Mr. FITZGERALD. The committee will be in order.

Mr. Jenkins serves as director of homeland security and justice issues in the United States Government Accountability Office. His areas of responsibility include emergency preparedness and response, elections, the Federal judiciary, sentencing and corrections, and bankruptcy.

Mr. Jenkins, you have 5 minutes.

STATEMENT OF WILLIAM O. JENKINS, JR., DIRECTOR, HOMELAND SECURITY AND JUSTICE ISSUES, UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

Mr. JENKINS. Thank you, Mr. Chairman, and members of the subcommittee. I appreciate the opportunity to be here today to discuss some preliminary results of our ongoing work on the National Flood Insurance Program. We plan to report to Congress later this year on the final results of that work.

Today, we provide some preliminary information on policy coverage and limitations, the structure of the program, the views of some insurance company managers on the program's operation, and FEMA's progress in implementing mandates on the 2004 Flood Reform Act.

Under the National Flood Insurance Act of 1968, Congress established the NFIP to provide an insurance alternative to disaster assistance in response to the escalating cost of repairing flood damage. The NFIP was designed to be self-supporting and actuarially sound. Thus a challenge for FEMA is to strike a balance between coverage and premiums that are sufficiently affordable to encourage participation in the program.

Policyholders may choose to insure their home and the personal property inside their home or the home only. The NFIP is not designed to cover all flood losses. For example, the policy does not cover the replacement costs of personal property, and the coverage of basements excludes finished walls, floors, furniture, and other personal property. In addition, preexisting damage not caused by the flood is not covered.

Replacement coverage for damage to a primary residence is limited to those homeowners who have purchased coverage equal to 80 percent of the home's full placement cost or the maximum available coverage of $250,000. The work of selling, servicing, and adjusting claims on NFIP policies is carried out by thousands of private insurance agents, and adjusters who work independently are employed by insurance companies or vendors who are under contract to insurance companies to handle their flood business. According to FEMA, about 95 percent of all policies are underwritten by 95 private insurance companies who are paid about one-third of the policy premiums for their service. About 40 FEMA employees assisted by about 170 contract employees are responsible for regulating, managing, and overseeing the program, which is expected to include about 4.7 million policies by the end of this year.

Independent insurance agents are the main points of contact for policyholders and those who wish to purchase flood insurance. Other than requiring that agents meet basic State insurance licensing requirements, neither FEMA nor the four insurance companies we visited have historically required that agents complete training or demonstrate a basic level of knowledge of the NFIP to sell policies. When losses occur, flood claims adjusters employed by the insurance companies or independent contractors become the eyes and ears of the NFIP. The adjusters are assigned to policyholders after they have notified their insurance agents of a flood loss and the agent has written a loss report.

Adjustors are responsible for evaluating the damage and submitting claims to the insurance company which reviews the claim and

processes payment. Unlike agents who sell the policies, adjusters must be certified by FEMA to work on NFIP claims.

FEMA's primary method of overseeing the work of the insurance companies who write the policies and process claims is to conduct an operational review of each company once every 3 years, more frequently if problems are found during the review. FEMA also uses about 10 general adjusters to check the work of claims adjusters through re-inspections of a sample of about 4 percent of claims done after ever flood event.

We interviewed four insurance managers in the larger insurance companies who write flood insurance. According to these managers, the knowledge of the agents who sell NFIP policies varies, in part depending on the frequency with which they write policies. Three of the four managers thought FEMA staff who conducted operational reviews were knowledgeable and that such reviews were an effective way for FEMA to ensure that the NFIP is administered in accordance with the established legislation and regulation. All four managers also said that FEMA should examine ways to make the program less complex and less document intensive.

FEMA noted that some documentation, such as elevation certificates, are required because the NFIP is part of FEMA's broader flood plain management strategy that combines insurance with hazard mitigation to reduce future flood damage to homes.

The Flood Insurance Reform Act of last year had three major mandates for FEMA related to policy sales and service. FEMA is working to implement all three, but none are complete. Working with State insurance commissions and commissioners, FEMA is still in the planning stages of how to establish and implement insurance agent education and training requirements. FEMA has drafted new materials to be provided to policyholders at the time of purchase or renewal for flood insurance which it expects to have finalized by October of this year.

FEMA is developing a formal appeals process for policyholders in the event of a grievance about a claim. That also is expected to be completed by October of this year.

That concludes my statement, Mr. Chairman. I would be pleased to answer questions you or other members of the committee may have.

[The prepared statement of William O. Jenkins Jr. can be found on page 131 in the appendix.]

Mr. FITZPATRICK. Thank you, Mr. Jenkins.

The next witness is Mr. Alfred W. Redmer, Jr. Mr. Redmer was appointed insurance commissioner for the Maryland Insurance Administration in June 2003 by Governor Robert Erhlich. Prior to his appointment, Mr. Redmer had served as the House minority leader in the Maryland General Assembly where he had represented the Eighth District in Baltimore County. Mr. Redmer is a licensed insurance and stock broker.

Mr. Redmer, you have 5 minutes.

STATEMENT OF ALFRED W. REDMER, JR., MARYLAND INSURANCE COMMISSIONER, MARYLAND INSURANCE ADMINISTRATION

Mr. REDMER. Thank you, Mr. Chairman and members of the committee. It is a pleasure to be here. I would like to first thank you for your work and the changes you have made to the flood program during the re-authorization of last year. With me today is Jeff Getek, our director of external affairs, and Joy Hatchette, who is associate commissioner of consumer education and advocacy, and it is my pleasure to be here to testify on behalf of the citizens of Maryland about their experiences with the National Flood Insurance Program following Hurricane Isabel in September of 2003.

At your request, my testimony will focus on the problems with the program; however, I do need to recognize the efforts and our appreciation of the those hardworking dedicated employees at FEMA and the flood program that responded to the citizens of Maryland in the aftermath of Hurricane Isabel. The devastating effect Isabel had on property along the Chesapeake Bay was unprecedented. Eighteen months after Isabel, we still have 100 families still living in FEMA trailers. On a related note, as recently as this week, some are being threatened with the loss of those trailers and being left literally homeless, which is unconscionable.

A few statistics: Under the direction of Governor Robert Erhlich, we staffed 15 disaster recovery centers, held dozens of community meetings, collaborated with our Congressional delegation, and handled over 1400 intakes, 500 formal complaints, and we generally assisted and advocated for the citizens in coordinating and communicating with carriers, adjusters, and the flood program, which resulted in hundreds of thousands if not over a million dollars of additional funds. Many of these residents have made the trip to Washington today, and if the citizens of Maryland would just wave their hands, and I know we have numerous people in an overflow room as well.

First, what you have with you today is a report that we did in 2004 and another report that we just recently completed. We would appreciate it if you would look at that. We have also worked with citizen groups led by Bernice Myer, who is here today as well as consumer advocate Steve Kanstoroom, who will speak a little bit later. Steve has spent thousands of hours and thousands of dollars of his own money traveling the country inspecting losses, advocating for consumers, and has developed an incredible level of expertise. Additionally, the National Association of Insurance Commissioners has a Catastrophe Working Group and a new work group dedicated to advocating for an additional review of the flood insurance program.

At your question request, I am going to address four areas of concern in my limited time. I have pretty detailed testimony in writing.

First, the delays in assistance and the lack of trained agents and adjusters. Some agents were not familiar with the claims process or the coverages available under the program. We also have a shortage of trained experienced adjusters. Some took weeks to contact the claimants. The program has a lack of an official claim or an appeal process. Folks also had to deal with multiple adjusters.

They had to deal with the adjustor from the flood program, a different adjustor from the homeowners company, a different adjustor from FEMA, another adjustor from the Small Business Administration, a very burdensome and complicated process.

Some of the adjusters didn't know what the standard policy covered. They either did not get or they ignored important directives that came from the National Flood Insurance Program. We also had issues where adjusters inappropriately pressured citizens to sign proof of loss statements in spite of inadequate reimbursements.

Number two, the lack of uniformity in claim estimates and confusion with the pricing guidelines, a lot of instances of conflicting information from carriers, the flood program, and adjusters. Everybody had a different answer as to what was covered, incorrect usage of the pricing guidelines by the adjusters as well as adjusters using old outdated pricing guides. There were coverage questions and conflicts regarding outside heating oil tanks, the removal of contaminated soil underneath the homes, mold and mildew remediation. There were questions regarding direct physical versus direct physical contact. This is just to name a few.

In some instances, the flood program actually reversed its own decisions, but that information was slow to reach the adjusters. Some adjusters went out with the pricing guideline, period. Instead of price hikes due to supply, demand, and shortages, they are stuck with only the pricing guidelines with no modifications.

I was asked to comment on lender requirements. In short, lenders require you buy an amount of coverage to cover the loan. As we all know, particularly with waterfront property, the structure is a small part of the total value. In these instances, the consumer is forced to buy an amount of coverage they could never, ever collect, even in the event of a total loss.

Number four, failure of NFIP to implement the program as Congress intended, Congresswoman Davis did an excellent job of articulating that. I will move on.

We have a significant number of conclusions and recommendations in our written report. Many factors caused these problems: Inadequate consumer, producer, and adjustor information; inconsistencies and errors in pricing guidelines and claim estimates; a confusing and complicated bureaucracy, the result, citizens with inadequate settlements and their only option is to go to Federal Court. We have people living in trailers. We would appreciate another review.

For future disasters, please consider the thorough recommendations that we have made and that will come out of the GAO. We would appreciate Congress looking at it again. I know others, including Mr. Kanstoroom, have significant recommendations on consumer education, the comprehensive claim and appeal process. We need assurances that payments are adequate. We need to strengthen the relationship and coordination between private insurers, the flood program, and FEMA, enhanced agent and adjustor training. We need to add a meaningful role for State regulation regulators.

And in closing, on behalf of the citizens of Maryland, thank you for your willingness to listen to our experiences. We would appreciate an additional review of the entire program, and on behalf of

the National Association of Insurance Commissioners, we collectively stand willing to assist and provide expertise through our Catastrophe Working Group and the Government Affairs Task Force in any review, Congressional review, of this program.

[The prepared statement of Alfred W. Redmer Jr. can be found on page 181 in the appendix.]

Mr. FITZPATRICK. Thank you, Mr. Redmer, for your testimony. I appreciate that.

Next we recognize Mr. Donald L. Griffin. Mr. Griffin is vice president, Personal Lines at the Property Casualty Insurers Association of America, which is a trade association representing over 1,000 property and casualty insurers who write almost 40 percent of all insurance policies sold in the United States.

You have 5 minutes.

STATEMENT OF DONALD L. GRIFFIN, VICE PRESIDENT, PERSONAL LINES FOR THE PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA

Mr. GRIFFIN. Thank you. I appreciate the opportunity to appear before you today and present information to the committee regarding the effectiveness of the National Flood Insurance Program. We have heard testimony from a lot of the individuals, and you will hear some shortly from some victims.

While there are certainly problems maybe that are associated with the National Flood Insurance Program, I want to say that overall the program works very well. The program was established in 1968, and I would reiterate the comments of Director Maurstad in that it was not established to put people back into pre-loss condition. That is not the policy wording. That is not the program. The idea that Mr. Jenkins talked about from the GAO was that there is a balance that has to be maintained between what is provided and keeping it affordable, and they have struck that balance, and it may need to be changed, but that is the current system we have now.

We would also say that the insurance industry has no particular say over the wording in the contract, but that it is a legal contract, and when we are called upon to adjust all the thousands of losses that you have heard about recently, we are called upon to do that based on the rules and regulations out by FEMA. So that is how we adjust those losses.

It is a very complex program. The insurance industry finds it complex. The agents find it complex. The adjusters find it complex. I would say that that is one particular area where we would be very happy to work with this committee, Congress, FEMA, and policyholders to try and make it better and easier to understand.

The claims and appeals process is very difficult. There wasn't a formal process set in place. The Title II provisions of the bill passed last year along with many of the other reforms actually will do lots of good things, hopefully, to make this process better going forward.

While I can't focus and I can't address individual claim situations that you may hear about today, what I can tell you as an industry is we are committed. As you know, we write 95 percent of the business through the National Flood Insurance Program through the write-your-own programs with insurers, and our company rep-

resents probably 40 percent of that market. What we can tell you is we are very committed to making the program work better.

We believe that there are ways to do that, and many of the ways include doing things like simplifying the determination of where the flood property actually is on a flood map. That is probably one of the most difficult things for an agent to do. It is also difficult to try and figure out what coverage is actually there.

On the process of the purchaser, one of the other things that they are typically required to do is buy flood insurance to meet the demands of the mortgagee. As you heard from Mr. Redmer, there is a problem with mortgagees requiring the amount of insurance to be too high and not cover just the structure, but to cover the entire mortgage. There are State laws in many States that prevent that from occurring, but probably not in Maryland.

There could be many improvements to the program. We find it, as we said, very complex. PCI and the IBHS, which is the Institute for Business and Home Safety Flood Committee, are very willing to work with everyone to try and come up with solutions to fix these problems as well as implement the provisions of Title II. We have actually been working and have had several meetings with FEMA and the NFIP on the implementation process of Title II based on the public law passed last year.

There is one particular provision of that Act, though, that causes us grave concern with the insurance industry, and that is a requirement that you have to have a signature saying the insured understands what they bought. Because of the way the process is administered, as you know, there is a 30-day waiting period for people before their coverage becomes effective. So signing a form that is saying that they got all of these documents at the time they actually purchased the policy is not practical. That means that policy form and that document requiring the signature must be mailed later. The return or the compliance with that return could be very problematic for both the industry as well as FEMA, and it could be problematic later at claim settlement time.

The other thing that we would support is you very wisely put in some very helpful mitigation issues, the ability to deal with repetitive losses. We would hope and we would work with you and Congress to fund those mitigation repetitive losses. We think that is very important for both the program as well as the industry as well as policyholders.

As I mentioned before, but it should be reinforced, the program works. There may be ways to improve it, some of which were discussed in my testimony and in the written testimony I submitted, but overall, it provides a very important catastrophic protection for the policyholders, for the Nation, and for our members.

Thank you.

[The prepared statement of Donald L. Griffin can be found on page 125 in the appendix.]

Mr. FITZPATRICK. Thank you, Mr. Griffin.

Our next witness is an American who is on the other side of the contract process, the person who paid the premium faithfully year in and year out, who expected to be covered, who is harmed, and still has a loss yet to be reimbursed for. And for introduction of our

next witness, I call on the gentlelady from Pennsylvania, Ms. Hart, to introduce her constituent.

Ms. HART. Thank you, Mr. Chairman. I appreciate the opportunity to be here again and the opportunity to introduce my constituent, Beth Beam. I want to thank Beth. She has taken a lot of time with my staff and with me to have us understand the gravity of the situation that she and her family face, which, unfortunately, is more common than we would like to think as a result of some of this miscommunication and really misinformation surrounding the National Flood Insurance Program.

Beth and her husband, Mike, live in Ellwood City, Pennsylvania, which is a lovely town where I actually have one of my district offices, and Ellwood City was hit very hard by, unfortunately, two of the hurricanes of last fall or last late summer.

Mrs. Beam is a credit analyst, and she took off some time to be home with her kids and fully intended to return to work, but hasn't been able to do so, basically, because of the challenges that her family faces as a result of basically their homelessness as a result of the flooding and ineffectiveness of the programs that she and her husband have been trying to navigate. The promises made, the contracts, again, as the chairman referred to, have really placed them in a difficult situation.

They were flooded twice, as I mentioned, last September and have still not been able to move back in their home. She is going to give testimony about the details.

But I just want to thank you, Beth, for being here. I want to thank you for bringing your information to us and your patience, really, for dealing with this.

And I yield back, Mr. Chair.

STATEMENT OF BETH BEAM, ELLWOOD CITY, PENNSYLVANIA

Ms. BEAM. Chairman Ney, Ranking Member Waters, members of the committee, thank you for providing me the opportunity to discuss my experience with the NFIP.

My husband and I purchased a house in Ellwood City along the Connoquenessing Creek. We spent 8 years remodeling the entire house ourselves. We purchased over $93,000 in flood insurance, being told it would cover any damages in the event of a flood. Instead, the insurance industry has taken our premiums and gave nothing in return.

During this nightmare, we have been left to fend for ourselves. Our first floor was flooded with 1 foot of water on September 9, 2004 by Hurricane Francis and then with 5 feet from Ivan just days later. Although we suffered such a catastrophic loss, that experience pales in comparison to the nightmare we have endured fighting for our settlement with FEMA, its contractor, Computer Sciences Corporation, Liberty Mutual, and Countrywide. Watching the destruction of my family through the settlement process has been far more painful than the flood.

Because FEMA failed to honor its contract with us, we were forced to live with my parents. Our 19-month-old toddler is a light sleeper. To accommodate her, my 4-year-old sleeps on the floor in the family room, my husband on the couch, and me in a chair, for 7 months.

It breaks my heart to see how this is affecting my 4-year-old daughter. She cries because she has been separated from her friends at home for so long. She misses her bedroom and her toys. She wants to sell lemonade to make money to fix our home. She calls it the flood house.

The endless stress has left me physically and emotionally exhausted. As a result, I have been constantly ill.

After the flood, I immediately filed an insurance claim. Bellmon Adjustors, a third-party firm, informed me that their records indicated we only had $5,800 in coverage, not the $93,000 we paid for. We were shocked. This was the first we learned of this problem.

I immediately contacted Liberty Mutual's flood processing center and was told, unbeknownst to me, FEMA redesignated our flood zone. Liberty Mutual confirmed that a notice regarding the policy change had not been sent to me. Likewise, my agent stated he never received a notice, nor did my lender, as required by law.

Liberty Mutual's vendor told me not to worry; the policy would be reinstated with proper coverage, and we would receive a retroactive bill. The next day, Liberty Mutual's vendor left a message stating they discovered an unsigned computer-generated copy of the letter regarding the redesignation that I should have received.

I learned Federal law required my lender to maintain adequate coverage on the loan. I next contacted a FEMA underwriter, Mr. Van Dyke, who denied the existence of the Federal requirement imposed upon the lender. After many calls, FEMA's Van Dyke reluctantly admitted the law existed and questioned why I wasn't suing my lender and insurance company for errors.

Despite our 8 years of faithfully paying premiums, neither Countrywide, Liberty Mutual, nor FEMA would accept responsibility for the failed notification process. Clearly, one or more of these entities is at fault, and FEMA has oversight of Countrywide and Liberty Mutual.

It is common knowledge the NFIP is virtually suit-proof in that unless fraud is proven, attorney's fees and punitive damages are not recoverable. We will be fortunate to receive 60 percent of what we are owed years from now. In the meantime, FEMA and our insurance company are taunting us to sue them.

I eventually went round and round with FEMA. First, they said they would reform my policy to provide the coverage that appeared on the original declarations page. Then they reneged. Then they lost my case and said my case was closed. All the while, my 4-year-old sleeps on the floor and my husband and I sleep on the couch and a chair.

From the beginning, we should have received clear information rather than four-way finger-pointing between FEMA, CSC, Liberty Mutual, and Countrywide. Had it not been for the victims web site, femainfo.us, we never would have known that history repeats itself in regard to the NFIP, its contractors, and business partners.

A Federal program should be capable of handling the American public. Instead, a citizens group is carrying FEMA's load. Something is terribly wrong here. I cannot believe that Congress ever intended to set up a premium-funded program where the policyholders have no rights, a program that has no oversight and no accountability to the very people that fund it—the policyholders.

Liberty Mutual reluctantly filed an E and O claim and offered us 50 cents on the dollar. Just like the Isabel victims, we are now trapped in limbo 7 months later along with many of my neighbors. They too are flood insurance victims, each with their own claims adjusting horror story.

We want our lives back. We want to go home. We want to be happy again. Isabel is being replayed in Pennsylvania. Clearly, FEMA's NFIP is broken.

Please use your power to right this dreadful situation. The information is now readily available, and I urge you to set aside the several days of testimony it will take to expose the NFIP disaster. Thousands of us are desperately depending on each of you to help us regain our homes and our lives.

Again, thank you for the opportunity to testify today, and I look forward to answering questions.

[The prepared statement of Beth Beam can be found on page 64 in the appendix.]

Mr. FITZPATRICK. Thank you, Ms. Beam, for bringing your family's story to Congress.

Our next witness is Larry Bearekman, and, Larry, you have already been introduced by Congresswoman Davis. You have 5 minutes.

STATEMENT OF LARRY BEAREKMAN, POQUOSON, VIRGINIA

Mr. BEAREKMAN. Thank you, Chairman and subcommittee members. I want to especially thank Joanne Davis for giving me the opportunity to come up here and witness to what has happened to us.

I live in the City of Poquoson. It is a small, quaint city on the Chesapeake Bay near Hampton, Virginia, about 11,000 people. It has good schools. It is a great place to raise your children. Unfortunately, the highest ground in the whole city is about 11 and a half feet.

September 18, 2003, my wife and youngest son went to Richmond to stay with my parents. I stayed at the house with my two teenage sons, and Hurricane Isabel arrives. We were able to stay in the house until 10 a.m. That morning, we grabbed what keepsakes and things we valued and hit the road.

September 19th, I can see it like it was yesterday. Myself and my two teenage sons tried to get back to the house. It took us 3 hours to get within a couple of miles of the house because of all the rubbish, debris, trees, telephone poles that were all over the roads. It looked like a war zone. We had to abandon the car. It was just unbelievable, the amount of debris.

We were walking down the road and we were walking on 12 inches of seaweed, lawn chairs, buoys, everything you can think of. The smell, the smell of fuel oil, sewage, swamp mud, and on top of that, when we got to the house, my door is wide open. I didn't realize what the force of the water could do.

We went into the house. The furniture, all of our belongings are all over the place. I went back outside, and you could see the mud packed on the side of the house, how high the water got to. It got to the bottom of the window sills. The fuel oil tank in the back of my yard actually was dislodged, and I know that it was half-filled and probably weighed in the proximity of about a thousand pounds.

That evening, my wife came back from Richmond, and all we could do was hug and cry. After a minute, I just had to take deep breath, and I told her, I said, Honey everything will be fine. I said we are insured. If I would have known then what I know now, I couldn't have said that statement.

I have a lot to say, a lot of things to cover, and not enough time, but I would like to point out that I am one person, we are one family, we are five victims. There are thousands and thousands of other victims who have been damaged, taken advantage of, and not given their rights. Of all my neighbors, there is not a one that has told me that they had everything paid for. Just recently, I talked to and was aware of two of my neighbors that did finally settle for the full amount of damage to their houses. They were paid the same damages that I had put a claim in for through the outreach program and they got fully covered, and then my file was ready to be reviewed about August 13th, as in my written statement. At that time, Charley hit the next day and you could not find a FEMA representative up in their offices. I think it is up in New Jersey.

At that time, I had been put off, run around, and I hired a consultant, insurance consultant, licensed insurance consultant, who was trying to help me with my situation.

Mr. Griffin says that it is their intent to follow the rules and regulations. Well, if you look explicitly at my written testimony, which I cannot cover everything, you will see that there are a lot of discrepancies. One that I would like to place emphasis on is on the next day. On March 1st, I basically had gotten an engineering company to do a report on some damage of the house. The insurance agent said we cannot use your engineering consultant, which he told me that I needed, and it ended up costing me $400.

So they hired their own engineering company, Rimkus Group. If you will notice on Exhibit P, this is a letter that was written from David Maurstad to Governor George Allen. He took this copy and sent it to Joanne Davis. That was her reply from him on the same issue. In the third paragraph, he basically misrepresents the language and creates an untrue statement in reference to my engineering report.

He says a report from Norman Davis, architect, a firm hired by Mr. Bearekman, was submitted to the engineer for review in conjunction with this inspection. He says, "It identified a construction defect of undersized foundations." If you look at that exhibit in the written testimony, you will see that there was no mention of a defect. It basically said that the foundation would not meet today's codes and that is why it would have to be upgraded. When the house was built in 1970, it met code.

So what he has done is, also if you look at the next day, March 1st, they had my engineering report and said that they could not use it. They had to go to and do their own engineering report. And now he is trying to use my engineering report to substantiate his denial of my insurance when, in fact, through the outreach program, he paid other homeowners for this exact same damage, same type of construction, and then turns around and denies everybody else from August 13th on.

I know I have run over my time. I appreciate the slight extension, if you have got any questions, and I really do appreciate this opportunity.

Thank you.

[The prepared statement of Larry Bearekman can be found on page 69 in the appendix.]

Mr. FITZPATRICK. Thank you, Mr. Bearekman, and you should know that your testimony and the testimony Ms. Beam and others, the written testimony, are all made part of the record. We appreciate that.

Our next witness is Steve Kanstoroom, who is a resident of Ashton, Maryland. He began examining the National Flood Insurance Program 2 years ago in response to a neighbor's problems following a flood event.

Steve, you have 5 minutes.

STATEMENT OF STEVEN J. KANSTOROOM, OXFORD, MARYLAND

Mr. KANSTOROOM. Thank you, Mr. Chairman, for inviting me here to testify today.

My home is in Oxford, Maryland. It is on Maryland's eastern shore, and over the past 15 months, I have spent more than 6,000 hours investigating the National Flood Insurance Program and its problems. Prior to Isabel, I retired as a pattern recognition and fraud detection expert. I was responsible for programs with millions of customers, billions of dollars, and making certain that those programs operated consistently with Federal regulations. That was my job.

I gained my experience in processing these multibillion dollar bank portfolios and corporate portfolios from leading experts in some of the largest banks in the country, MasterCard International, Visa USA, U.S. Secret Service, Postal Inspectors. Prior to that, I processed for the Department of Justice and others.

I have got solutions. I'm so troubled to sit here. I heard what Congressman Ney said. I heard Congresswoman Melissa Hart. I have got the answers. I have got all the answers. I can't explain something larger than Enron in 5 minutes. I have got them. I can do it in 15. I can't do it in 5.

But what I would ask, is ask me questions. I will give the answers, and I will just do the best that I can to speak to these points. What I would ask is, ask me about the prior administrations. I lined up the appointees to testify here today, the Presidential appointees, the folks who ran the program for Mr. Maurstad. What they will tell you and if you look at the record, of course, the program is to restore people to their pre-loss condition. This nonsense about it never did is just that. It is total poppycock.

The fact of the matter is what they are doing is spinning this and saying, Well, we are talking contents. We are not talking contents. We are talking the four corners of your home and, of course, replacement cost value means you restore it to the pre-loss condition. The industry knows what replacement cost value means.

Well, regardless of what Congress said, it is how they trained these people. The fact is I received very significant press when I learned of the pricing disparity, this wrong set of numbers that was

being used. I took it to the Senate. The Senate hearing largely turned on that finding. Look at my testimony. You will see the published data says it is a fraudulent use of that data. That is what he is saying to the insurance industry. That is what he's saying to Florida officials. That is what he said to Jeb Bush. That is what he said to Charley Crist. That is what he said to Tom Gallager, fraudulent use of the numbers. Look in the testimony.

The fact of the matter is the four corners of your house, if it is properly insured, of course it is replacement cost value. Look in the policy. It just pains me to see these people sleeping on the floor and to have officials come in here and try to spin this into something that it is not.

Once I received the positive press, I started having whistle-blowers call late at night. I had them from FEMA. I had them from Computer Sciences Corporation. I had them from insurance industry officials.

I shared that information with former fellow insurance administrator Robert Hunter, and what he said was history seems to be repeating itself. The fact of the matter is these problems are coming from the industry's desire to hold their claims payments down. FEMA will say and then the industry will say, well, but it is not coming of our pocket; it is not coming out of the carrier's pocket; there should be no problem here. Well, but there is. The same adjustor adjusts that the flood loss is upstairs, and that adjustor is working for the carrier, and the carrier doesn't want to pay $2 a square foot for sheet rock on the first floor coming out of the NFIP budget. They want to pay $1.46, for example. When the tree falls through the roof upstairs from the same storm, that is what they want to pay.

Clearly, if one pays $2 on the flood, another pays $1.46, it is going to jump off the page. That is a big part of the problem. That is where it is coming from.

Another place that it is coming from is Computer Sciences Corporation. I found the training problem disparity whereby FEMA trains its sales agents to tell customers that they will be restored to the pre-loss condition. I was there. An industry person was with me. He wanted to testify today. He is sitting right over there. He will tell you this is how they train us. This is what FEMA says. That is what Bill Griffin's testimony says. We pay for the unbroken chain of events flowing from the loss; that is what they say.

CSC then turns around and trains the claims adjusters very differently, narrowly defined coverage, in limited amounts. That is a problem. It is not a question of the agents don't know what they are doing. It is a question of the same companies training the agents that you have coverage and turning around and training the adjusters that you don't. I have got the adjustor training on video tape. We have got the witnesses in the room that can attest to the agent training.

Regarding Mr. Maurstad's surprise that the marketing materials say that it is restored to the pre-loss condition, it is not just that one piece that I sent to Congresswoman Davis. I have got numerous examples where the industry says they will restore people to their pre-loss condition. Again, I can't go through that in a couple of minutes.

Lastly, the publisher of the data cites WINK TV's videos in Florida. You need to look at those. They are available on the web site. You need to look at those.

What I would ask is, ask me the questions. Ask me about the training disparity, how I know. Ask me about the underlying reasons for low-balling. Ask me about what CSC's private contractor knew and when they knew it. It is not just words. I have got the documents. We have got the witnesses, and they very much wanted to testify here today.

I appreciate the opportunity to be here. I appreciate the opportunity to answer any questions.

[The prepared statement of Steven J. Kanstoroom can be found on page 150 in the appendix.]

Mr. FITZPATRICK. Thank you, Mr. Kanstoroom.

Our final witness is Ms. Georgette Stelyn, who has been introduced by Congresswoman Davis previously.

Georgette, you have 5 minutes.

STATEMENT OF GEORGETTE J. STELYN, SEAFORD, VIRGINIA

Ms. STELYN. First, I would like to thank you, the subcommittee and chairman, for my letting me testify today.

I would like to start by telling you what I was doing actually on September 17th, the day before the storm. I had called my insurance agent to make sure that all of my insurance papers were in order. He reassured me that I was plenty insured. I had $225,000 on my dwelling and $52,000 on my contents. He said you should be fine with what you own and where you are.

So I started to prepare for the storm. I lifted everything in my house off the floor 2 to 3 feet in hopes not to lose as much, and then we had a mandatory evacuation. So I packed up my minivan with my four children and my dog, everything that I felt was important, which was my home videos and my photo albums, and said happy anniversary to my husband.

Then I woke up on September 18th. There was a phone call from two friends of mine. They had just cut through the trees and gotten to my house. They told me everything I own is gone, two walls of my house are missing, and the roof collapsed. I dropped to my knees crying. I didn't know what to say to my four kids. I didn't know where to go or even what to do.

So I packed my minivan back up from the hotel that we stayed in that night and headed back home to I don't know what. On the way home, I called my insurance agent and told him my situation and to please immediately put my claim in, which he did so. Then it was September 22nd. I had an insurance adjustor come out to my house. He was at my house for about 30 minutes, took a few measurements and I would say approximately 12 photos. I never saw the man again. He never came out to my residence again, and he is going to tell me what my house is worth.

So before he left, I had asked him what do I do; what do I need to do? He asked if I needed any money. He gave me a check for $5,000, and then he just told me to start itemizing everything that is damaged. I said I will do that, which I did. I itemized 2,603 things that were damaged. There was a lot more, but that is as far

as I itemized, which came to a total of $193,968, which he depreciated 71 percent of.

After several weeks going by, I had numerous conversations with my insurance adjustor from Travellers asking when I can receive more money. He had said my claim is actually a very large claim; it is going to take some time to get to. I immediately started construction. I went through my savings, I cashed out stocks, and I had borrowed money. I was now 40,000 out of my pocket waiting for my settlement.

Then my adjustor came to me with a copy of a settlement and the grand total of $49,200. I had asked him, no one can build a house on this price, not me or anyone else. So I am looking over the papers with him, and I started pointing out things that were missing in my settlement, doors, walls fixtures, numerous things, and then I questioned his prices, why am I paying this much for 2 by 4s and sheet rock when my builder is charging me this much for 2 by 4s and sheet rock; why are your prices so much lower than what the store is charging me?

So he had said this is a rough draft. What I will do is we will go over it, and if you can get me any receipts on any of your newly renovations I have done on the house, do so. So I started hunting down receipts, a receipt for my new carpet, a receipt that my refrigerator was 2 months old, all the receipts I can receive. He went over it and he gave me his new revised draft, which was $124,923, which the house was only going to cost me 210,000 to replace. So I am still being cheated by the adjustor and still short.

Within this process, I had to stop my construction and wait 2 months, stopped construction waiting for my settlement from the adjustor.

Every year, I am forced by law to pay my insurance and I have to pay it on time. I am not allowed to be late, and when it came time for the NFIP and FEMA to help me, they instead cheated me. They stalled my claim, drug it out as long as they could; it was such a big claim. They used a software program which did not pay for the materials that I was paying for down at the store, and when it comes to taxes, I never saw any taxes. My 2 by 4s, I had to pay taxes on. My contents, I had to pay taxes on them. There was nothing in there with the taxes.

So where am I today, you may ask. I am now a year and a half down the road. I have moved into my house. I don't own a couch yet. Contents money went structure. ICC money, they were 4,000 short. So I am now single, actually getting a divorce, with my four children. I have thousands of dollars in debt. My builders are putting a mechanical lien against my house for $38,000 because I don't have the money to pay.

The sad part is what has happened to me has happened to thousands and thousands of families. I have eight neighbors. Three of us are back. Five are not even there yet. This has happened to thousands, and all I can say is I plead, I beg, I ask for someone to please get the NFIP, FEMA; everyone needs to get everything straight and stop cheating us who are the people that are paying on their policies.

And I thank you.

[The prepared statement of Georgette J. Stelyn can be found on page 244 in the appendix.]

Mr. FITZPATRICK. Thank you, Ms. Stelyn.

The committee appreciates the personal testimony of everybody, especially those who have been victimized by flooding in your individual communities and those who stand in the position of administration of the flood insurance program.

Mr. Jenkins, I was wondering if you could from the industry's point of view address a couple of things. One is regular everyday citizens who purchase flood insurance and believe mistakenly or otherwise that—you have heard the testimony here that they have been told pretty clearly that the four corners of their structure, just talk about the structure itself, their home, is covered in the event of a flood, and then they find out while they are faithfully and dutifully paying those premiums each and every year that there is no coverage, or if there is coverage, there is inadequate coverage, or even if there is inadequate coverage, that you have got to fight with your own insurance company for months subsequent to a flood with no place to live unless you are fortunate enough to have family in the area.

What is the industry doing to address that concern, first, and also 7 months since Ms. Beam has had her incident in Ellwood City, Pennsylvania, you know, while I am sure companies are watching and companies wanting to address that particular situation, what are the companies doing to rectify the situation, to change industry standards so that families like the Stelyns and the Beams who are here today are not going to have to endure the problems that they have endured in the past?

Mr. JENKINS. I think that question might be better directed to Mr. Griffin who represents the insurance companies because we have not done any work looking specifically at that.

Mr. GRIFFIN. I would be happy to try and address that issue. Certainly in any program with the thousands of claims that are going on, there are problems that arise. No system is perfect. We understand that there are people that have been and still are out of their homes and have problems.

I will tell you that the industry works very hard to try and settle all the claims they can as fairly as possible. I will also say that you heard testimony from Director Maurstad. Of the 24,000 claims that were given the opportunity to be reviewed, in the end there were 2,000, a little over 2,000 that requested a review and a little over a thousand of them that ended up with a different settlement. Certainly, that is not an entirely acceptable amount, but as far as percentage concern, that still means that roughly 96 percent of the people got the amount of insurance under the program that is paid for by the contract or called for by the contract.

With regard to going forward, we are hoping that many of the provisions that were put in under Title II will help and do things that will make things better for people to better understand what they are actually purchasing, for us to be better able to help them with the claims process, and we are working very closely or more closely than we have with FEMA in the past to try and rectify some of these problems.

I will say that prior administrations and prior directors at FEMA were not as supportive of the public-private partnership that needs to exist for this program to work, and we certainly are happy to see Director Maurstad in this position because he does seem to understand the importance, but it is a public-private partnership. It involves the government. It involves the policyholders. It involves the insurers.

We certainly want to do anything we can to make it better. Again, I can't say that—no system is perfect. We can't always make everyone happy, but we are trying to do our best to improve it.

Mr. FITZPATRICK. We have heard testimony here today that victims were forced to negotiate with, deal with, a whole line of adjusters. FEMA has an adjustor. The insurance company has an adjustor. I heard someone say the Small Business Administration, if you are going for a low-interest loan, they have an adjustor. The adjusters may or may not communicate with each other, probably don't, may or may not agree with or be talking about the same programs.

When you talk about a public-private partnership between the government and the industry, what steps are you taking to agree to a single point of contact, a single adjustor, they can deal with so they can get an answer? They can live with an answer. What they can't live with is no answer or conflicting answers.

Mr. GRIFFIN. Very much understood. Many of our larger companies and many of the write-your-own companies that are involved in this have gone to a single adjustor process. So that means they would have the same adjustor for both the wind storm or the flood or the regular home damage. Now, what we can't do is change the way that FEMA works, and sometimes when you get involved with something that is to be done on an appeals process, there is a FEMA adjustor that needs to get involved secondarily.

So that process has to be streamlined, and there is some way that we can work that better. I will say that based on what we saw in Isabel and what we are seeing coming out of Florida, there has been improvement in the program and how that works. It isn't flawless, but there has been improvement.

Mr. FITZPATRICK. I would like to recognize Mr. Scott of Georgia.

Mr. SCOTT. Thank you very much, Mr. Chairman.

I would just first to like to say to Mrs. Stelyn, is it?

Ms. STELYN. Yes, sir.

Mr. SCOTT. That I certainly was moved by your testimony and my heart certainly goes out for what you and others have gone through, and we hope that with this hearing today as a result of your testimony and others that we can make sure that this program runs much smoother.

Can I ask you just for a moment if you could describe your interaction with FEMA's review task force? I represent in my district FEMA relocated at Fort Gill for their operations in this whole southeastern United States.

Ms. STELYN. You are talking about the form they sent and they had mailed it back with all the information that they wanted, and they called me and they asked me a few more questions, which I had spoke to them maybe a little later than that, and I don't know who I spoke to, but I will never forget my response: I am sorry, I

probably could get you a few thousand dollars more, but we will be leaving this office, wherever they were, in 2 weeks to go down to Florida for that hurricane that was just hit.

Mr. SCOTT. Okay.

Ms. STELYN. So, basically, he could not help me. They were going to Florida in 2 weeks. So that is how the review process worked for me.

Mr. SCOTT. So you really don't think you got the professional quality that you desired?

Ms. STELYN. I was basically told, sorry, you know, we are leaving in 2 weeks; there is another hurricane. I am now on the back burner.

Mr. SCOTT. Okay.

Ms. STELYN. I mean, I remember Ms. Hart there saying she is hoping her review process goes quickly, and I was thinking to the back of myself, good luck.

Mr. SCOTT. Okay. Thank you.

Mr. Kanstoroom, you are a medical doctor; is that correct?

Mr. KANSTOROOM. No. Pattern recognition and fraud detection expert.

Mr. SCOTT. Okay. What do you recommend that FEMA do to better educate and monitor insurance agents?

Mr. KANSTOROOM. Actually, what I saw in large part was not a problem with the education of the agents. It is the problem with the education of adjusters. If the claimants, the policyholders, had the same materials that the sales agents have and if the adjusters had the same materials that the sales agents have, then we wouldn't be here today, I believe. It is just that simple.

I mean, as far as the review process goes, it was a sham. What first got these folks calling me was it was people on the review team who called me. My phone rang at 10 o'clock one night. It was someone from inside of CSC. It was a victim just like Ms. Stelyn who had sent a letter, heart-felt letter—I know you are busy, a big hurricane; I am desperate; I have got a little granddaughter; I take care of my granddaughter—and signs it, please do what you can, including Sammy the kitten. Well, that turned into the office joke at the task force. That is what pushed the person over the edge at the task force to reach out and call me at 10 o'clock at night.

The task force wasn't independent as the Senate directed. One of the early documents they gave me was the roster. Darned if it wasn't the same adjusters and adjusting firms in large part that low-balled the people in the first place in all of the management, identical management. So this review was a farce. There was no review.

As far as the numbers that they cite, good grief. One of the things that they say is less than half the notices went. I have got victims telling me I never received a notice, and when they call, you know what they would say? Well, you know if we review it, you might end up with less; you are going to have to pay some money back.

Now, in this woman's case, there is no way she is going to ask for a review. More over, when the reviewer would come out, they would just misinterpret the policy once again. So it is really one of—I mean this works. It works for the industry for the reason I

said before. It is an education issue for the adjusters, not the agents. Sure, some agents didn't tell the victims that they have to elect contents coverage, but buy and large, that is not what we are here for, contents coverage. Sure, that is a problem, but they need to be speaking from the same book, not one training manual for adjusters, what it covers, and a different disparate manual for agents.

Mr. SCOTT. So your response is it is not a matter of a number of adjusters; it is a matter of adequate training and education for the adjusters? You don't sense any purposefulness here, do you?

Mr. KANSTOROOM. Absolutely there is purposefulness. Yes, absolutely. Absolutely without a doubt.

Let me give you an example. We have got—let me think. I think the man's name is Jeff Akin. A letter went to the Senate, to the Senate Banking Committee. Two primary issues turned that hearing. Number one was this wrong set of prices; number two, this letter, and I remember it. It says—actually, I may have a copy. It says the man has, let us say, $107,000 loss. His adjustor comes out and says he covered. CSC's Rodney Cross comes out and out, the letter says, and he told the man he is not covered, zero. FEMA made a mistake; you don't really have coverage although you have been paying all these years.

The man enlisted the help of Senator Dole. Anthony Lowee sends a letter, of course, you have coverage. The victim calls the adjustor back, gee, Mr. Valentine, I thought you would like to know I really do have coverage so the same thing doesn't happen to my neighbor, to which the letter reads, well, I knew that, but CSC's Rodney Cross told me not to tell you.

Of course, it is purposeful. I could give you a thousand such examples. The problem is this purposefulness is destroying these people's lives. It is not a matter of it hurts them. They can't recover. It is no different than somebody getting evicted. They cannot recover from the situation. Look at her. They are separated. She says she is going to be divorced. This is a disaster and so easily fixed. I have got the recommendations. I have worked with the folks inside FEMA. I have worked with the people inside CSC. We have got the recommendations right now. We don't need another audit, with all due respect. What we need is to look at what I have got. I have got 6,000 hours here.

Mr. SCOTT. Let me just ask it generally. I am sure you have got them here, but could you share with us specifically what the priority of your recommendations would be to fix this problem?

Mr. KANSTOROOM. I do. There are 20 areas of low-balling and they are in any written. I can flip to it. I can give you some right off the top of my head, actually all of them, most likely.

The number one issue is somehow somebody put into the FEMA training manual that direct physical loss equates with direct physical contact. That is incorrect. I brought that to FEMA's attention last year. They issued a claims guidance memo on May 7th, and the point was what the adjusters were saying was unless water touched it, there is no coverage. Well, it makes perfect sense to the layperson, but wait a minute. What if it wicks up your wall? What if your insulation gets wet and it goes up your wall and now you have mold on your ceiling? Of course, that is covered, but what

these adjusters were saying is water didn't touch the inside of your ceiling; there is no coverage.

That one mistake that FEMA has since removed from their manual after I brought it to their attention, just like I brought to their attention about the press release on Monday, that one mistake easily accounts for a 50 percent difference in these claims payments, and there are 20 of them. That is one, and they are in my testimony.

Mr. SCOTT. Okay. I don't want to take up much more time on that.

Mr. FITZPATRICK. The gentleman's time has expired.

Mr. SCOTT. Thank you.

Mr. FITZPATRICK. Thank you, Mr. Scott.

I recognize Chairman Ney.

Chairman NEY. Thank you, Mr. Chairman.

Ironically, two of our caseworkers from Ohio happen to be here, Joy Dillon and Jody Treadway. They are here for another reason. If we knew they would have gotten finished earlier, I would have probably put them up here on the witness table because they have dealt for a decade with issues. And I was saying earlier I am seeing more complaints in the last few years than I saw in previous years. So therefore, you know, I know something is amiss.

There is not enough time, Mr. Chairman, today for all the questions I could ask, but I would actually like at some point in time to make some time, Mr. Kanstoroom, to take time to look over everything you have, you know, to take the hour or two or whatever to be able to do that.

I did have a question I wanted to ask Ms. Stelyn. Do you have a copy of your original policy? Do you?

Ms. STELYN. Not on me.

Chairman NEY. But you do have a copy?

Ms. STELYN. Yes. In my car.

Chairman NEY. Okay. Because I would like to also look at that policy, and when you countered back, I assume to the agent, and you said, look, my policy says replacement—and I saw the pictures of, obviously, the damage that occurred, did it occur above the basement level?

Ms. STELYN. This house is on a slab.

Chairman NEY. Oh.

Ms. STELYN. I am on the Chesapeake Bay. I had 5 feet of water.

Chairman NEY. Okay. The way I looked at it, I am sorry. I guess I was looking at the picture wrong.

So it was on a slab. So it came in through one floor and got everything?

Ms. STELYN. I lost two walls and the roof collapsed.

Chairman NEY. So, obviously, it was definite replacement value because the house is gone.

Ms. STELYN. I don't think I would say I got replacement value.

Chairman NEY. No, no, no. I mean it was to be replacement value because it is gone.

Ms. STELYN. Yes. It should have been, yes.

Chairman NEY. Not 10 percent damage or 20 percent damage, it is gone.

Ms. STELYN. Yes.

Chairman NEY. Now, when you confronted them, what year was this?

Ms. STELYN. When I confronted them what?

Chairman NEY. What year?

Ms. STELYN. This is Isabel's storm, which was September 18, 2003.

Chairman NEY. And when you confronted them about why aren't you getting the replacement value, what was then their answer to that? Because if it is in the policy, it is in that policy.

Ms. STELYN. I was told by him this is the most I can get you; I am, in fact, giving you more than what I probably should be writing. I thought I was getting a gift, you know, and he kept pushing to me this computer program. He plugged in the number, whatever came out is what I got unless I could provide a receipt, and that is how the whole thing went down. I could not get a receipt. I got whatever that computer told him.

Chairman NEY. Could someone, anybody, on the panel answer me one thing? I have heard this twice today. What is this issue where for sheet rock, it has got to be a certain price? I mean, if my house, you know—I am lucky. I have never had damage, but if something is damaged, let us say my kitchen, by a fire or something, I would assume I would be paid a certain price for the worth of the appliances, and then it would be up to me to go shopping if I want to by a used refrigerator or I want to buy a new refrigerator. I don't understand how the policy is coming back and saying the bedrock has got to be "X" dollars and 46 cents.

If they cut you a check to say, here, this is for your damage, you should be free, then, I assume, to just buy what you would want to buy whether it is cheaper or more expensive. Let us say they did the perfect thing and gave you replacement value and said here, $200,000, it is yours. Why do you have to start, from what I am hearing, messing around with here is how much sheet rock costs?

Mr. KANSTOROOM. I can explain that.

Chairman NEY. Okay.

Mr. KANSTOROOM. They started with what they deemed a price guide, they FEMA, and as it was explained to me, Computer Sciences Corporation developed the price guide, and on the price guide, which I have copies of, it clearly states the source is the National Construction Estimator. The publisher of the data of the National Construction Estimator who wished to be here today, but due to the constraints the committee wouldn't permit, he submitted written testimony.

What he says is quote, leading the consumer to believe that new construction pricing represents a fair and complete valuation of their damages is, in my expert opinion, fraudulent.

And so the problem was CSC had these price guides and clearly printed on the bottom on some States—I believe I have Maryland, North Carolina, and Virginia. Some States, it said only to be used as a guide or words to that effect. Others, it didn't, and that led to these claims adjusters coming out and saying, believe it or not, Federal law requires that I do not exceed these guidelines.

Now, I brought that to FEMA's attention several days before the Senate hearing. It took them 2 months to issue a bulletin, and, again, that is a May 7th claims guidance memo, where they say

that is not how it needs to run and they can use contractor bids and estimates, words to that effect; however, they never told anybody. When you talk to the people on the task force, they said I am not aware of such a memo.

Chairman NEY. Now, let us assume——

Mr. REDMER. Mr. Chairman, if I could interrupt, the issue is not if the claim reimbursement should be a thousand dollars and they actually give you a thousand dollars, at that point, you can go out and take that thousand dollars and buy whatever you want, whether it is $800 or whether it is $1200. The issue is, based on the system, instead of the claim reimbursement being a thousand dollars, you are getting a check for $400, $500 or $600 at best, and that is where the friction is.

The adjudication of the claim typically is for pennies on the dollar so that you don't get the amount that you could get to go out and buy what you need to buy.

Chairman NEY. As commissioner, do you get people that obviously are coming to the Department of Insurance and saying, wait a minute, this isn't fair, and they file with you?

Mr. REDMER. Yes.

Chairman NEY. Do you have the ability under how we have things set up to intervene at all?

Mr. REDMER. Before Hurricane Isabel, if you presented yourself to Maryland, you received a letter and the letter said we can't help you; it is a Federal program; here is the 800 number. Under Joy Hatchette, we set up a program where they came to us and we facilitated communication and information and we got inspections and those kinds of things, but we do not have the ability as State regulators to regulate the claim adjudication process like we do with a homeowner's claim. It is completely pre-empted by Federal law.

And I need to stress that we have heard from victims this afternoon that are young, educated, and articulate consumers. Go to eastern Baltimore County in Congressman Ruppersberger's district where you are dealing with folks that are in their seventies or their eighties and older, and the frustration and the bureaucracy is such that they don't call because they can't navigate that bureaucratic system.

Chairman NEY. I am out of time. I apologize. I just think—I understand. I am trying to estimate if it is partial damage. You know, you can start to debate some of this, the prices. For example, the total damage, I know with the homeowner's insurance it says the replacement value for my home is blank. It is already preset today. Now, if I upgrade my house, I tell my agent. So that, in my mind, is the replacement value if it burns down to the ground and there is no walls left or it is 95 percent gone. That is why in her case, if she has the policy, it is puzzling.

Mr. KANSTOROOM. I don't agree. What that is, that gives you a right to sue.

Chairman NEY. What is that?

Mr. KANSTOROOM. That policy. That is not a guarantee you are going to paid.

Chairman NEY. It is in my mind.

Mr. KANSTOROOM. No.

Chairman NEY. Before we get into a debate here, hear me out. I think you will agree with me. In my mind, which as I am sure was in her mind or his, this gentleman's mind, that is what you get if it was gone. That is what I would think.

Mr. KANSTOROOM. That is what they sell you, but that is not what you get. What you get is a difficult negotiation with people that are told these are the prices I can't deviate from, and the question is, well, why would that be, and my answer is, because it works for the property insurance side of their business.

When Allstate sells you the flood policy, in most cases, Allstate is selling you the wind policy. Allstate does not want to pay, and this is from their adjusters and the documents. I am not saying anything that is not easily verifiable. They don't want to pay at $2 a foot for sheet rock upstairs. They want to pay $1.46 upstairs, and so when their flood adjustor comes out, he is going to tell you my book says it is $1.46.

Chairman NEY. And I will conclude. I am just saying this needs cleared up because this goes beyond a misunderstanding. This is going into turning someone's world upside down.

Now, if it says to you or to me in my policy, you know, by the way, here is your replacement value, but we might have to talk about this, then I go into it knowing, okay, there might be a problem. But I, myself, when I read my policy, I assume replacement means replacement. So we have got to clarify that because it is a terrible problem for people.

I am sorry for running over.

Mr. KANSTOROOM. When you read it, it says replacement cost value. It is not a defined term in the policy. It is the industry standard, and that is the meaning people take out of it, and unfortunately that is not what they mean.

Chairman NEY. We want to work with you. I appreciate it.

Mr. Chairman, I appreciate it. I am sorry for running over. I don't normally do that. I apologize to the other members.

Mr. FITZPATRICK. Thank you, Mr. Chairman.

The chair recognizes Mr. Ruppersberger.

Mr. RUPPERSBERGER. Thank you.

We only have a short period of time, and I am going to ask Mr. Redmer a question and Mr. Kanstoroom a question. What I am really interested in, we have been working on this issue for a long time with your office, Mr. Redmer, and, Mr. Kanstoroom, you have been working with us and have done a lot of research. What I am interested in and my questions are going to be to results and recommendations that you have for this committee on how we can try to fix the problem.

We have identified some of the issues, the industry standards, and I think that is very relevant, because just because it is the insurance industry standard doesn't mean that their clients who they are selling policies to are being served correctly. If we have another incident, we are going to have the same problem again.

So, Mr. Redmer, we worked closely together when you were a member of the House of Delegates. You did a great job there. You know what constituent service is about. You also now as insurance commissioner know what these issues are.

Based on what you have seen from the time we had Isabel until now, from those two perspectives, what do you think needs to be done as far as fixing the problem? I mean, a different type of standard in the industry? A law by Congress to force that we do something differently? FEMA being more responsive about changing laws so they have the authority to do what they need to do?

Remember, we don't have a lot of time. I have asked the chairman to give me some more time if we could.

Mr. REDMER. And I appreciate that. In the spirit of time, we have two reports that literally have dozens of recommendations, and I could rattle on forever, but there needs to be a clear claim adjudication process. There needs to be an appeal process.

Mr. RUPPERSBERGER. An appeal process where?

Mr. REDMER. With the Federal program. There is not a clear——

Mr. RUPPERSBERGER. How would you recommend it work so we don't get caught up in a bureaucracy?

Mr. REDMER. Well, the easiest way to do it is to make it consistent with what happens with other forms of insurance. One of the problems that we have is that the Federal flood program is different than homeowners insurance. The expectations are that they are the same. Clearly, they are not. So the more that we can make them similar, the more that we reduce the gaps that are in the program.

Mr. RUPPERSBERGER. How about a requirement or a system that will require the people selling the insurance that part of that requirement to sell is an education and then a verification so that the person who might not have the sophistication feels that they know what they are getting? That way, the expectations are there.

Mr. REDMER. Certainly having enhanced education, training, and disclosure is good.

Mr. RUPPERSBERGER. That is part of the sale of the policy?

Mr. REDMER. Absolutely, but the problem is even with adequate disclosure, you have gaps in the program. So you are still only going to get 50 cents on the dollar.

Mr. RUPPERSBERGER. So then what would you recommend to get to the next level to get what the appropriate compensation is? Money?

Mr. REDMER. Well, certainly there needs to be money, but one of the things we have to do is make sure, number one, that we close the gaps where we don't have coverage that we should have coverage. We need to do a better job of training and educating the adjusters so that they use the software correctly.

There is an ability, and we have investigated the software packages. You can take the plywood and throw in a modifier because it is a renovation instead of new construction, but either the adjusters are not trained how to do it or there are financial incentives for them not to do it.

But again, there are dozens of recommendations.

Mr. RUPPERSBERGER. Well, that is something that really is important because we are talking about end gain, and I know this is not my committee, but I would like you to get that.

Mr. Kanstoroom, you have done a lot of work. You have worked with our office. You have represented or you have advocated for a lot of people in my district as far as your research and expertise.

We have had conversations. I am interested to know what you feel and if you have some specifics—again, we have time issues—about the problems that exist. Again, I am more interested in your recommendation on what we need to do with respect to either do we need Congress to pass a law. What do we need to do to deal with the issue of insurance standards?

It shouldn't be industry standards. It should be standards that we—because the Federal Government is involved and State and local issues, it should be a system that works, and give me your recommendations about problems that you see that are very blatant. And is it an issue of problems or symptoms? I mean where are we going here to solve it? I would really like to hear recommendations because, in the end, this committee is going to take what we do here today and attempt to resolve it either through a law or whatever. So this is your chance, if you can, to give me what you know.

Mr. KANSTOROOM. Number one, these are symptoms that you are hearing about today. There are much greater problems here that have not even come out on the table. These are the symptoms.

As far as what you do in the short term, in my testimony, written, there is a proposed bulletin to the industry that details the 20 points of low-balling; here is the problem; here is solution. I will gladly sit with whoever you want me to sit with. After talking a couple of days, everyone is going to say, oh, wow.

Mr. RUPPERSBERGER. Well, we will talk to the chairman who is very interested that we talk to the staff here and who will meet with you and do the research.

Mr. KANSTOROOM. The point is these people need help today. So the short term is this bulletin goes today with instructions that these claims have to be looked at to be in compliance with what should have been done in the first place. That will get people like Georgette back on her feet quickly because she doesn't have time. She doesn't have time for hearings or investigations. She doesn't have time. So if I could explain that and show people how that works, that is number one.

As far as going forward in the medium term, there needs to be oversight. The States, as you heard, really have very, very little they can do other than bring this to people's attention. In fact, in the Federal Government, there is no oversight either.

The oversight comes from FEMA and that is really where the problem is at. If there was an independent body not affiliated with FEMA that had authority to approve these claims that come up for review, that would be a giant step.

Mr. RUPPERSBERGER. You are talking about an appeal process.

Mr. KANSTOROOM. An appeal process. That is right, but not affiliated with FEMA, not affiliated with these adjusting firms, and there are plenty of independent experts that have no affiliation, but that is a medium term solution that is easily managed if people want to get it done. Longer term, quite frankly, the regulations in large part are there. It is the business of the way FEMA is interpreting them, and someone has got to clunk them on the head to say here is really what is supposed to happen.

Mr. RUPPERSBERGER. There is also a problem with the policies where people think they have flood insurance and they don't. Is it

the homeowners policy? How would you recommend that we make sure that everyone understands what they have? I mean what type of system would you put into effect?

Mr. KANSTOROOM. It is quite simple. I actually drafted one for FEMA a year ago. It is not that complicated. They have to have the same play book. That is what it is. The victims have one. The adjusters have another one. The agents have another one. If they all have the same play book, they are all going to see what they get. It is not that complicated.

Mr. RUPPERSBERGER. By the way, I mean, you do a lot of work. Why don't you tell the staff and the committee some of your background, how you have had past experience in the area of insurance adjusting.

Mr. KANSTOROOM. Twenty-two years experience of pattern recognition and fraud detection for some of the largest corporations in the world, and what my job was to do was to spot patterns of fraud, quite frankly. While it was on a much larger scale than this is, that is my background.

Mr. RUPPERSBERGER. Are you alleging that there has been fraud here?

Mr. KANSTOROOM. Absolutely.

Mr. RUPPERSBERGER. Where? You don't have to name names because we are a Congressional committee, not a grand jury, but where have you seen fraud that we can look at to see where there are problems?

Mr. KANSTOROOM. I have seen fraud in the adjusting practice. I have seen fraud where——

Mr. RUPPERSBERGER. What kind of fraud?

Mr. KANSTOROOM. Flat-out wrongful denial of a claim.

Mr. RUPPERSBERGER. I am talking about actual fraud.

Mr. KANSTOROOM. Fraud in using the wrong set of prices that the publisher said is fraudulent.

Mr. RUPPERSBERGER. In order to help the company?

Mr. KANSTOROOM. Absolutely. In order to lower their costs, in order to tell these people that these are the prices that you are entitled to. That is wrong. It is wrong. They are entitled to replacement cost value, not a synthetic new construction price.

Mr. RUPPERSBERGER. Are you saying that maybe there is a policy within certain insurance companies to attempt to——

Mr. KANSTOROOM. The whistle-blowers that wanted to testify here today would tell you the way they keep their claims adjusting practice is to keep the payments low. That is what they would tell you.

Mr. RUPPERSBERGER. You mean there is an incentive for adjusters to—I want to hear it from you—an incentive for adjusters to have a lower cost and that would be to their benefit?

Mr. KANSTOROOM. Absolutely. They make it up in volume. In other words, when you look at a hundred adjusters—this is a risk management perspective—it is who has got the lowest payout and who has got the highest payout. You can have a hundred adjusters you can invite to the storm. All things being equal, one of them is going to have the lowest payout.

Mr. RUPPERSBERGER. But isn't a part of being an adjustor having certain independence to evaluate a claim and make adjustments?

Mr. KANSTOROOM. Absolutely, but not to knowingly use a wrong set of numbers.

Mr. RUPPERSBERGER. Well, that is what I want to get to, because fraud is a very strong allegation. If it is there, we want to deal with it, and I would really like to know more about allegations of specifics, but because this is a Congressional hearing, our rules don't allow us to do it publicly, but we can talk to you about it.

Mr. KANSTOROOM. Maybe if I could hit a high note here, I worked with WINK TV in Fort Myers on putting a story together. I had a phone call from Homeland Security, the Inspector General's Office, counsel, and the bottom line was the documents that I had uncovered, they told me, that incriminated both FEMA and Homeland Security, the Inspector General's Office, they told me and CBS recorded it—they actually aired part of the story—it is unlawful for me to have anything that incriminates FEMA or DHS, give them what I have got, destroy my copies. And notwithstanding Senator Mikulski's request for an IG investigation, they have no interest in investigating. They said they have a small staff. They only have 450 people.

So there is a lot here. It is not going to go away. It is going to get bigger.

Mr. RUPPERSBERGER. Well, the reason we are having the hearing is to try to look at a new system and we are trying to get information to make sure that we take these victims here today and to make sure that we understand what their problems were so we can set up a new system. If there are issues of fraud, we need to deal with it. I mean right away. Remember, you have to prove it. So let us just not use the word loosely.

Mr. KANSTOROOM. Of course not. The best way to prove it I know is have the people that allege it sit here. Bob Hunter, what he says is if the training disparity exists, as Mr. Griffin will testify to and I will testify to it right now, fraud has likely occurred on a massive scale, I think is the quote. It is in my testimony, written.

You have got the former Presidential appointee Joanne Howard. Her document is in my testimony. She says it is not the way the program worked under her administration, or her tenure, or was intended to. What she says is of course you restore the people to the pre-loss condition. Again, it is in the written. You can go with what it says.

As far as the publisher of the data, he wanted to be here today. He had reservations to be here today. He will sit here and tell you just as it is written this is a fraudulent use of his data to tell this woman that this is a fair valuation based on a number that they know is not right.

Mr. RUPPERSBERGER. Well, let us get to this. The time is almost up. Give me some basic recommendations on the system itself, the industry standard, how you would from a legislative point of view, how we would change this system that does not seem to work, very quickly because we are way over my time. We are supposed to only have 5 minutes. I don't know how we do this, but that is our rules.

Mr. KANSTOROOM. God is working. Number one, there is no oversight.

Mr. RUPPERSBERGER. Thank you, Mr. Chairman, for allowing him to go over.

Mr. KANSTOROOM. Thank you very much.

I don't contend that the system is that broken as much as there is no management of it.

Mr. RUPPERSBERGER. Accountability at the top.

Mr. KANSTOROOM. That is right. And so there is an incentive for the carriers to not overpay a claim. There is a penalty that the carrier will pay if they overpay a claim. There is not a penalty if they underpay. They could care less.

Mr. RUPPERSBERGER. Mr. Redmer, do you basically agree with some of the statements being made by Mr. Kanstoroom?

Mr. REDMER. As I mentioned, we have got two reports of observations and recommendations and certainly accountability, consistency of information, communication. I mean, we can go down the list. As I mentioned earlier, there is no formal claim process, no formal appeal process.

Mr. RUPPERSBERGER. Okay. I would like to work on that, and would I suggest that maybe you two get together. If there are some allegations of fraud in our State, I would hope that you can at least look at that and get the facts and data.

Mr. REDMER. We have been. Thank you.

Mr. RUPPERSBERGER. Thank you.

Mr. FITZPATRICK. Thank you. The chair recognizes the ranking member, Ms. Waters from California.

Ms. WATERS. Thank you very much, Mr. Chairman and members. I am sorry that I could not be here earlier for this most important hearing. Our committees are overlapping and we have a big important bankruptcy bill that is on the House floor today. Again, we have very important legislation that is winding its way through Congress this session, and we want to make sure that we pay attention to all of it, but I have been briefed about the hearing that has taken place today, and I am more than concerned about policyholders who have been misled, who have been cheated, who have been disrespected, who have not been paid attention to, who have been left holding the bag, and I tell you I am sick and tired of consumers who are being exploited in America by too many entities.

Even as we work on the bankruptcy bill, there are problems where the average American working family is just being done in, and I want to tell you I am always having problems with insurance, because we get too many complaints in our office about folks who have been paying policies for years, and at the point that they have a claim, then all of a sudden they are told what was not covered and how they cannot be made whole, and I think that if the Congress of the United States does not act very aggressively to protect the consumers, then none of us should be re-elected and sent back to office. This is outrageous.

I take seriously that you have indicated, some of you, that there are some recommendations that can easily be adopted by the Congress of the United States. I am going to work with my colleagues to see what those recommendations are, but I want to ask one question that my staff as has directed me to, and it has been identified that Mr. Kanstoroom may be able to explain to us that very task force that was formed to re-examine the Hurricane Isabel

claims consisted of the very same adjusters who denied the claims of policyholders in the first place. Is that true?

Mr. KANSTOROOM. Yes, it is true. Yes, it is true in that the identical management was in charge of that task force, not some of it, not most of it. All of it was identical. As far as the adjusters, if you have a third-party adjusting firm that worked the storm, while maybe Fred and Mary worked the storm, that same firm had different people sitting on that task force, and as it was explained to me, they literally turned around in their chair and said, wait a minute; I have got Georgette's claim here; you worked on this one, didn't you; oh, yeah, she is, isn't due any more money. Okay. Boom, case closed. That was the task force.

As far as this review business, the insider's report was stacks of returned mail. Realize, her mailbox was gone. Where is the mail going to go? So many of these people didn't get a notice.

As far as the numbers that they are citing, when FEMA first published the numbers of claims, and I want to say it was a couple million dollars, the point was North Carolina Advocate Beth Midget and myself, between the two of us, had claims that we had worked that totaled the numbers of dollars that FEMA was saying they had already approved on the task force. In other words, just two people working had their numbers. The numbers are garbage.

Ms. WATERS. Well, again, my attention is being drawn to the fact that Federal preemption may be causing some of the problems that we are experiencing here, that one of the byproducts of this Federal preemption is that if you have a disinterested or hostile Federal regulator, the States are powerless to act, that the insurance Commissioner Redmer should be revisiting the issue of preemption and giving States a role if they want to protect consumers.

Is that kind of the consensus here?

Mr. KANSTOROOM. Yes.

Ms. WATERS. Yes. All right. I will just promise you I will do everything that I possibly can to correct what is wrong. Again, what has been described here today causes me to feel even stronger in my views about the problems of the insurance.

So thank you very much for coming. I do appreciate it.

Mr. FITZPATRICK. Thank you, Ms. Waters.

I just have one final question before we adjourn this hearing for Commissioner Redmer and/or Mr. Griffin for the industry. I think it was testified that the Beam family of Pennsylvania purchased a home; I think it was about 8 years ago. Like most young families, they had to get a mortgage. The mortgage company required a flood insurance policy. The flood insurance policy is probably paid for at settlement. The policy itself is put in the settlement package in a lock box somewhere, and for 8 years, this policy was paid on.

And then the first nightmare for the Beam family was they were flooded twice in a week, and the second nightmare came in the phone call that the flood coverage that the family thought they had had been reduced from a number down to about 10 percent of what was originally sold, and I think that the testimony was that the Federal Emergency Management Agency had reworked, perhaps, the flood plain. Nobody told the Beam family. Nobody told the mortgage company. As a result of that reworking of the flood plain, the insurance company reduced the amount of flood insurance cov-

erage that that family would have and would need not too distant in the future. Nobody notified the Beam family and nobody notified the mortgage company.

Then after two floods in a week, somebody finds an unsigned computer-generated letter in a file saying your coverage was reduced from, I think it was 80-some thousand to about $8,000.

I am wondering what the industry standard is before you change, a company changes, an industry changes, the insurance that a family needs and relies on. What kind of notification is required of this family before that happens so that what happened to the Beam family of Pennsylvania does not happen to another family?

Mr. REDMER. I can tell you the standard in Maryland as it relates to insurance other than the flood insurance program because, again, we don't regulate that, but in the instance of an individual in Maryland filing a complaint, as a routine, we go back to the carrier and we make them document to us that their action complied with Maryland law, and we make them prove to us that they mailed certain things and what have you. Failing their ability to prove that their actions were justified, we have the ability to make them pay the claim. We don't have that ability with respect to the flood insurance program.

Mr. GRIFFIN. Let me, if I could, make a couple of responses. First of all, I would not agree, with all due respect, Ms. Waters, that we want this regulated at the State level. This should stay a Federal program that is more commonly administered that way.

Just to go back, I think, as I recall, it was $93,000 was the amount that she originally had, and it was reduced to somewhere around $7,800.

Ms. BEAM. $5,800.

Mr. GRIFFIN. Thank you. Typically, hopefully, the policy that you get doesn't go in a lock box somewhere. Hopefully, a copy of it may go in a lock box, but, hopefully, a policy you get for a flood insurance policy, just like a homeowners policy, just like an automobile policy, finds its way into a file somewhere in your home so you can reference it when you need it.

Every year, a policy, probably on flood insurance as well as many other policies, probably 60 days ahead of when that policy renews, a new declarations page is mailed out, and it says on it how much coverage is provided and how much the premium is. Now, that doesn't mean in this particular case that there weren't problems with the system, but what it does tell me is that there was a notice sent, not a notice that there was a change, which maybe should have occurred. It probably should have occurred based on what we saw and what has been reported, but there was a declarations page sent out that showed the difference and a lower number prior to the policy being renewed.

Mr. REDMER. Mr. Chairman, I can tell you that there were also too many instances in Maryland where somebody was living in their home. They had their mortgage. They bought their flood insurance. The flood insurance was paid through the escrow account. And as the mortgage got sold from lender to lender to lender, at some point in the process, it fell through the cracks. The lender did not pay the premium. The policy terminated because of a lapse of premium. The individual, for whatever reason, didn't get notified,

and there was no coverage in force because of it falling through the cracks.

Ms. WATERS. Mr. Chairman.

Mr. FITZPATRICK. Ms. Waters.

Ms. WATERS. To the gentleman whose name I can't see on his card because you are too far away, I understand that you are the casualty insurance trade rep?

Mr. GRIFFIN. Yes, ma'am.

Ms. WATERS. And I respect that you disagree with me on Federal preemption; however, let me take issue with you in your explanation which basically says if people get their notices, they ought to read them and it is not our fault that they don't. Let me submit to you that when you purchase flood insurance and you agree to pay a certain premium, the average person believes that that is how much the premium is, and they don't know about changes in the flood plain and other kinds of things, and if the notice comes even a year or two later, they trust the person who came out and sold them that this was the best thing since popcorn, that it is going to be all right.

And no, we don't always read the notices because we think we have been paying our premiums. We paid them on time, and we expect that we have a relationship with the insurance company that continues unless somehow somebody is going to make it known in a very, very understandable way that we either cancelled or there is going to be a big increase or premium or something, and God knows even a reduction, which we never get.

So let me just say this, that no average working Americans who are dealing with a lot of issues, don't always read the fine print, but that is unacceptable when you have your biggest life investment at stake. It just seems to me that there would be a little bit more respect for the American homeowner and taxpayer from our insurance companies that would engage us in ways that we understand what it is they are doing to us, and I don't think that is too much to ask.

Mr. GRIFFIN. I don't think it is too much to ask that you read the dec page when the bill comes. You read your bill when your MasterCard bill comes. You look it over. You look at the charges. You want to make sure that nothing in there that you are charged is erroneous. It is not too much, to use your words, to protect the largest investment you have to ask you to look at the amount on there and make sure that it is the same as it was previously or more or at least when you check the premium to see if it has gone up or done down, and then that will give you some indication of whether there has been a change in the amount insurance.

Ms. WATERS. Well, if I may, Mr. Chairman, yeah, we do usually notice the numbers. What we don't always notice is the fine print. We don't know when you sell us that policy that should there be some change in government policy or work that is going on to deal with the flood plain, that somehow the policy that we agreed to is no longer in effect. We don't know that, and we don't always read that fine print, and sometimes we don't really know what people are saying to us, and the agents never explain that.

I want to tell you I will just stand up for the average person in that because I know it happens in too many families over and over

again, and I defend American families who don't always read the fine print because I find that most of it is constructed in ways that you don't want us to read it. The print is fine. It is worded in ways that the average American person reading it doesn't always understand.

So there are a lot of tricks to the trade, and if I can close by telling you it is kind of like the ads that we see on television that are selling you prescription drugs. They tell you how wonderful the drug is and then they bring on flowers and somebody running through the meadows looking very beautiful when they tell you all of the side effects so that you are distracted, looking at this beautiful person running through the meadows, and you forget to concentrate on the side effects because that is the tricks of the trade. Insurance companies have a lot of them.

Thank you, sir.

Mr. FITZPATRICK. Thank you, Ms. Waters.

The chair notes that some members may have additional questions for this panel which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

We appreciate the attendance of all those who gave testimony today.

This hearing is adjourned. Thank you.

[Whereupon, at 3:04 p.m., the subcommittee was adjourned.]

A P P E N D I X

April 14, 2005

Opening Statement

Chairman Michael G. Oxley
Subcommittee on Housing and Community Opportunity

Review and Oversight of the National Flood Insurance Program

Wednesday, April 14, 2005

Today, the Subcommittee on Housing and Community Opportunity is holding a hearing to discuss both the funding and administration of the National Flood Insurance Program.

Last year, this Committee spent considerable time and effort on legislation to reauthorize and reform the National Flood Insurance Program. On June 30, 2004, President Bush signed into law, the Bunning-Bereuter-Blumenauer Flood Insurance Reform Act. The major goal of the Flood Insurance Reform Act last Congress was to reauthorize and reform the program with an eye toward maintaining the financial viability of the NFIP. While some provisions were included to address administrative and procedural concerns regarding the NFIP, we did not focus on issues that were procedural in nature, such as the filing of claims, the timeliness of response to the claims filing, policy holder education and insurance agent sales and training.

During deliberations on last year's reauthorization legislation, concerns were raised regarding the administration of the program. In fact, several concerns were brought to the attention of FEMA. First, it is alleged that policy holders often do not have a clear understanding of their coverage under the policy. Second, insurance agents often do not clearly articulate the terms and conditions of the policy at the time of sale, and they do not know how to process claims correctly. Third, policy holders do not know of or understand the appeals process. Fourth, many questions regarding the adequacy of payments and the adjustment system were raised; and finally, a lack of coordination between private insurers, NFIP and FEMA and inadequate training has been sighted as a possible sources for some of the administrative problems plaguing the NFIP program.

Since the enactment of the Bunning-Bereuter Blumenauer Flood Insurance Reform Act, members of Congress have continued to hear from their constituents who are frustrated with the flood Insurance program. In a letter dated January 24, 2005, Congresswoman Jo Ann Davis wrote to me asking for a hearing to evaluate NFIP's policy sales, use of premiums, and claim handling practices; In a February 17, 2005, letter, Congresswoman Melissa Hart asked for a hearing to investigate concerns raised by her constituents such as inconsistencies in damage assessment determinations, delays in claim processing, and discrepancies among FEMA, NFIP and the private insurance companies on the interpretation of the standard used to determine claim amounts.

It is important to note that this program was created in the 1968 because there wasn't an affordable private sector insurance alternative that would cover flooding events, particularly for residential homes and small businesses. Hence, the Federal government stepped in where the market was clearly not working. Some thirty years later, as the consumer market becomes more sophisticated, its expectations regarding the insurance industry, and in particular the National Flood Insurance Program appear to have outpaced the original intent and purposes of the program.

This hearing today will give us an opportunity to hear from both practitioners and policyholders on how well the program is working and to what extent this Congress should address any further reforms to ensure the National Flood Insurance Program is meeting the original congressional intent of protecting and assisting families and businesses in the event of a flood .

Thank you Chairman Ney for your leadership on this issue. I look forward to today's testimony and in particular, Mr. Chad Berginnis, Chairman, Association of State Floodplain Managers, who is from the state of Ohio.

Honorable Jo Ann Davis
April 14, 2005
Financial Services Committee
Subcommittee on Housing and Community Opportunity
Hearing entitled "Review and Oversight of the National Flood Insurance Program."
11:00 AM
2128 RHOB

Mr. Chairman, I would like to thank you for holding this hearing to address the National Flood Insurance Program. I would also like to extend my thanks to Chairman Oxley and the staff of the Financial Service Committee for their concern in this matter. I'm grateful for the opportunity and your hospitality in allowing me to sit in on this hearing. The Committee has been very helpful and responsive to my concerns. Thank you.

Hurricane Isabel struck the Eastern United States in September of 2003. One of the worst disasters in Virginia history, the financial damages exceeded $1.5 Billion dollars. Winds destroyed homes, knocked down trees and power lines leading to massive power outages. Large storm surges flooded homes and properties across Eastern Virginia, Maryland, North Carolina and Pennsylvania.

Today you will hear from two of my constituents, Larry Bearekman and "Ginger" Stelyn both had their homes flooded as a result of Isabel. I want to thank them both for coming to testify and share their difficult stories. Both faced tremendous strain and difficulty attempting to rebuild their homes and lives. Unfortunately, they are not alone. Many residents from my district and across the country continue to face challenges rebuilding their lives. And many of these challenges, in my opinion, are because of the National Flood Insurance Program.

I have concerns with the administration and oversight policies of the National Flood Insurance Program (NFIP). Thousands trust and rely on their flood insurance to restore property destroyed by flood waters; however, many have been disappointed to find the claims adjustment process unfair and inadequate. Today, we'll here just two stories where the NFIP has misled policy holders and mismanaged claims.

I am looking forward to hearing more and working to ensure that the National Flood Insurance Program is operating as Congress intended. Thank you again, Mr. Chairman, for holding this important hearing, and for letting me join you today.

The Honorable Steny H. Hoyer

Subcommittee on Housing and Community Opportunity,
Committee on Financial Services

April 14, 2005
11:00 a.m.

I thank the Subcommittee for holding this important hearing to address ongoing issues with the National Flood Insurance Program (NFIP). I regret I am unable to attend, but please accept this statement on behalf of the citizens of Maryland who sustained flood damage to their homes during Hurricane Isabel in September 2003, and have been unable to successfully resolve their flood claims submitted to the Federal Emergency Management Agency (FEMA), a component of the Department of Homeland Security. My constituents have expressed grave concerns about the mishandling of flood claims by the NFIP after Hurricane Isabel.

As you know, Hurricane Isabel impacted many communities in states along the East Coast of the United States, including Maryland. Isabel had an unprecedented effect, leaving many property owners along the Chesapeake Bay with severe property damage. Immediately following the hurricane, I was able to survey and witness the devastation first-hand and once again, I want to applaud the emergency teams, state and local elected officials, and law enforcement that provided much needed aid to area residents. While it was apparent it would take time to recover from Isabel, we did not expect, after 18 months, that our citizens would still be displaced and dissatisfied with the level of compensation under their respective flood insurance policy.

Floods cause more economic loss in American than any other natural disaster. However, insurance to protect against this hazard is unavailable in the private insurance market; the standard homeowner's insurance policy specifically excludes coverage for the flood hazard. Consequently, homeowners, renters, small business owners, and condominium associations must rely on federal flood insurance for protection.

Congress established the NFIP in 1968 to help reduce and indemnify personal and national costs of flood losses, and to encourage preventive and protective measures to reduce future losses. The NFIP offers federally-backed flood insurance to residents in communities that adopt and enforce effective floodplain management ordinances designed to reduce future flood losses. Today, roughly 4.5 million policyholders in almost 20,000 communities across the country rely on the program to insure against property losses from flooding. These policies represent approximately $681 billion in flood insurance coverage.

Since 1983, the distribution of the standard flood insurance policy was through so-called "Write Your Own" (WYO) insurers. About 100 WYO insurers currently sell policies on behalf of the NFIP, and receiver compensation for doing so. WYO companies are

responsible for policy issuance, claims handling, and financial reporting and statistical transaction reporting. The federal government bears all risks and sets rates, coverage imitation, eligibility requirements and rating factors. Meanwhile, Computer Sciences Corporation (CSC) handles the privatized functions of the NFIP, including the agent and adjuster training, as well as claims oversight.

Isabel gave Marylanders a chance to grade the overall NFIP and unfortunately we still face challenges with respect to the adequacy of payments and the clarity of policies and procedures for filing and adjusting flood claims. We have heard countless stories of a lack of responsiveness, uncovered losses, and poor performing claim adjusters. Many victims of Isabel have been financially ruined, having been told by professional insurance agents they would be covered against an Isabel type of loss only to find out they were not. It is my understanding that the Department of Justice has been asked to investigate the NFIP's private contractor (i.e., CSC) and WYO insurers, however, no investigation has yet been launched.

Our experience highlighted problems with the program – how it is marketed, coverage provided, claims adjustment process, education of sellers, and the appeal process. Today, many Maryland policyholders who are flood victims have not been restored to their pre-loss conditions, as Congress intended when it passed, and the President signed the Bunning-Bereuter-Blumenauer Flood Insurance Reform Act of 2004 (PL 108-264).

In closing, I thank the Subcommittee on your leadership in addressing this important issue. In the 2004 Flood Insurance Reform Act, Congress mandated that FEMA take steps to better train agents and adjusters, ensure policyholders are better advised and understand their NFIP coverage, and establish an appeals process for claimants. In order to ensure compliance with Congress' intent in these areas, there might be a need for closer congressional oversight, particularly with respect to the setting of minimum training and education requirements for insurance agents who sell flood insurance and claims adjusters. The flood insurance claims process must work not only for citizens of Maryland, but all Americans.

Thank you.

Opening Statement of Congresswoman Sue Kelly 4-14-05 1

Mr. Chairman, I appreciate the opportunity to sit with the Subcommittee today to represent the needs of my constituents in Deerpark and Port Jervis, New York. They are coping with the aftermath of massive flooding that has damaged homes, businesses, and public property in our area.

FEMA and local officials have been assessing the extensive damage together for the past week, and about one hour ago, Governor Pataki requested federal disaster aid for Orange County and 13 other counties in New York.

We are counting on FEMA to review and approve this federal disaster aid request immediately. Hundreds of people have been displaced from their homes. Small businesses and livelihoods have been shut down indefinitely. Time is so critical in this rebuilding process. There is no time to waste.

The damage I viewed in Deerpark, Port Jervis, Warwick and Washingtonville is among the worst I have ever seen from a natural disaster in the Hudson Valley. Washed-out roads in towns and villages throughout Orange County are further compounding public and individual damage totals. Flooding in the Black Dirt agricultural region is likely to cause serious problems for our local farmers during their upcoming growing season.

Nevertheless, local residents and local leaders have very impressively shared a valiant and positive spirit toward recovery and the selfless efforts of our emergency volunteers have been nothing short of remarkable. I will be back there again frequently in the days ahead as well as in other areas like Warwick and Washingtonville to help in any way that I can.

I have been working with local officials and with the Federal Emergency Management Agency (FEMA) to facilitate prompt and effective federal response efforts in order to provide the assistance my constituents need in the most immediate manner possible.

FEMA also needs to have public meetings throughout our region in the days ahead to help affected residents get their questions answered and the federal support they are relying upon.

A vital part of the recovery from this disaster, and earlier floods along the Delaware River, is the National Flood Insurance Program (NFIP). NFIP has been vital in relieving the costs of my constituents and making coverage available for those who rebuild their homes and small businesses.

We must work to ensure that this program be as well-managed as possible, and that constituents and program administrators, adjustors and sales people have the best information about their options and resources.

I am hopeful that this hearing will help ensure that people in Deerpark, Port Jervis, and throughout Orange County who have suffered extreme damages to their homes and businesses will receive the best possible assistance from the NFIP and have the means to rebuild.

Opening Statement of the Honorable Bob Ney
Chairman, Subcommittee on Housing and Community Opportunity

Hearing on

"Review and Oversight of the National Flood Insurance Program"

Thursday, April 14, 2005

Today the Subcommittee on Housing and Community Opportunity meets to conduct review and oversight of the National Flood Insurance Program. Specifically, the hearing will focus on administrative problems facing the National Flood Insurance Program (NFIP) and the steps currently being taken by the Federal Emergency Management Agency (FEMA) and the private insurance industry to resolve those problems. Also, it is my hope to discuss the current funding difficulties affecting the implementation of the Flood Insurance Reform Act.

Last year, this Committee spent considerable time and effort on legislation to reauthorize and reform the National Flood Insurance Program. On June 30, 2004, President Bush signed into law, the Flood Insurance Reform Act. This legislation reauthorizes the National Flood Insurance Program (NFIP) through September 2008.

It includes provisions to strengthen the operational and financial aspect of the NFIP by providing states and local communities with an additional $40 million a year for flood mitigation efforts to repeatedly-flooded properties, and it allows for increases in flood insurance premiums on properties that refuse government mitigation offers. In addition to repetitive loss and re-authorization, the legislation requires FEMA and insurance companies to provide better information to flood insurance policyholders to ensure that they are fully aware of the details of their policies.

During deliberations on the reauthorization legislation, however, many concerns were raised regarding the administration of the program and these concerns were brought to the attention of FEMA. Policy holders often did not have a clear understanding of their policy; insurance agents often did not understand what they were selling or how to process claims correctly; many policy holders did not know of or understand the appeals process; and many questioned the adequacy of payments and the adjustment system. A lack of coordination between private insurers, NFIP and FEMA and inadequate training were listed as possible sources for some of the administrative problems affecting the NFIP program.

The goal of today's hearing is to focus on which administrative problems face the program and what steps are currently being taken by FEMA and the private insurance industry to resolve those problems.

Floods have been, and continue to be, one of the most destructive and costly natural hazards to our nation. During this past year, there have been three major

floods in my district in eastern Ohio. All three of these incidents qualified for federal relief granted by the President. Recent flooding in January of this year resulted in historic levels in several local dams, and, in Tuscarawas County, three communities were forced to evacuate, which displaced 7,000 people. I was able to witness this devastation first-hand when I toured damaged properties in both Tuscarawas and Guernsey counties.

The National Flood Insurance Program is a valuable tool in addressing the losses incurred throughout this country due to floods. It assures that businesses and families have access to affordable flood insurance that would not be available on the open market.

Prior to the passage of the National Flood Insurance Act in 1968, insurance companies generally did not offer coverage for flood disasters because of the high risks involved. Today, almost 20,000 communities participate in the national flood insurance program. More that 90 insurance companies sell and service flood policies. There are approximately $4.4 million policies covering a total of $620 billion.

Last year's Flood Insurance Reform Act achieved significant reforms to this important federal program and I look forward to hearing from all of our witnesses today as we discuss how best to implement the legislation, as well as determine whether new reforms and initiatives are in order to compliment the work we accomplished last year.

I would now like to recognize our Ranking Member from California, Maxine Waters.

Testimony of Beth Beam
Ellwood City, PA

Before the Subcommittee on Housing and Community Oversight:
"Review and Oversight of the Natural Flood Insurance Program"

April 14, 2005

Chairman Ney, Ranking Member Waters, Members of the Committee. Thank you for providing me with the opportunity to discuss my experience with the National Flood Insurance Program (NFIP).

My name is Beth Beam and I am from Ellwood City, Pennsylvania. I would like to say that I live in Ellwood City, Pennsylvania, but because of the unimaginable difficulties I have had with the NFIP, my home is still unlivable seven months after the floods. My husband and two small children have been forced to live with my parents in Levelgreen, Pennsylvania. Instead of their own rooms, one child now sleeps on the floor. My husband and I sleep on the couches, and it has been seven months.

We cannot afford to pay dual mortgage and utilities and rent bills. FEMA says we are ineligible for housing assistance since we are not working on repairs to our home, yet we are unable to do so due to FEMA's refusal to honor our insurance policy. We cannot repair our home for .07 cents on the dollar.

Quite frankly, after learning of the plight of flood victims that have struggled with similar problems for 18 months, I am terrified I will end up like they are – homeless with no end in sight. My goal is that you will hear my story, that is representative of so many others, and agree to help us by reigning in an out of control bureaucracy. A group that is destroying families like mine.

Eight years ago, my husband and I purchased a three bedroom house in Ellwood City, Pennsylvania. The house needed some repairs, but we were excited to do the work on our own and make the house our home.

We put in the time, effort, and money to renovate our entire home. We installed a new kitchen and hardwood floors among many other improvements. This was truly the place that we and our two children could call our home.

Our home is located near the Connoquenessing Creek, so we knew we needed to purchase flood insurance. While we hoped we would never need it, and until September 2004 we did not, we purchased the proper amount of coverage.

On September 9, 2004, Hurricane Francis hit Western Pennsylvania. Our home was flooded with about one foot of water on the first floor. Our living room, family room, kitchen, dining room, laundry room, and bathroom were flooded. Our furniture, some clothing and furnace were ruined. We needed to replace four feet of drywall and insulation throughout the entire first floor.

We immediately began clearing items out of the house to see what we could salvage. We also made arrangements to live with my parents temporarily.

On September 9, 2004, we first contacted our flood insurance provider Liberty Mutual to file a claim. On September 12, the independent adjuster Bellmon Adjustors Inc. informed us that we only had $5,800 in coverage. We were sickened, shocked and

stunned. This is the first we learned FEMA's records were incorrect. We purchased $75,000 in building coverage and $18,000 in content coverage [according to our declaration page]. Only at the point that we first relied upon our coverage did officials from the NFIP inform us that, unbeknownst to us, FEMA had re-designated our home to a new flood plain. As a result, they said that the premium we had been paying was inadequate, so our coverage was reduced to $5,800.

This was the first we, our lender, or agent had heard about this problem. On September 15, I called the National Flood Processing Center. They checked my file and discovered that we had not been properly notified. They said they were going to send me a bill for the additional premium and my policy was going to be reinstated at the correct coverage amounts retroactive to before the flood. The next day, I received a voicemail from the National Flood Processing Center informing me they found an unsigned, computer-generated copy of the letter regarding our re-rating. They insisted that was adequate proof that I received correspondence regarding the re-rating. They refused any ownership of the problem, said I should have known about the issue, and I should have taken the necessary steps to obtain adequate coverage. None of the other recipients (the insurance agent and the mortgage company), as required by my policy, received the letter. I was given the number for FEMA underwriting in Washington, DC to contact and review the situation.

At this point, we did not have the coverage we needed to cover the damages to our home.

The water from Francis had reseeded from our home, but on September 17, 2004, Hurricane Ivan hit Western Pennsylvania and our home was flooded again.

This time it was much worse. Five feet of water filled the bottom floor of our home. We tried to stay as long as we could to salvage what was left from the first flood, but we realized we were going to have to leave once again.

When we returned to our home, the first floor was entirely ruined. The new kitchen we installed was destroyed including all of the lower and upper cabinets. The entire first floor had to be gutted to the studs.

On September 22, I called my mortgage company to ask them to forward a copy of the computer-generated letter. They were unable to do so because they too said they never received it.

On September 22, I also spoke with Steve Van Dyke of FEMA Underwriting. He told me the Flood Processing Center also informed him that the letter didn't exist. Yet, oddly, they claimed to have later found it. After reviewing our file, he ultimately determined that we were not eligible to have our policy made retroactive because of the unsigned, computer-generated letter even though my mortgage company, my agent and myself had never received any such letter. During September and October, we had several conversations to discuss my situation and he kept asking me why I wasn't going after my agent for his error and the mortgage company. Even though none of the three recipients

required by federal law received the letter, he refused to allow my policy to be made retroactive in accordance with the terms of my policy. He told me to sue the mortgage company and the insurance company.

My flood carrier, Prudential, had been acquired by Liberty Mutual. Nevertheless, my Prudential office assured me that no such notice existed in their records.

On October 27, I explained my situation to Bob Hodges of the NFIP. He put me in touch with Kay Cummings, an underwriting manager at the NFIP. She agreed with me that my policy should be made retroactive and she was going to persuade Steve Van Dyke to do so. She asked for statements from my mortgage company, my agent and myself. After providing her with the information, I called several times to follow up. She never returned my calls. When I finally reached her, she said she didn't remember talking to me and asked that I explain the situation over again. After not hearing from her for awhile, I left several more messages that went unreturned. When I finally spoke with her, she told me that she thought I knew from Steve Van Dyke that the case was closed.

Thomas Caruso of Liberty Mutual reviewed my file and contacted the insurance agent at home. On November 17, the agent told Mr. Caruso that he was unaware of the problem with my policy and never received the computer-generated letter. Mr. Caruso decided I should have noticed the changes on my declaration pages and renewals. As a result, he would not honor my original coverage He told me to sue Liberty Mutual.

I also asked Liberty Mutual to put in writing that my agent never received a copy of the computer generated letter in order to forward to Kay Cummings of the NFIP. He refused. I also asked for some copies of other documents in my file that were originally addressed to me. Again he refused and told me I'd get them in discovery. The last message I received from Thomas Caruso was a voice mail telling me Liberty Mutual was done with me and that I needed to move on. Liberty Mutual did turn a claim into their Errors & Omissions Insurance at my insistence and we have been offered an out-of-court settlement of only 50% of our losses.

That is where my case stands today; in the same place it was seven months ago – unresolved.

My policy, the Flood Insurance Act of 1968, and FEMA's flood insurance manual state that I should be notified of the error in a letter addressed to me, my mortgage company and my agent and given 30 days to pay the additional premium. I was not given that opportunity.

I was unaware that my home is in a special flood hazard area and the Lender has an obligation to make sure it is properly insured. That did not happen. Also, in advance of the closing on the property, the Lender is required to notify me in writing that the property I am about to buy is in a special flood hazard area and provide a description of the insurance purchase requirements. That did not happen.

My husband and I would not have purchased the house if we had been given that information. We now have a house that is unlivable. We purchased $75,000 in building coverage and $18,000 in contents coverage in 1996. We paid all of our premiums faithfully. We are told that, based upon the rules that Congress approved, if we file suit we cannot recover attorney's fees or consequential damages. In other words, we will be fortunate to receive sixty percent of what we are owed, years from now. In the meantime, FEMA and our insurance company are taunting us to sue them.

We cannot believe that Congress ever intended to setup a premium funded program where the policyholders had no rights. A program that has no oversight and no accountability to the very people that fund it - the policyholders.

We purchased flood insurance thinking it would cover any damages sustained in the event of a flood. Instead, the insurance industry has taken our premiums and given nothing in return. We are left to fend for ourselves in a nightmarish existence.

Whenever we asked questions or sought a remedy, we were simply passed on from one unhelpful individual to the next. We were also given incorrect information. There was no coordination between our insurance company, our mortgage company, and the NFIP. No one wanted to take responsibility to solve our problems.

In addition, when we thought we were getting answers, we were eventually denied. Our damages were assessed by an insurance adjuster using a repair/rebuild value, only to have our contact at the insurance company tell us that was incorrect and we should expect less.

In the end, our home is still unlivable.

I appreciate the opportunity to testify before the committee today. I also want to make certain that the committee understands that I am not alone. Many of my friends and neighbors were also flooded. Everyone I know has had some kind of problem with their flood insurance.

One only need look at the Isabel problems to understand that FEMA's NFIP is broken. I am terrified that I will end up like the Isabel victims – homeless eighteen months after their loss. Whether my neighbors were low-balled on the cost of their repairs or given the run-around by their insurance company or the NFIP, our problems are identical to those we have read about for months in Maryland, Virginia, and North Carolina.

I appreciate that the Committee has taken the important first step of a preliminary look at this problem. On behalf of my family, and all flood insurance victims, I ask that you set aside the several days time necessary to fully understand the depth and magnitude of the problems, and the underlying causes, that have now been made public. I also ask that you take immediate action to direct the NFIP to operate in the way it has under former Federal Insurance Administrators, and in line with its sales agent training.
Again, thank you for the opportunity to testify today and I look forward to answering your questions.

REVISED TESTIMONY OF LARRY BEAREKMAN
BEFORE THE
HOUSE OF REPRESENTATIVES HOUSING AND COMMUNITY OPPORTUNITY SUBCOMMITTEE
"REVIEW AND OVERSIGHT OF THE NATIONAL FLOOD INSURANCE PROGRAM"

APRIL 14, 2005

Chairman Ney and other Sub-Committee members, I thank you for the opportunity to testify before you today. Please accept this revised testimony, as I had very little notice for the preparation of my testimony, and inadvertently left out some key details. For convenience sake, I have included the revised testimony in italics to differentiate from the original where I had omitted it.

I come here both maddened and saddened to have to report to you on the calamitous failure of FEMA's National Flood Insurance Program. This program, mandated by congress, was touted to an unsuspecting public as being unique; a program funded by the participants, and not by taxpayer dollars; a program to be trusted, as it was instituted and administrated by our government; a program that was conceived as an insurance policy, a financial instrument with well defined and accepted legal meaning and definition in every state; a program that provides both policyholder and mortgagee a means to restore damaged properties to their prior condition after a catastrophe; a program that created a partnership between the private and public sectors for the benefit of all the participants. Sadly , the program has evolved into a Frankenstein, which now runs unfettered across the country, whimsically crushing policyholders without a thought to their wellbeing, carrying on to the beat of its own drum.

Although you see me here today as a single person trying to relay to you my own experience, please know that I am but one of many in my community, my state, my region, our whole country, who has been dragged through merciless misinformation, disinformation, double meanings and double dealings at the hands of the NFIP, and the unbroken chain of corporate and individual co-conspirators who, from what I have learned through my own talks with many other victims, through a website called femainfo.us, and from a professional insurance adjuster whom I hired to represent me when I had been ground into pulp, have been destroying families and lives without penalty for some time, and continue to do so as we sit here today.

Before I present the summary of my experiences at the hands of the NFIP, let me say that I would hope you will leave these hearings with enough of an understanding of the malicious misdeeds of your flood program to be motivated to put a stop to them. Hopefully you will also find mid-term and long-term solutions which, in my humble opinion, might include oversight of the flood program by people who are more familiar with insurance and financial matters (not meaning you of course, but FEMA); implement some federal regulations and punitive laws similar to what each of the states have for insurance companies mistreating policyholders, a logical step if our government is after all going to be in the business of selling insurance, and asking the public to have faith in

being treated fairly; hold individual insurance companies, contractors, employees and other participants accountable and responsible for actions or lack thereof that result in injury and damages to policyholders and their innocent families, already burdened by having their lives turned upside-down by a catastrophic event.

BACKGROUND

When I purchased my original home, now called 2 Ferguson Street, in Poquoson, VA, in 1978, I was required to purchase flood insurance in order to obtain a mortgage loan on the house. My insurance carrier for my homeowners and flood insurance was and remains Allstate Insurance.

In 1992, with my family growing, I purchased a new residence on West Sandy Point Road, also in Poquoson. Again, I insured with Allstate (Exhibit A), and again I was told I had to purchase flood insurance to obtain a mortgage loan. Our prior residence was kept as a rental house, and we continued to maintain a flood policy there as well.

My agent led me to believe that, except for purchasing contents insurance for our personal property as a separate item, the flood insurance would provide the same benefits as homeowners insurance in restoring our home to its pre-loss condition, in the event it was damaged by flood, which is excluded under our homeowners policy.

Sept. 17, 2003 - My wife, youngest son and pets left our residence home for my parents house in Richmond, VA.

Sept. 18, 2003 – My two teenage sons and I left our home at 10:00 am, under a mandatory evacuation order, after having spent the night and early morning putting our personal property up on chairs beds table and counters for protection from the oncoming hurricane. By the time we left, we had to wade through water to get to our car a mile away where we had left it on higher ground.

Sept. 19, 2003 – My older sons and I returned to our area in the morning, and after cutting our way through trees to get to our home, reached home by mid afternoon. Although our home was still standing, the entire home was filled with seaweed, sewage, fuel oil, mud and debris. Water had entered and run through our home to a depth of about 2 feet.

That evening, my wife arrived with our youngest son, and broke down in tears at the sight of our home. "Don't worry", I said, "we have flood insurance and we'll be fine." I could not have known then how wrong I was.

My wife found a room at a hotel, and my entire family moved to the hotel. The rate calculated out to be about $3,200.00 per month.

Sept. 20, 2003 - I called my agent, who advised that the flood policy had no provision for living accommodations, and who gave me an 800 number to call in our flood claim. We called in the claim, and were advised that someone would call us.

By the end of September, I was contacted by an adjuster who said he was lining up appointments on a need basis, and would call me back to let me know when he could visit my property. In the interim he advised me to cut open my interior walls four feet high, remove all carpeting, and remove all furniture that could not be restored, and store all the removed materials in my front yard, so that it would not be hauled away. I had already done so, having been advised by neighbors that they had been advised by their carriers to do so. He stated that unless he could take pictures of everything, it was not verifiable (which I took to me mean would not be paid). He also stated that we would be compensated for the work done and out-of-pocket expense.

By the time my adjuster arrived in the first week of October to look at my home, I had enlisted a contractor (Exhibits B and C), along with friends and neighbors, to help remove walls, carpeting and debris, and try to clean up our home and personal property. In addition we had to reset our fuel oil tank which had knocked off its stand, spilling fuel into the home.

During this time our middle son had also been taken to the hospital to be treated for an allergic asthmatic reaction to the mold setting into our home (Exhibits D and E). We had been without power for about 12 days, and thereafter still couldn't run our air handling system which had been destroyed by the flooding.

As of the first week of October, our flood adjuster arrived to assess our damage. He stated that he was going to photograph and measure the house, list all the damage and would compensate us to return our home to its pre-flood condition. At the end of this visit he asked us to make a list of our personal items, and costs, and said we could now dispose of all of the debris which we had held for him to verify.

As of the first week of October my wife found a 3 bedroom furnished apartment for us to move into at $2,800.00 per month. We had to rent a furnished apartment as our carrier had not paid us anything to allow us to replace our furniture. We stayed until finding a home to rent at $1,400.00 per month, and had to move into that home with no furniture, having only mattresses purchased on a credit card for our living accommodations. Our tenants at 2 Ferguson had moved into a trailer, and I had agreed to cease charging them rent.

Throughout the rest of October I periodically called our adjuster, who continued to claim that we were at the "top of his list". Finally in November I had to plead with the adjuster to do something as I had expended over $15,000.00, in addition to missing two

months' of work. He finally arranged to have $17,500.00 sent to us, which allowed us to at least catch up on some bills, and get some furniture and clothing.

By the end of November I received claim summaries and additional claim documents for our main residence, and our rental house from the adjuster (Exhibit F).

Our tenants had begun to make repairs to 2 Ferguson in order to make it somewhat livable, in return for which I agreed to pay for materials, and forego additional rent.

With respect to the main residence I noted that he had failed to list damaged items, had listed cheaper materials than what we had, and had the dimensions of our rooms wrong. I called the adjuster who advised me to list for him all the discrepancies for him to review.

I wrote back to the adjuster, sending a full scaled drawing with measurements of the house, along with comments about items mis-identified and/or missing from his summaries.

On November 26 I applied to the City of Poquoson for a permit to make repairs to my properties.

On December 1, I received a letter from the city stating that my home required substantial repairs in excess of 50% of its replacement value, and as a result, I would have to elevate the entire structure.

On December 3, Allstate advised that all insurance proceeds for my coverage would be withheld due to the mis-rating of my policies, and that a premium adjustment would be made, and monies deducted from my claims proceeds.

On December 5 I received the balance of monies owed for our personal property (far less than what we lost as we were vastly under-insured).

On December 18, a contractor whom I had consulted about raising my house advised that the cost of raising the house might be less if we could use the existing foundation. However, the City would require certification by an approved architect or engineer.

I then hired Norman Davis, an approved local architect for the purpose of providing the certification. He advised he was four weeks behind schedule and would get to me as soon as possible.

On December 19, while setting up space heaters to keep water pipes from freezing, I noticed that black mold had begun to form on the interior side of my exterior walls. I called the adjuster who stated that they were not responsible and would not cover mold damage. When I asked if it mattered that the mold came as a result of the

flood, despite my doing everything I could to dry everything, he repeated that they still would not do anything about mold.

In mid-January, I was advised by Norman Davis that my foundation and structure had sustained flood damage, and could not be reused.

I called the adjuster to advise that inspection of the foundation had revealed damage to the structure and foundation, and the adjuster stated that any claim for structure damage had to be verified by a certified written report.

I called Norman Davis and asked for a written report to send to the adjuster.

On February 3, I received a supplemental claim summary from the adjuster (Exhibit H), which still did not accurately reflect the damage for which I believed I was owed. I called the adjuster who said I was right, that he didn't know what he was thinking, and asked that I be patient and he would send me another summary.

On February 16, I received written reports from Norman Davis and sent them to the adjuster (Exhibit I).

The adjuster called to tell me he had discussed my claim with his supervisor and that the foundation damage would not be a claim item, because the foundation replacement would be paid under ICC coverage extended for raising the house. He indicated that 2 Ferguson would be treated the same.

In late February, I attended a help session organized by the City of Poquoson, and spoke with a professional adjuster, Daniel Montgomery, who was there to answer questions. Mr. Montgomery, who was there as a free consultant to the City advised that in fact I was owed for my foundation damage under my policy, as the flood program had no right to compel me to make the choice of raising my home under the ICC coverage, and apportioning my foundation replacement to that coverage for me.

On February 29, I had received and returned by fax Proof of Loss forms for the finally amended claim summaries for damage agreed to thus far. In the fax I again asked the adjuster why my foundation would not be paid under the policy, and requested that his supervisor explain that in writing. (Exhibit J) I also went over the claim summaries (Exhibit K) with Mr. Montgomery, as I was concerned about whether signing the Proof of Loss forms would end my claim rights. He informed me that it would not.

The next day, on March 1, I received a call back from the adjuster. He stated that "we" were confused and that the insurance company had to send its own engineer to evaluate the flood damage to the residences.

On March 22, Rimkus Consulting Group, who had been retained by Allstate, inspected my properties.

By then my tenants at 2 Ferguson had made enough cosmetic repairs to move back in, and were again paying rent. However, no foundation or structural repairs had been made.

In May, having been worn out by the NFIP's chain of command, I hired my own insurance adjuster to continue with my representation (Exhibit M)

On June 10, I received a copies of a reports done by Rimkus Consulting on April 15 for the main residence (Sandy Point), and April 13 for the rental property (2 Ferguson). (Exhibit N)

Both reports indicated that my properties had been damaged by flood to a greater extent than had been calculated by the adjuster.

By then, I was heartened to learn of the establishment of the FEMA Isabel Review Task Force, put into place to review any claims of policyholders who felt they had not been fairly treated. Little did I know, nor could I have expected at the time, that the "Task Force" would be comprised of the very same independent adjusting companies and adjusters who had wrongfully denied and underpaid the Isabel flood claims from the outset.

My adjuster (Montgomery) commenced discussions with the Task Force, to whom he had submitted twenty-four claims for review.

As of August 13th, Montgomery had negotiated the settlement of 10 of his 24 claims with the Task Force, not without many difficulties and underhanded tactics being utilized by the NFIP and the Task Force. The average settlement of the claims was about 259% of the original claim settlements effected through the original claims settlement chain of conspirators, or 159% more than what was originally declared by them to have been all that was owed under the policies. (Exhibit O)

It was almost my turn to have my claim resolved, my houses having been looked at, but due to scheduling problems with an NFIP "General Adjuster" (actually an employee of Computer Sciences Corporation) my paperwork had not been completed.

On August 12th, the Task Force sent one of its "File Managers" in lieu of a General Adjuster to review the damage estimates prepared by Montgomery at my main residence. Unfortunately, my rental property could not be seen that day due to the absence of my tenants (who had previously been available during three broken appointments with the General Adjuster scheduling problems). The File Manage, Don Kerber, agreed with Montgomery that the damage to my home as a direct result of flood, with or without the repairs to my foundation were in excess of my policy limts of $158,400.00, and advised Montgomery he would recommend payment of the claim summary.

As fate would have it, August 13th brought Hurricane Charley, the first of four, to Florida. By August 15th, virtually the entire "Task Force" (keep in mind they were nothing more than the same flood adjusters who have traveled the country for years plying their craft) bolted the Task Force offices and headed south to seek to add to their fortunes. Needless to say, Mr. Montgomery did not bolt south, even though Florida is his home. He stayed to continue his efforts on behalf of myself and the remaining victims.

On August 15th, Montgomery sent Kerber a revised estimate of damages (Exhibit S), as he had done in each of the claims he had settled prior to mine, correcting details he and Kerber had discussed. Unfortunately, when Montgomery tried to follow-up by telephone on Monday the 16th, he learned that Kerber too had left for Florida.

After another month of waiting for the Task Force (now apparently just a hand full of people, headed by *Ramsey Gray,* the former business partner of the CSC Claims Manager, *Joseph Buzzelli,* who had earlier been removed from the Task Force for inappropriate behavior) Mr. Montgomery was invited to the NFIP Task Force offices to "discuss claims settlements". Much to his dismay, but not to his surprise, he was confronted by a messenger, who had meticulously combed the remaining claims files to find virtually any excuse to deny the payment of the claims.

The messenger, Joseph Masselli, who claimed he was merely delivering the decisions of Ramsey Gray, said that my claim would not be paid due to some apparent duplication of claim items. Montgomery reviewed the items, and told Masselli that they were obvious minor oversights, and he would correct them and send a revised summary back. Montgomery sent the revised summary (Exhibit T) (still well over my policy limits), along with a Statement in Proof of Loss, (Exhibit U).

Interestingly enough, several of the files had already been negotiated with settlement amounts having been faxed to Montgomery. The boilerplate letters that FEMA was sending out when additional money was to be paid had also been sent to the policyholders. Immediately after the "Claims settlement" meeting, the policyholders received letters denying them any further consideration. Two of the claims were for houses in my own neighborhood, constructed exactly like mine, with exactly the same damage (to a lesser degree) as I had in my primary residence. (Exhibit P).

Subsequently, the Task Force assigned *Joseph Buzzelli,* the very same CSC Claims Manager who had been dismissed from the Task Force to travel to Virginia to resolve the outstanding claims. He met with Montgomery and Steve Kanstoroom, a victim from Maryland who had suffered through prior experience with him, at Congresswoman Jo Ann Davis' Yorktown offices, where he proceeded to agree to pay the claims of the homes identical to mine, *which had been approved by the original File Manager, then denied by Gray through Masselli, and now were being approved again.* He had not however been instructed to bring the claim file for my main residence, along with five others, with him. *When Montgomery showed him the communication with*

Kerber, and the signed Proof of Loss, Buzzelli called Wilma Brown (who incidentally had originally trained Montgomery in Flood Claim adjusting years before) and told her she needed to reject the proof of loss immediately (Exhibit V).

He did however have my rental house file, and went to inspect the house with Montgomery and Kanstoroom. He agreed with Montgomery to pay the claim, except for some vinyl tile which had been left as a moisture barrier under the carpeting. Montgomery sent him the agreed revised estimate the next day, and he then proceeded to deny the entire claim again. (Exhibit Q)

Since then, Montgomery has enlisted the support of Congresswoman Jo Ann Davis and Senator George Allen, both of whom wrote letters on my behalf to the parties involved, and to my absolute amazement, both of whom have been treated with the same contempt that I have. (Exhibit R). *Note in the letter sent back by David Maurstad, that he attributes to my engineer (whose report I was told was unacceptable, resulting in the hiring of Allstate's chosen engineer) that my foundation did not meet the building code. This implies that the failure of my foundation was therefore due to it being a construction defect, when the truth is, it was built to code originally, but doesn't meet the current code. That is quite commonplace. The fact does remain however, as stated by my engineer, that the flood did the damage to my foundation, which was the foundation insured under the policy.*

Without attempting to describe the details of the egregious misrepresentation of my claims, that would be better explained by Mr. Montgomery, suffice it to say that someone fed a distorted and very narrow summary of a part of my claim to the FEMA appointee signing the letters, who himself could have absolutely no knowledge whatsoever as to the veracity of what he was putting out over his own signature. In the private sector, that alone would be cause for removal of a supervisor for at least gross incompetence. I still cannot repair my home, now overgrown with mold and nearly beyond salvage.

There really isn't much more to say, other than that I and the thousands of victims like me, implore, beg and plead that you will not let all of these wrongs go unpunished, and that you not let this deformed agency continue to destroy families, livelihoods, and in some cases lives.

Thank you for your kind attention
Larry Bearekman

Exhibit 5

Daniel Montgomery
7221 Doe Drive
Gloucester, VA. 23061
(804) 695-2598 – Telephone
(804) 695-0718 - Facsimile

facsimile transmittal

To:	Don Kerber	Fax:	1-301-352-1040 ext 7118
From:	Dan Montgomery	Date:	8/15/04
Re:	Reviewed Claims	Pages:	23
CC:			

☐ Urgent ☑ For Review ☐ Please Comment ☐ Please Reply ☐ Please Recycle

Notes: Don- Here are the revised copies of the Bearckman and Thomas claims per our review. I was contacted by John Garner of G and A, who advises he has been assigned the Leonard engineering task, and I am waiting for the electrical estimate for the Ross claim.

Adjuster Summary

Claim # 641-242452-2

Consultant **Montgomery Associates, Inc.**

Daniel Montgomery
Phone (804) 695-2598
Fax (804) 695-0718

1235 Jungle Avenue North
St. Petersburg, FL 33710
(727) 463 6623

August 11, 2004

Insured Name Bearekman, Larry & Marcia
Loss Address 14 W Sandy Point, Poquoson, VA 23662
Phone Number
Other Phone
Ins Company Allstate Flood Insurance Program

Policy # 0804464550
Ins Claim # 641-242452-2

Catastrophe # 39
Date of Loss 9/18/03

Coverage - Flood, Building

Exterior (80' 6" x 21' 4" x 8')

2,308 sf Floor	2,019 sf Wall	2,308 sf Ceiling	252 lf Floor	252 lf Ceiling	18,463 cf Volume

Offset(s) 62' 6" x 3' 6" 15' x 6' 19' x 14' 10"

		Rept. Cost	Depr.	ACV	OP	RD
Clean Muckout Water w/heavy mud, limited access crawlspace	2308 SF @ $0.76 [a]	$1,754.08	$0.00	$1,754.08		
Clean Disinfect/Deodorize, per SF Crawlspace	2308 SF @ $0.35 [a]	$807.80	$0.00	$807.80		
Clean Mildecide Treat and Seal Joist System	2308 SF @ $0.83 [a]	$1,915.64	$0.00	$1,915.64		
Clean Remediate, treat and seal contaminated wall framing	1211.4 SF @ $1.23 [a]	$1,490.02	$0.00	$1,490.02		
Tear Out Ductwork per SF Crawlspace	2308 SF @ $0.50 [a]	$1,154.00	$0.00	$1,154.00		
Tear Out Floor Insulation Wet Removal & Bagging	2308 SF @ $0.75 [a]	$1,731.00	$0.00	$1,731.00		
Replace Floor Insulation	2308 SF @ $0.74 [a]	$1,707.92	$0.00	$1,707.92		
Replace Floor Insulation Wire Suspension Ties	2308 SF @ $0.25 [a]	$577.00	$0.00	$577.00		
Replace Floor Insulation Poly Vapor Barrier	2308 SF @ $0.40 [a]	$923.20	$0.00	$923.20		
Replace Pipe Insulation Foam Wrapped, crawlspace area	252 LF @ $1.23 [a]	$309.96	$0.00	$309.96		
Tear Out Wall Insulation	1009.5 SF @ $0.11 [a]	$111.05	$0.00	$111.05		
Replace Wall Insulation	1009.5 SF @ $0.35 [a]	$353.33	$0.00	$353.33		
Remove Debris 40 Yd. Load	1 LD @ $717.77 [a]	$717.77	$0.00	$717.77		
Special Jobsite clean-up Interim and final, 1 hr /100 sf area	2308 EA @ $0.22 [a]	$507.76	$0.00	$507.76		
Replace Electrical Work Sub-floor junction boxes, connections, wiring	1 LS @ $12,800.00 [a*]	$12,800.00	$0.00	$12,800.00		
Per A to Z Home Repair & Remodeling						
Replace HVAC, per LS	1 LS @ $12,800.00 [a*]	$12,800.00	$0.00	$12,800.00		
Per Barts Heating and Air Conditioning						
Rem & Replace Brick Veneer	726.84 EA @ $15.27 [a]	$11,098.85	$0.00	$11,098.85		
Replace Tuck Pointing	242.28 EA @ $5.58 [a]	$1,351.92	$0.00	$1,351.92		
Rem & Replace Insulation, Fiberboard	726.84 SF @ $1.17 [a]	$850.40	$0.00	$850.40		
Rem & Replace Siding, Aluminum	355.35 SF @ $1.37 [a]	$486.83	Material			

		Repl. Cost	Depr.	ACV	OP RD
	323.04 SF @ $1.59	$513.63	Labor		
		$1,000.46	$0.00	$1,000.46	
Rem & Replace Insulation, Polyisocyanurate	323.04 SF @ $1.12 [a]	$361.80	$0.00	$361.80	
Rem & Replace Wall Sheathing Plywood 1/2"	224 SF @ $1.25 [a]	$280.00	$0.00	$280.00	
	Exterior Total	$54,603.96	$0.00	$54,603.96	

Crawlspace (80' 6" x 21' 4" x 2')

2,308 sf Floor 505 sf Wall 2,308 sf Ceiling 252 lf Floor 252 lf Ceiling 4,616 cf Volume

Offset(s) 62' 6" x 3' 6" 15' x 6' 19' x 14' 10"

		Repl. Cost	Depr.	ACV	OP RD
Clean Muckout Water w/heavy mud, limited access crawlspace	2308 SF @ $0.76 [a]	$1,754.08	$0.00	$1,754.08	
Clean Disinfect/Deodorize, per SF Crawlspace	2308 SF @ $0.35 [a]	$807.80	$0.00	$807.80	
Clean Mildecide Treat and Seal Joist System	2308 SF @ $0.83 [a]	$1,915.64	$0.00	$1,915.64	
Tear Out Ductwork per SF Crawlspace	2308 SF @ $0.50 [a]	$1,154.00	$0.00	$1,154.00	
Tear Out Floor Insulation Wet Removal & Bagging	2308 SF @ $0.75 [a]	$1,731.00	$0.00	$1,731.00	
Replace Floor Insulation	2308 SF @ $0.74 [a]	$1,707.92	$0.00	$1,707.92	
Replace Floor Insulation Wire Suspension Ties	2308 SF @ $0.25 [a]	$577.00	$0.00	$577.00	
Replace Floor Insulation Poly Vapor Barrier	1200 SF @ $0.40 [a]	$480.00	$0.00	$480.00	
Replace Pipe insulation Foam Wrapped, crawlspace area	252 LF @ $1.23 [a]	$309.96	$0.00	$309.96	
Rem & Replace Foundation Vents	6 EA @ $53.46 [a]	$320.76	$0.00	$320.76	
Rem & Replace Access Door	1 EA @ $82.28 [a]	$82.28	$0.00	$82.28	
Rem & Replace Concrete Block Foundation Pier, 2'x2'x3' per pier	6 EA @ $216.24 [a]	$1,297.44	$0.00	$1,297.44	
Repair Jack, brace and re-level joist system	2308 SF @ $3.00 [a]	$6,924.00	$0.00	$6,924.00	
Rem & Replace Stud Wall 2"x4" 16" OC	28 SF @ $1.20 [a]	$33.60	$0.00	$33.60	
Foundation cripple wall under office area.					
	Crawlspace Total	$19,095.48	$0.00	$19,095.48	

Front Elevation

		Repl. Cost	Depr.	ACV	OP RD
Rem & Replace Storm Window, Aluminum	3 EA @ $150.54 [a]	$451.62	$0.00	$451.62	
Rem & Replace Window, Double Hung, Wood	9 EA @ $341.13 [a]	$3,070.17	$0.00	$3,070.17	
Rem & Reinstall Shutters, Plastic	2 PR @ $16.21 [a]	$32.42	$0.00	$32.42	
Rem & Reinstall Downspout	30 LF @ $1.85 [a]	$55.50	$0.00	$55.50	
Remove Patio Posts, Iron, Scrolled	4 EA @ $6.66 [b]	$26.64	$0.00	$26.64	
Replace Patio Posts, Iron, Scrolled	4 EA @ $53.29 [b]	$213.16	$0.00	$213.16	
Paint Patio Posts, Iron, Scrolled	4 EA @ $9.03 [b]	$36.12	$0.00	$36.12	
Rem & Replace Railing, Wrought Iron	5 LF @ $12.44 [a]	$62.20	$0.00	$62.20	
Paint Railing, Wrought Iron	5 LF @ $1.58 [b]	$7.90	$0.00	$7.90	
	Front Elevation Total	$3,955.73	$0.00	$3,955.73	

Right Elevation

		Repl. Cost	Depr.	ACV	OP	RD
Rem & Replace Window, Casement, Vinyl, 7 - 10 SF, Deluxe	2 EA @ $403.67 [a]	$807.34	$0.00	$807.34		
Rem & Replace Window, Fixed, Vinyl, 15 - 20 SF, Deluxe	1 EA @ $382.72 [a]	$382.72	$0.00	$382.72		
Rem & Reinstall Downspout	10 LF @ $1.85 [a]	$18.50	$0.00	$18.50		
Right Elevation Total		$1,208.56	$0.00	$1,208.56		

Rear Elevation

		Repl. Cost	Depr.	ACV	OP	RD
Rem & Reinstall Deck Railing	50 LF @ $2.39 [a]	$119.50	$0.00	$119.50		
Rem & Reinstall Deck Steps	6 TR @ $6.61 [a]	$39.66	$0.00	$39.66		
Rem & Replace Deck Flooring, Treated Pine	225 SF @ $2.33 [a]	$524.25	$0.00	$524.25		
Replace Joists, Treated Pine	162 LF @ $2.40 [a]	$388.80	$0.00	$388.80		
Rem & Replace Sliding Glass Door, Wood 6' Deluxe	4 EA @ $1,278.66 [a]	$5,114.64	$0.00	$5,114.64		
Rem & Replace Casing Exterior	80 LF @ $2.73 [a]	$218.40	$0.00	$218.40		
Paint Casing Exterior	80 LF @ $0.32 [a]	$25.60	$0.00	$25.60		
Rem & Replace Full Screen, Aluminum, Large	3 EA @ $49.51 [a]	$148.53	$0.00	$148.53		
Rem & Reinstall Downspout	40 LF @ $1.85 [a]	$74.00	$0.00	$74.00		
Rem & Reinstall Soffit Vinyl	28 SF @ $1.26 [a]	$35.28	$0.00	$35.28		
Replace Jack/Shore & Brace	8 HR @ $30.88 [a]	$247.04	$0.00	$247.04		
Jack, shore and brace porch roof for removal of post supports.						
Rem & Replace Posts, Treated Pine 4"x4"	32 LF @ $2.35 [a]	$75.20	$0.00	$75.20		
Replace Battens, Vertical, 24" O.C., 1"x2"	224 SF @ $0.23 [b]	$51.52	$0.00	$51.52		
Rescreen Frame Fiberglass	224 SF @ $2.03 [a]	$454.72	$0.00	$454.72		
Replace Door, Storm/Screen, Wood	1 EA @ $216.10 [b]	$216.10	$0.00	$216.10		
Rem & Replace Deck Flooring, Treated Pine	252 SF @ $2.33 [a]	$587.16	$0.00	$587.16		
Rem & Replace Joists, Treated Pine	144 LF @ $2.96 [a]	$426.24	$0.00	$426.24		
Rem & Replace Panel Door, Steel	1 EA @ $337.82 [a]	$337.82	$0.00	$337.82		
Rear Elevation Total		$9,084.46	$0.00	$9,084.46		

Left Elevation

		Repl. Cost	Depr.	ACV	OP	RD
Rem & Replace Windowsill, Masonry Brick	8 LF @ $11.39 [a]	$91.12	$0.00	$91.12		
Left Elevation Total		$91.12	$0.00	$91.12		

Entry (11' x 4' 8" x 8')

59 sf Floor | 216 sf Wall | 59 sf Ceiling | 27 lf Floor | 27 lf Ceiling | 471 cf Volume

Closet(s) 3' 6" x 2' 2"
Missing Wall(s) 11' x 8' 4' 8" x 8'

		Repl. Cost	Depr.	ACV	OP RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	59 SF @ $1.00 [a]	$59.00	$0.00	$59.00	
Rem & Replace Plaster & Lath Walls	12 SY @ $52.00 [a]	$624.00	$0.00	$624.00	
Clean Remediate, treat and seal contaminated wall framing	108 SF @ $1.23 [a]	$132.84	$0.00	$132.84	
Replace Texture Walls	216 SF @ $0.54 [a]	$116.64	$0.00	$116.64	
Paint Plaster & Lath Walls	24 SY @ $3.70 [a]	$88.80	$0.00	$88.80	
Rem & Replace Panel Door w/Glass, Steel	1 EA @ $325.44 [a]	$325.44	$0.00	$325.44	
Paint Panel Door w/Glass, Steel	1 EA @ $40.90 [a]	$40.90	$0.00	$40.90	
Rem & Replace Threshold, Aluminum	1 EA @ $30.17 [a]	$30.17	$0.00	$30.17	
Rem & Reinstall Lockset Exterior, Entry	1 EA @ $14.94 [a]	$14.94	$0.00	$14.94	
Rem & Replace Casing Exterior	17 LF @ $2.73 [a]	$46.41	$0.00	$46.41	
Paint Casing Exterior	17 LF @ $0.32 [a]	$5.44	$0.00	$5.44	
Rem & Replace Cased Opening, Door	3 EA @ $49.66 [a]	$148.98	$0.00	$148.98	
Paint Cased Opening	3 EA @ $28.73 [a]	$86.19	$0.00	$86.19	
Rem & Replace Base Molding, Wood 4"	27 LF @ $2.97 [a]	$80.19	$0.00	$80.19	
Paint Base Molding, Wood 4"	27 LF @ $0.57 [a]	$15.39	$0.00	$15.39	
Rem & Replace Molding 1"	27 LF @ $1.33 [a]	$35.91	$0.00	$35.91	
Rem & Replace T&G Hardwood Floor	61.95 SF @ $4.36 [a]	$270.10	Material		
	59 SF @ $2.26	$133.34	Labor		
		$403.44	$0.00	$403.44	
Special Sand, Stain & Finish Wood Floor	59 SF @ $2.62 [b]	$154.58	$0.00	$154.58	
Rem & Replace Subfloor - Wood 1"	59 SF @ $2.01 [a]	$118.59	$0.00	$118.59	
Rem/Reset Blinds (EA)	1 EA @ $13.87 [b]	$13.87	$0.00	$13.87	
	Entry Total	$2,541.72	$0.00	$2,541.72	

Den (16' 4" x 13' 5" x 8' 8")
219 sf Floor 412 sf Wall 219 sf Ceiling 46 lf Floor 60 lf Ceiling 1,899 cf Volume

Missing Wall(s) 13' x 8'

		Repl. Cost	Depr.	ACV	OP RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	219 SF @ $1.00 [a]	$219.00	$0.00	$219.00	
Rem & Replace Plaster & Lath Walls	22.89 SY @ $52.00 [a]	$1,190.28	$0.00	$1,190.28	
Clean Remediate, treat and seal contaminated wall framing	206 SF @ $1.23 [a]	$253.38	$0.00	$253.38	
Replace Texture Walls	412 SF @ $0.54 [a]	$222.48	$0.00	$222.48	
Paint Plaster & Lath Walls	45.78 SY @ $3.70 [a]	$169.39	$0.00	$169.39	
Rem & Replace Base Molding, Wood 4"	46 LF @ $2.97 [a]	$136.62	$0.00	$136.62	
Paint Base Molding, Wood 4"	46 LF @ $0.57 [a]	$26.22	$0.00	$26.22	
Rem & Replace Molding 1"	46 LF @ $1.33 [a]	$61.18	$0.00	$61.18	
Rem & Replace T&G Hardwood Floor	229.95 SF @ $4.36 [a]	$1,002.58	Material		
	219 SF @ $2.26	$494.94	Labor		
		$1,497.52	$0.00	$1,497.52	
Special Sand, Stain & Finish Wood Floor	219 SF @ $2.62 [b]	$573.78	$0.00	$573.78	
Rem & Replace Subfloor - Wood 1"	219 SF @ $2.01 [a]	$440.19	$0.00	$440.19	
Rem & Replace Tile Floor, Clay	10 SF @ $9.76 [a]	$97.60	$0.00	$97.60	
Rem & Replace Insulation, Fiberglass	64 SF @ $1.46 [a]	$93.44	$0.00	$93.44	
Replace Insulation, Fiberboard	64 SF @ $0.83 [a]	$53.12	$0.00	$53.12	
Rem/Reset Blinds (EA)	3 EA @ $13.87 [b]	$41.61	$0.00	$41.61	

		Repl. Cost	Depr.	ACV	OP	RD
Rem & Reinstall Wood Casing Window Trim Set	3 EA @ $52.93 [a]	$158.79	$0.00	$158.79		
Paint Cased Opening	3 EA @ $28.73 [a]	$86.19	$0.00	$86.19		
Remove Fireplace, Gas	1 EA @ $23.61 [b]	$23.61	$0.00	$23.61		
Replace Fireplace, Gas	1 EA @ $1,755.19 [b]	$1,755.19	$0.00	$1,755.19		
Replace Fireplace Screen	1 EA @ $78.27 [b]	$78.27	$0.00	$78.27		
Rem & Replace Register	2 EA @ $21.36 [a]	$42.72	$0.00	$42.72		
	Den Total	$7,220.58	$0.00	$7,220.58		

Dining Room (12' 3" x 10' 6" x 8')

129 sf Floor | 312 sf Wall | 129 sf Ceiling | 39 lf Floor | 39 lf Ceiling | 1,029 cf Volume

Missing Wall(s) 6' 6" x 8'

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	129 SF @ $1.00 [a]	$129.00	$0.00	$129.00		
Rem & Replace Plaster & Lath Walls	17.34 SY @ $52.00 [a]	$901.68	$0.00	$901.68		
Clean Remediate, treat and seal contaminated wall framing	156 SF @ $1.23 [a]	$191.88	$0.00	$191.88		
Replace Texture Walls	312 SF @ $0.54 [a]	$168.48	$0.00	$168.48		
Paint Plaster & Lath Walls	34.67 SY @ $3.70 [a]	$128.28	$0.00	$128.28		
Rem & Replace Base Molding, Wood 4"	39 LF @ $2.97 [a]	$115.83	$0.00	$115.83		
Paint Base Molding, Wood 4"	39 LF @ $0.57 [a]	$22.23	$0.00	$22.23		
Rem & Replace Molding 1"	39 LF @ $1.33 [a]	$51.87	$0.00	$51.87		
Rem & Replace T&G Hardwood Floor	135.45 SF @ $4.36 [a]	$590.56	Material			
	129 SF @ $2.26	$291.54	Labor			
		$882.10	$0.00	$882.10		
Special Sand, Stain & Finish Wood Floor	129 SF @ $2.62 [b]	$337.98	$0.00	$337.98		
Rem & Replace Subfloor - Wood 1"	129 SF @ $2.01 [a]	$259.29	$0.00	$259.29		
Rem/Reset Blinds (EA)	2 EA @ $13.87 [a]	$27.74	$0.00	$27.74		
Remove Door, Patio, Swing, Wood, 6'	1 EA @ $22.04 [b]	$22.04	$0.00	$22.04		
Replace Door, Patio, Swing, Wood, 6'	1 EA @ $968.80 [b]	$968.80	$0.00	$968.80		
Rem & Reinstall Lockset Exterior, Entry	2 EA @ $14.94 [a]	$29.88	$0.00	$29.88		
Paint Door, Patio, Swing	2 EA @ $45.04 [b]	$90.08	$0.00	$90.08		
Rem & Replace Pocket Door	1 EA @ $177.59 [a]	$177.59	$0.00	$177.59		
Paint Pocket Door	1 EA @ $30.44 [a]	$30.44	$0.00	$30.44		
Rem & Replace Cased Opening, Door	3 EA @ $49.66 [a]	$148.98	$0.00	$148.98		
Paint Cased Opening	3 EA @ $28.73 [a]	$86.19	$0.00	$86.19		
Rem & Replace Register	1 EA @ $21.36 [a]	$21.36	$0.00	$21.36		
	Dining Room Total	$4,791.72	$0.00	$4,791.72		

Bedroom Hallway (11' 9" x 3' 2" x 8')

47 sf Floor | 296 sf Wall | 47 sf Ceiling | 37 lf Floor | 37 lf Ceiling | 379 cf Volume

Offset(s) 2' 10" x 3' 7"

		Repl. Cost	Depr.	ACV	OP RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	47 SF @ $1.00 [a]	$47.00	$0.00	$47.00	
Rem & Replace Plaster & Lath Walls	16.45 SY @ $52.00 [a]	$855.40	$0.00	$855.40	
Clean Remediate, treat and seal contaminated wall framing	148 SF @ $1.23 [a]	$182.04	$0.00	$182.04	
Replace Texture Walls	296 SF @ $0.54 [a]	$159.84	$0.00	$159.84	
Paint Plaster & Lath Walls	32.89 SY @ $3.70 [a]	$121.69	$0.00	$121.69	
Rem & Replace Base Molding, Wood 4"	37 LF @ $2.97 [a]	$109.89	$0.00	$109.89	
Paint Base Molding, Wood 4"	37 LF @ $0.57 [a]	$21.09	$0.00	$21.09	
Rem & Replace Molding 1"	37 LF @ $1.33 [a]	$49.21	$0.00	$49.21	
Rem & Replace T&G Hardwood Floor	49.35 SF @ $4.36 [a]	$215.17	Material		
	47 SF @ $2.26	$106.22	Labor		
		$321.39	$0.00	$321.39	
Special Sand, Stain & Finish Wood Floor	47 SF @ $2.62 [b]	$123.14	$0.00	$123.14	
Rem & Replace Subfloor - Wood 1"	47 SF @ $2.01 [a]	$94.47	$0.00	$94.47	
Rem & Replace Panel Door, Pre-Hung	1 EA @ $277.48 [a]	$277.48	$0.00	$277.48	
Rem & Reinstall Lockset Interior, Passage	1 EA @ $9.50 [a]	$9.50	$0.00	$9.50	
Paint Panel Door, Pre-Hung	1 EA @ $40.59 [a]	$40.59	$0.00	$40.59	
Rem & Replace Cased Opening, Door	5 EA @ $49.66 [a]	$248.30	$0.00	$248.30	
Paint Cased Opening	5 EA @ $28.73 [a]	$143.65	$0.00	$143.65	
Bedroom Hallway Total		$2,804.68	$0.00	$2,804.68	

Front Bedroom (10' 7" x 10' 9" x 8')

128 sf Floor | 484 sf Wall | 128 sf Ceiling | 60 lf Floor | 60 lf Ceiling | 1,027 cf Volume

Closet(s) 6' 9" x 2' 2"

		Repl. Cost	Depr.	ACV	OP RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	128 SF @ $1.00 [a]	$128.00	$0.00	$128.00	
Rem & Replace Plaster & Lath Walls	26.89 SY @ $52.00 [a]	$1,398.28	$0.00	$1,398.28	
Clean Remediate, treat and seal contaminated wall framing	242 SF @ $1.23 [a]	$297.66	$0.00	$297.66	
Replace Texture Walls	484 SF @ $0.54 [a]	$261.36	$0.00	$261.36	
Paint Plaster & Lath Walls	53.78 SY @ $3.70 [a]	$198.99	$0.00	$198.99	
Rem & Replace Base Molding, Wood 4"	60 LF @ $2.97 [a]	$178.20	$0.00	$178.20	
Paint Base Molding, Wood 4"	60 LF @ $0.57 [a]	$34.20	$0.00	$34.20	
Rem & Replace Molding 1"	60 LF @ $1.33 [a]	$79.80	$0.00	$79.80	
Rem & Replace T&G Hardwood Floor	134.4 SF @ $4.36 [a]	$585.98	Material		
	128 SF @ $2.26	$289.28	Labor		
		$875.26	$0.00	$875.26	
Special Sand, Stain & Finish Wood Floor	128 SF @ $2.62 [b]	$335.36	$0.00	$335.36	
Rem & Replace Subfloor - Wood 1"	128 SF @ $2.01 [a]	$257.28	$0.00	$257.28	
Rem & Replace Register	1 EA @ $21.36 [a]	$21.36	$0.00	$21.36	
Rem & Replace Flush Int. HC Door, Pre-Hung	1 EA @ $166.53 [a]	$166.53	$0.00	$166.53	
Rem & Reinstall Lockset Interior, Passage	1 EA @ $9.50 [a]	$9.50	$0.00	$9.50	
Paint Flush Int. HC Door, Pre-Hung	1 EA @ $27.15 [a]	$27.15	$0.00	$27.15	
Rem & Replace Door Jamb, Interior - expanded jamb	1 EA @ $78.68 [a]	$78.68	$0.00	$78.68	
Rem & Replace Bi-Pass Int. Doors, Flush	1 ST @ $203.11 [a]	$203.11	$0.00	$203.11	
Paint Bi-Pass Int. Doors, Flush	1 ST @ $30.44 [a]	$30.44	$0.00	$30.44	
Rem & Replace Wood Casing Window Trim	2 EA @ $52.93 [a]	$105.86	$0.00	$105.86	

		Repl. Cost	Depr.	ACV	OP RD
Set					
Rem/Reset Blinds (EA)	2 EA @ $13.87 [a]	$27.74	$0.00	$27.74	
Rem & Replace Cased Opening, Door	2 EA @ $49.66 [a]	$99.32	$0.00	$99.32	
Paint Cased Opening	4 EA @ $28.73 [a]	$114.92	$0.00	$114.92	
Rem & Replace Shelving	8 LF @ $6.34 [a]	$50.72	$0.00	$50.72	
Paint Shelving	8 LF @ $0.42 [a]	$3.36	$0.00	$3.36	
	Front Bedroom Total	$4,983.08	$0.00	$4,983.08	

Front Corner Bedroom (12' x 10' 7" x 8')

142 sf Floor	468 sf Wall	142 sf Ceiling	58 lf Floor	64 lf Ceiling	1,137 cf Volume

Closet(s) 7' x 2' 2"
Missing Wall(s) 6' x 6' 8"

		Repl. Cost	Depr.	ACV	OP RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	142 SF @ $1.00 [a]	$142.00	$0.00	$142.00	
Rem & Replace Plaster & Lath Walls	26 SY @ $52.00 [a]	$1,352.00	$0.00	$1,352.00	
Clean Remediate, treat and seal contaminated wall framing	234 SF @ $1.23 [a]	$287.82	$0.00	$287.82	
Replace Texture Walls	468 SF @ $0.54 [a]	$252.72	$0.00	$252.72	
Paint Plaster & Lath Walls	52 SY @ $3.70 [a]	$192.40	$0.00	$192.40	
Rem & Replace Base Molding, Wood 4"	58 LF @ $2.97 [a]	$172.26	$0.00	$172.26	
Paint Base Molding, Wood 4"	58 LF @ $0.57 [a]	$33.06	$0.00	$33.06	
Rem & Replace Molding 1"	58 LF @ $1.33 [a]	$77.14	$0.00	$77.14	
Rem & Replace T&G Hardwood Floor	149.1 SF @ $4.36 [a]	$650.08	Material		
	142 SF @ $2.26	$320.92	Labor		
		$971.00	$0.00	$971.00	
Special Sand, Stain & Finish Wood Floor	142 SF @ $2.62 [b]	$372.04	$0.00	$372.04	
Rem & Replace Subfloor - Wood 1"	142 SF @ $2.01 [a]	$285.42	$0.00	$285.42	
Rem & Replace Register	1 EA @ $21.36 [a]	$21.36	$0.00	$21.36	
Rem & Replace Flush Int. HC Door, Pre-Hung	1 EA @ $166.53 [a]	$166.53	$0.00	$166.53	
Rem & Reinstall Lockset Interior, Passage	1 EA @ $9.50 [a]	$9.50	$0.00	$9.50	
Paint Flush Int. HC Door, Pre-Hung	1 EA @ $27.15 [a]	$27.15	$0.00	$27.15	
Rem & Replace Folding Accordion Door, 6'	1 EA @ $156.58 [a]	$156.58	$0.00	$156.58	
Rem & Replace Door Jamb, Interior - expanded jamb	2 EA @ $78.68 [a]	$157.36	$0.00	$157.36	
Rem & Replace Bi-Fold Int. Doors, Louver 6' Average Grade	1 ST @ $261.10 [a]	$261.10	$0.00	$261.10	
Paint Bi-Fold Int. Doors, Louver 6' Average Grade	1 ST @ $32.47 [a]	$32.47	$0.00	$32.47	
Rem & Replace Wood Casing Window Trim Set	3 EA @ $52.93 [a]	$158.79	$0.00	$158.79	
Rem/Reset Blinds (EA)	3 EA @ $13.87 [a]	$41.61	$0.00	$41.61	
Rem & Replace Cased Opening, Door	3 EA @ $49.66 [a]	$148.98	$0.00	$148.98	
Paint Cased Opening	6 EA @ $28.73 [a]	$172.38	$0.00	$172.38	
Rem & Replace Shelving	8 LF @ $6.34 [a]	$50.72	$0.00	$50.72	
Paint Shelving	8 LF @ $0.42 [a]	$3.36	$0.00	$3.36	
	Front Corner Bedroom Total	$5,545.75	$0.00	$5,545.75	

Rear Corner Bedroom (12' 3" x 12' x 8')

147 sf Floor	388 sf Wall	147 sf Ceiling	48 lf Floor	48 lf Ceiling	1,176 cf Volume

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout, clean, deodorize and miidecide per SF floor area	147 SF @ $1.00 [a]	$147.00	$0.00	$147.00		
Rem & Replace Plaster & Lath Walls	21.56 SY @ $52.00 [a]	$1,121.12	$0.00	$1,121.12		
Clean Remediate, treat and seal contaminated wall framing	194 SF @ $1.23 [a]	$238.62	$0.00	$238.62		
Replace Texture Walls	388 SF @ $0.54 [a]	$209.52	$0.00	$209.52		
Paint Plaster & Lath Walls	43.12 SY @ $3.70 [a]	$159.54	$0.00	$159.54		
Rem & Replace Base Molding, Wood 4"	48 LF @ $2.97 [a]	$142.56	$0.00	$142.56		
Paint Base Molding, Wood 4"	48 LF @ $0.57 [a]	$27.36	$0.00	$27.36		
Rem & Replace Molding 1"	48 LF @ $1.33 [a]	$63.84	$0.00	$63.84		
Rem & Replace T&G Hardwood Floor	154.35 SF @ $4.36 [a]	$672.97	Material			
	147 SF @ $2.26	$332.22	Labor			
		$1,005.19	$0.00	$1,005.19		
Special Sand, Stain & Finish Wood Floor	147 SF @ $2.62 [b]	$385.14	$0.00	$385.14		
Rem & Replace Subfloor - Wood 1"	147 SF @ $2.01 [a]	$295.47	$0.00	$295.47		
Rem & Replace Register	1 EA @ $21.36 [a]	$21.36	$0.00	$21.36		
Rem & Replace Flush Int. HC Door, Pre-Hung	1 EA @ $166.53 [a]	$166.53	$0.00	$166.53		
Rem & Reinstall Lockset Interior, Passage	1 EA @ $9.50 [a]	$9.50	$0.00	$9.50		
Paint Flush Int. HC Door, Pre-Hung	1 EA @ $27.15 [a]	$27.15	$0.00	$27.15		
Rem & Replace Wood Casing Window Trim Set	2 EA @ $52.93 [a]	$105.86	$0.00	$105.86		
Rem/Reset Blinds (EA)	2 EA @ $13.87 [b]	$27.74	$0.00	$27.74		
Rem & Replace Cased Opening, Door	2 EA @ $49.66 [a]	$99.32	$0.00	$99.32		
Paint Cased Opening	4 EA @ $28.73 [a]	$114.92	$0.00	$114.92		
Rear Corner Bedroom Total		$4,367.74	$0.00	$4,367.74		

Bedroom Bath (8' 8" x 4' 8" x 8')

40 sf Floor	213 sf Wall	40 sf Ceiling	27 lf Floor	27 lf Ceiling	324 cf Volume

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout, clean, deodorize and miidecide per SF floor area	40 SF @ $1.00 [a]	$40.00	$0.00	$40.00		
Rem & Replace Sheetrock Walls	106.5 SF @ $1.81 [a]	$192.77	$0.00	$192.77		
Rem & Replace Cement Board Wall 1/2"	106.5 SF @ $2.96 [a]	$315.24	$0.00	$315.24		
Replace Wallpaper Sizing	106.5 SF @ $0.30 [a]	$31.95	$0.00	$31.95		
Replace Wallpaper	124.61 SF @ $0.25 [a]	$31.15	Material			
	106.5 SF @ $1.20	$127.80	Labor			
		$158.95	$0.00	$158.95		
Rem & Replace Ceramic Tile Walls	106.5 SF @ $11.45 [a]	$1,219.43	$0.00	$1,219.43		
Replace Ceramic Soap Dish	1 EA @ $19.96 [b]	$19.96	$0.00	$19.96		
Clean Remediate, treat and seal contaminated wall framing	106.5 SF @ $1.23 [a]	$131.00	$0.00	$131.00		
Rem & Replace Wood Casing Window Trim Set	1 EA @ $52.93 [a]	$52.93	$0.00	$52.93		
Rem/Reset Blinds (EA)	1 EA @ $13.87 [b]	$13.87	$0.00	$13.87		
Rem & Replace Base Molding, Wood 4"	14 LF @ $2.97 [a]	$41.58	$0.00	$41.58		
Paint Base Molding, Wood 4"	14 LF @ $0.57 [a]	$7.98	$0.00	$7.98		
Rem & Replace Underlay, Plywood	40 SF @ $1.50 [a]	$60.00	$0.00	$60.00		
Rem & Replace Subfloor - Wood 1"	40 SF @ $2.01 [a]	$80.40	$0.00	$80.40		
Rem & Replace Vanity 30", Deluxe	1 EA @ $267.22 [a]	$267.22	$0.00	$267.22		
Rem & Reinstall Countertop, Cultured Marble w/Lav	1 LF @ $19.63 [a]	$19.63	$0.00	$19.63		

		Repl. Cost	Depr.	ACV	OP	RD
Rem & Reinstall Faucet, Lavatory	1 EA @ $29.64 [a]	$29.64	$0.00	$29.64		
Rem & Reinstall Faucet, Combination Shower/Bath	1 EA @ $68.40 [a]	$68.40	$0.00	$68.40		
Rem & Reinstall Bathtub, Enamel	1 EA @ $104.88 [a]	$104.88	$0.00	$104.88		
Clean Bathtub, Enamel	1 EA @ $7.93 [a]	$7.93	$0.00	$7.93		
Rem & Reinstall Commode (Toilet)	1 EA @ $79.80 [a]	$79.80	$0.00	$79.80		
Clean Commode (Toilet)	1 EA @ $10.98 [a]	$10.98	$0.00	$10.98		
Rem & Reinstall Wall Mirror	12 SF @ $2.76 [a]	$33.12	$0.00	$33.12		
Rem & Replace Flush Int. HC Door, Pre-Hung	1 EA @ $166.53 [a]	$166.53	$0.00	$166.53		
Paint Flush Int. HC Door, Pre-Hung	1 EA @ $27.15 [a]	$27.15	$0.00	$27.15		
Rem & Replace Cased Opening, Door	1 EA @ $49.66 [a]	$49.66	$0.00	$49.66		
Paint Cased Opening	2 EA @ $28.73 [b]	$57.46	$0.00	$57.46		
Rem & Reinstall Lockset, Interior, Privacy	1 EA @ $9.50 [a]	$9.50	$0.00	$9.50		
Replace Tile Floor, Ceramic	24 SF @ $7.67 [a]	$184.08	$0.00	$184.08		
Rem & Replace Underlay, Cement Board	40 SF @ $1.25 [a]	$50.00	$0.00	$50.00		
	Bedroom Bath Total	$3,532.04	$0.00	$3,532.04		

Half Bath (8' 10" x 4' 10" x 8')

65 sf Floor	359 sf Wall	65 sf Ceiling	45 lf Floor	45 lf Ceiling	518 cf Volume

Closet(s) 3' 5" x 2' 8"
Offset(s) 4' 10" x 2' 8"

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	65 SF @ $1.00 [a]	$65.00	$0.00	$65.00		
Rem & Replace Sheetrock Walls	215.4 SF @ $1.81 [a]	$389.87	$0.00	$389.87		
Rem & Replace Cement Board Wall 1/2"	143.6 SF @ $2.96 [a]	$425.06	$0.00	$425.06		
Replace Wallpaper Sizing	179.5 SF @ $0.30 [a]	$53.85	$0.00	$53.85		
Replace Wallpaper	210.02 SF @ $0.25 [a]	$52.51	Material			
	179.5 SF @ $1.20	$215.40	Labor			
		$267.91	$0.00	$267.91		
Rem & Replace Ceramic Tile Walls	179.5 SF @ $11.45 [a]	$2,055.28	$0.00	$2,055.28		
Replace Ceramic Soap Dish	1 EA @ $19.96 [b]	$19.96	$0.00	$19.96		
Replace Ceramic Paper Holder	1 EA @ $24.95 [b]	$24.95	$0.00	$24.95		
Rem/Reset Ceramic Towel Bar	2 EA @ $24.51 [b]	$49.02	$0.00	$49.02		
Replace Ceramic Glass Holder	2 EA @ $19.92 [b]	$39.84	$0.00	$39.84		
Clean Remediate, treat and seal contaminated wall framing	179.5 SF @ $1.23 [a]	$220.79	$0.00	$220.79		
Rem & Replace Wood Casing Window Trim Set	1 EA @ $52.93 [a]	$52.93	$0.00	$52.93		
Rem/Reset Blinds (EA)	1 EA @ $13.87 [b]	$13.87	$0.00	$13.87		
Rem & Replace Base Molding, Wood 4"	10 LF @ $2.97 [a]	$29.70	$0.00	$29.70		
Paint Base Molding, Wood 4"	10 LF @ $0.57 [a]	$5.70	$0.00	$5.70		
Rem & Replace Base Molding, Ceramic	14 LF @ $9.54 [a]	$133.56	$0.00	$133.56		
Rem & Replace Underlay, Plywood	65 SF @ $1.50 [a]	$97.50	$0.00	$97.50		
Rem & Replace Subfloor - Wood 1"	65 SF @ $2.01 [a]	$130.65	$0.00	$130.65		
Rem & Replace Vanity 24" Deluxe	1 EA @ $205.21 [a]	$205.21	$0.00	$205.21		
Rem & Reinstall Countertop, Cultured Marble w/Lav	1 LF @ $19.63 [a]	$19.63	$0.00	$19.63		
Rem & Reinstall Faucet, Lavatory	1 EA @ $29.64 [a]	$29.64	$0.00	$29.64		
Rem & Reinstall Faucet, Combination Shower/Bath	1 EA @ $68.40 [a]	$68.40	$0.00	$68.40		

		Repl. Cost	Depr.	ACV	OP	RD
Rem & Reinstall Bathtub, Enamel	1 EA @ $104.88 [a]	$104.88	$0.00	$104.88		
Clean Bathtub, Enamel	1 EA @ $7.93 [a]	$7.93	$0.00	$7.93		
Rem & Reinstall Commode (Toilet)	1 EA @ $79.80 [a]	$79.80	$0.00	$79.80		
Clean Commode (Toilet)	1 EA @ $10.98 [a]	$10.98	$0.00	$10.98		
Rem & Reinstall Wall Mirror	12 SF @ $2.76 [a]	$33.12	$0.00	$33.12		
Rem & Replace Flush Int. HC Door, Pre-Hung	2 EA @ $166.53 [a]	$333.06	$0.00	$333.06		
Paint Flush Int. HC Door, Pre-Hung	2 EA @ $27.15 [b]	$54.30	$0.00	$54.30		
Rem & Replace Cased Opening, Door	3 EA @ $49.66 [b]	$148.98	$0.00	$148.98		
Paint Cased Opening	4 EA @ $28.73 [b]	$114.92	$0.00	$114.92		
Rem & Reinstall Lockset Interior, Privacy	1 EA @ $9.50 [a]	$9.50	$0.00	$9.50		
Rem & Reinstall Lockset Interior, Passage	1 EA @ $9.50 [a]	$9.50	$0.00	$9.50		
Replace Tile Floor, Ceramic	39 SF @ $7.67 [a]	$299.13	$0.00	$299.13		
Rem & Replace Underlay, Cement Board	65 SF @ $1.25 [a]	$81.25	$0.00	$81.25		
Rem & Replace Shelving	20 LF @ $6.34 [a]	$126.80	$0.00	$126.80		
Paint Shelving	20 LF @ $0.42 [a]	$8.40	$0.00	$8.40		
Rem & Replace Register	1 EA @ $21.36 [a]	$21.36	$0.00	$21.36		
Rem & Reinstall Towel Bar	2 EA @ $9.33 [a]	$18.66	$0.00	$18.66		
	Hall Bath Total	$5,860.89	$0.00	$5,860.89		

Kitchen (11' 4" x 12' 5" x 8')

141 sf Floor 317 sf Wall 141 sf Ceiling 38 lf Floor 48 lf Ceiling 1,126 cf Volume

Missing Wall(s) 9' x 7'

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	141 SF @ $1.00 [a]	$141.00	$0.00	$141.00		
Clean Remediate, treat and seal contaminated wall framing	158.5 SF @ $1.23 [a]	$194.96	$0.00	$194.96		
Rem & Replace Plaster & Lath Walls	17.62 SY @ $52.00 [a]	$916.24	$0.00	$916.24		
Paint Plaster & Lath Walls	35.25 SY @ $3.70 [a]	$130.35	$0.00	$130.35		
Rem & Replace Cabinet, Base, Wood, Deluxe	12 LF @ $116.64 [a]	$1,399.68	$0.00	$1,399.68		
Rem & Replace Cabinet, Full Height, Wood, Deluxe	2 LF @ $170.56 [a]	$341.12	$0.00	$341.12		
Rem & Replace Cabinet, Wall, Wood Deluxe	10.6 LF @ $163.35 [a]	$1,731.51	$0.00	$1,731.51		
Special Seal & Paint Base Cabinet, In/Out	12 LF @ $21.24 [b]	$254.88	$0.00	$254.88		
Special Seal & Paint Tall Cab, In/Out	2 LF @ $27.12 [b]	$54.24	$0.00	$54.24		
Special Seal & Paint Wall Cabinet, In/Out	10.6 LF @ $16.34 [b]	$173.20	$0.00	$173.20		
Rem & Replace Countertop, Formica	12 LF @ $27.76 [a]	$333.12	$0.00	$333.12		
Rem & Replace Dishwasher	1 EA @ $570.43 [a*]	$570.43	$0.00	$570.43	N	N
Rem & Replace Refrigerator w/Bottom Freezer	1 EA @ $1,700.85 [a*]	$1,700.85	$340.17	$1,360.68	N	N
Rem & Reinstall Wall Oven	1 EA @ $51.19 [a]	$51.19	$0.00	$51.19		
Rem & Reinstall Cooktop, Electric	1 EA @ $109.85 [a]	$109.85	$0.00	$109.85		
Rem & Reinstall Kitchen Sink, Double	1 EA @ $79.80 [a]	$79.80	$0.00	$79.80		
Rem & Reinstall Faucet, Kitchen	1 EA @ $59.28 [a]	$59.28	$0.00	$59.28		
Rem & Replace Vinyl Sheet Floor	15.67 SY @ $28.87 [a]	$452.39	$0.00	$452.39		
Prepare Underlay Felt moisture barrier	141 EA @ $0.36 [a]	$50.76	$0.00	$50.76		
Rem & Replace Underlay, Plywood 1/2"	141 SF @ $1.50 [a]	$211.50	$0.00	$211.50		
Rem & Replace Subfloor - Plywood 3/4"	141 SF @ $1.63 [a]	$229.83	$0.00	$229.83		
Rem & Replace Subfloor - Wood 1"	141 SF @ $2.01 [a]	$283.41	$0.00	$283.41		
Rem & Replace Base Molding, Wood 3"	12.6 LF @ $2.08 [a]	$26.21	$0.00	$26.21		
Rem & Replace Shoe Molding	12.6 LF @ $1.19 [a]	$14.99	$0.00	$14.99		
Paint Base Molding, Wood 3"	12.6 LF @ $0.43 [a]	$5.42	$0.00	$5.42		

		Repl. Cost	Depr.	ACV	OP	RD
Rem & Replace Cased Opening, Door	1 EA @ $49.66 [a]	$49.66	$0.00	$49.66		
Paint Cased Opening	1 EA @ $28.73 [a]	$28.73	$0.00	$28.73		
Rem/Reset Blinds (EA)	1 EA @ $13.87 [b]	$13.87	$0.00	$13.87		
	Kitchen Total	$9,608.47	$340.17	$9,268.30		

Office/Laundry Area (20' x 11' 6" x 8')

315 sf Floor | 955 sf Wall | 315 sf Ceiling | 119 lf Floor | 119 lf Ceiling | 2,516 cf Volume

Closet(s)	8' 2" x 3' 2"	4' 4" x 2' 10"	1' 10" x 1' 6"
Offset(s)	9' x 3'	5' x 3' 4"	

		Repl. Cost	Depr.	ACV	OP	RD
Clean Mildcoat, clean, deodorize and mildecide per SF floor area	315 SF @ $1.00 [a]	$315.00	$0.00	$315.00		
Clean Remediate, treat and seal contaminated wall framing	477.5 SF @ $1.23 [a]	$587.33	$0.00	$587.33		
Rem & Replace Plaster & Lath Walls	53.06 SY @ $52.00 [a]	$2,759.12	$0.00	$2,759.12		
Rem & Replace Insulation, Fiberglass	238.75 SF @ $1.46 [a]	$348.58	$0.00	$348.58		
Paint Plaster & Lath Walls	106.12 SY @ $3.70 [a]	$392.64	$0.00	$392.64		
Rem & Replace Cased Opening, Door	7 EA @ $49.66 [a]	$347.62	$0.00	$347.62		
Paint Cased Opening	9 EA @ $28.73 [a]	$258.57	$0.00	$258.57		
Rem & Replace Wood Casing Window Trim Set	2 EA @ $52.93 [a]	$105.86	$0.00	$105.86		
Rem & Replace Panel Door, Pre-Hung	2 EA @ $277.48 [a]	$554.96	$0.00	$554.96		
Paint Panel Door, Pre-Hung	2 EA @ $40.59 [a]	$81.18	$0.00	$81.18		
Rem & Replace Bi-Fold Int. Doors, Panel	2 ST @ $319.11 [a]	$638.22	$0.00	$638.22		
Paint Bi-Fold Int. Doors, Panel	2 ST @ $30.44 [a]	$60.88	$0.00	$60.88		
Rem & Replace Cafe Doors	1 PR @ $116.56 [a]	$116.56	$0.00	$116.56		
Finish Cafe Doors	1 PR @ $33.40 [a]	$33.40	$0.00	$33.40		
Rem & Replace Panel Door w/Glass, Steel	1 EA @ $325.44 [a]	$325.44	$0.00	$325.44		
Paint Panel Door w/Glass, Steel	1 EA @ $40.90 [a]	$40.90	$0.00	$40.90		
Rem & Reinstall Lockset Interior, Passage	3 EA @ $9.50 [a]	$28.50	$0.00	$28.50		
Rem & Reinstall Lockset Exterior, Entry	1 EA @ $14.94 [a]	$14.94	$0.00	$14.94		
Rem & Replace Threshold, Aluminum	1 EA @ $30.17 [a]	$30.17	$0.00	$30.17		
Rem & Replace Vinyl Sheet Floor	35 SY @ $28.87 [a]	$1,010.45	$0.00	$1,010.45		
Prepare Underlay Felt moisture barrier	315 EA @ $0.36 [a]	$113.40	$0.00	$113.40		
Rem & Replace Underlay, Plywood 3/4"	315 SF @ $1.72 [a]	$541.80	$0.00	$541.80		
Rem & Replace Subfloor - Plywood 3/4"	315 SF @ $1.63 [a]	$513.45	$0.00	$513.45		
Rem & Replace Base Molding, Wood 4"	119 LF @ $2.97 [a]	$353.43	$0.00	$353.43		
Rem & Replace Shoe Molding	119 LF @ $1.19 [a]	$141.61	$0.00	$141.61		
Paint Base Molding, Wood 4"	119 LF @ $0.57 [a]	$67.83	$0.00	$67.83		
Rem & Replace Water Heater, Natural Gas, 50 Gallon, Deluxe	1 EA @ $579.26 [a*]	$579.26	$36.89	$542.37		
Rem & Reinstall Faucet, Kitchen	1 EA @ $59.28 [a]	$59.28	$0.00	$59.28		
Rem & Reinstall Bar Sink	1 EA @ $57.00 [a]	$57.00	$0.00	$57.00		
Rem & Replace Cabinet, Island Base, Wood	5 LF @ $140.85 [a]	$704.25	$0.00	$704.25		
Rem & Replace Cabinet, Base, Wood	3 LF @ $91.20 [a]	$273.60	$0.00	$273.60		
Rem & Replace Countertop, Formica	9 LF @ $27.76 [a]	$249.84	$0.00	$249.84		
Rem & Replace Access Door	1 EA @ $82.28 [a]	$82.28	$0.00	$82.28		
Rem/Reset Shutters, Interior	2 PR @ $25.01 [b]	$50.02	$0.00	$50.02		
Rem/Reset Blinds (EA)	3 EA @ $13.87 [b]	$41.61	$0.00	$41.61		
	Office/Laundry Area Total	$11,878.98	$36.89	$11,842.09		

Master Suite Hallway (6' 2" x 3' 8" x 8')

23 sf Floor	157 sf Wall	23 sf Ceiling	20 lf Floor	20 lf Ceiling	181 cf Volume

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	23 SF @ $1.00 [a]	$23.00	$0.00	$23.00		
Clean Remediate, treat and seal contaminated wall framing	78.5 SF @ $1.23 [a]	$96.56	$0.00	$96.56		
Rem & Replace Sheetrock Walls	157 SF @ $1.81 [a]	$284.17	$0.00	$284.17		
Rem & Replace Insulation, Fiberglass	47.1 SF @ $1.46 [a]	$68.77	$0.00	$68.77		
Paint Sheetrock Walls	157 SF @ $0.41 [a]	$64.37	$0.00	$64.37		
Rem & Replace Cased Opening, Door	3 EA @ $49.66 [a]	$148.98	$0.00	$148.98		
Special Remove Wet Pad/Carpeting	23 SF @ $0.32 [b]	$7.36	$0.00	$7.36		
Replace Carpet Pad, per SY	2.56 SY @ $4.01 [a]	$10.27	$1.03	$9.24	N	N
Replace Carpet, Nylon (SY), 26 OZ	2.71 SY @ $16.20 [a]	$43.90	Material			
	2.56 SY @ $3.52	$9.01	Labor			
		$52.91	$10.58	$42.33	N	N
Rem & Replace Subfloor - Plywood 3/4"	23 SF @ $1.63 [a]	$37.49	$0.00	$37.49		
Master Suite Hallway Total		$793.88	$11.61	$782.27		

Master Bedroom (18' 2" x 16' x 8')

321 sf Floor	723 sf Wall	321 sf Ceiling	90 lf Floor	90 lf Ceiling	2,566 cf Volume

Closet(s) 5' 10" x 5' 2"

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	321 SF @ $1.00 [a]	$321.00	$0.00	$321.00		
Clean Remediate, treat and seal contaminated wall framing	361.5 SF @ $1.23 [a]	$444.65	$0.00	$444.65		
Rem & Replace Sheetrock Walls	723 SF @ $1.81 [a]	$1,308.63	$0.00	$1,308.63		
Paint Sheetrock Walls	723 SF @ $0.41 [a]	$296.43	$0.00	$296.43		
Rem & Replace Cased Opening, Door	3 EA @ $49.66 [a]	$148.98	$0.00	$148.98		
Special Remove Wet Pad/Carpeting	321 SF @ $0.32 [b]	$102.72	$0.00	$102.72		
Replace Carpet Pad, per SY	35.67 SY @ $4.01 [a]	$143.04	$14.30	$128.74	N	N
Replace Carpet, Nylon (SY), 26 OZ	37.81 SY @ $16.20 [a]	$612.52	Material			
	35.67 SY @ $3.52	$125.56	Labor			
		$738.08	$147.62	$590.46	N	N
Rem & Replace Subfloor - Plywood 3/4"	321 SF @ $1.63 [a]	$523.23	$0.00	$523.23		
Rem & Replace Panel Door, Pre-Hung	2 EA @ $277.48 [a]	$554.96	$0.00	$554.96		
Rem & Reinstall Lockset Interior, Passage	2 EA @ $9.50 [a]	$19.00	$0.00	$19.00		
Rem & Replace Wood Casing Window Trim Set	4 EA @ $52.93 [a]	$211.72	$0.00	$211.72		
Paint Cased Opening	7 EA @ $28.73 [a]	$201.11	$0.00	$201.11		
Rem/Reset Blinds (EA)	3 EA @ $13.87 [b]	$41.61	$0.00	$41.61		
Rem & Replace Register	2 EA @ $21.36 [a]	$42.72	$0.00	$42.72		
Master Bedroom Total		$5,097.88	$161.92	$4,935.96		

Master Bathroom (8' x 5' 2" x 8')

41 sf Floor	211 sf Wall	41 sf Ceiling	26 lf Floor	26 lf Ceiling	331 cf Volume

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	41 SF @ $1.00 [a]	$41.00	$0.00	$41.00		

		Repl. Cost	Depr.	ACV	OP	RD
Clean Remediate, treat and seal contaminated wall framing	105.5 SF @ $1.23 [a]	$129.76	$0.00	$129.76		
Rem & Replace Sheetrock Walls	105.5 SF @ $1.81 [a]	$190.96	$0.00	$190.96		
Rem & Replace Cement Board Wall 1/2"	105.5 SF @ $2.96 [a]	$312.28	$0.00	$312.28		
Replace Wallpaper Sizing	105.5 SF @ $0.30 [a]	$31.65	$0.00	$31.65		
Replace Wallpaper	123.44 SF @ $0.25 [a]	$30.86	Material			
	105.5 SF @ $1.20	$126.60	Labor			
		$157.46	$0.00	$157.46		
Rem & Replace Ceramic Tile Walls	105.5 SF @ $11.45 [a]	$1,207.97	$0.00	$1,207.97		
Replace Ceramic Soap Dish	1 EA @ $19.96 [b]	$19.96	$0.00	$19.96		
Rem & Replace Base Molding, Ceramic	8 LF @ $9.54 [a]	$76.32	$0.00	$76.32		
Replace Threshold (EA), Marble	1 EA @ $66.53 [b]	$66.53	$0.00	$66.53		
Rem & Replace Vanity 30", Deluxe	1 EA @ $267.22 [a]	$267.22	$0.00	$267.22		
Rem & Reinstall Countertop, Cultured Marble w/Lav	1 LF @ $19.63 [a]	$19.63	$0.00	$19.63		
Rem & Reinstall Faucet, Lavatory	1 EA @ $29.64 [a]	$29.64	$0.00	$29.64		
Rem & Reinstall Faucet, Combination Shower/Bath	1 EA @ $68.40 [a]	$68.40	$0.00	$68.40		
Rem & Reinstall Bathtub, Enamel	1 EA @ $104.88 [a]	$104.88	$0.00	$104.88		
Clean Bathtub, Enamel	1 EA @ $7.93 [a]	$7.93	$0.00	$7.93		
Rem & Reinstall Commode (Toilet)	1 EA @ $79.80 [a]	$79.80	$0.00	$79.80		
Clean Commode (Toilet)	1 EA @ $10.98 [a]	$10.98	$0.00	$10.98		
Rem & Reinstall Wall Mirror	18 SF @ $2.76 [a]	$49.68	$0.00	$49.68		
Rem & Replace Flush Int. HC Door, Pre-Hung	1 EA @ $166.53 [a]	$166.53	$0.00	$166.53		
Paint Flush Int. HC Door, Pre-Hung	1 EA @ $27.15 [a]	$27.15	$0.00	$27.15		
Rem & Replace Cased Opening, Door	1 EA @ $49.66 [a]	$49.66	$0.00	$49.66		
Paint Cased Opening	1 EA @ $28.73 [a]	$28.73	$0.00	$28.73		
Rem & Reinstall Lockset Interior, Privacy	1 EA @ $9.50 [a]	$9.50	$0.00	$9.50		
Replace Tile Floor, Ceramic	25 SF @ $7.67 [a]	$191.75	$0.00	$191.75		
Rem & Replace Underlay, Cement Board	41 SF @ $1.25 [a]	$51.25	$0.00	$51.25		
Rem & Replace Subfloor - Plywood 3/4"	41 SF @ $1.63 [a]	$66.83	$0.00	$66.83		
Master Bathroom Total		$3,463.45	$0.00	$3,463.45		

Sunroom (18' 2" x 13' 6" x 8')

245 sf Floor 432 sf Wall 254 sf Ceiling 45 lf Floor 64 lf Ceiling 2,269 cf Volume

Door(s) 6' x 6' 8" (3)

Ceiling - Vaulted (gable) 45 sf Wall 9 sf Ceiling 1 lf Ceiling 307 cf Volume

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	245 SF @ $1.00 [a]	$245.00	$0.00	$245.00		
Clean Remediate, treat and seal contaminated wall framing	216 SF @ $1.23 [a]	$265.68	$0.00	$265.68		
Rem & Replace Sheetrock Walls	432 SF @ $1.81 [a]	$781.92	$0.00	$781.92		
Paint Sheetrock Walls	432 SF @ $0.41 [a]	$177.12	$0.00	$177.12		
Rem & Replace Insulation, Fiberglass	64.8 SF @ $1.46 [a]	$94.61	$0.00	$94.61		
Rem & Replace Cased Opening, Door	3 EA @ $49.66 [a]	$148.98	$0.00	$148.98		
Special Remove Wet Pad/Carpeting	245 SF @ $0.32 [b]	$78.40	$0.00	$78.40		
Replace Carpet Pad, per SY	27.23 SY @ $4.01 [a]	$109.19	$10.92	$98.27	N	N
Replace Carpet, Nylon (SY), 26 OZ	28.86 SY @ $16.20 [a]	$467.53	Material			
	27.23 SY @ $3.52	$95.85	Labor			
		$563.38	$112.68	$450.70	N	N

		Repl. Cost	Depr.	ACV	OP RD
Rem & Replace Subfloor - Plywood 3/4"	245 SF @ $1.63 [a]	$399.35	$0.00	$399.35	
Rem & Replace Panel Door, Pre-Hung	1 EA @ $277.48 [a]	$277.48	$0.00	$277.48	
Rem & Reinstall Lockset Interior, Passage	1 EA @ $9.50 [a]	$9.50	$0.00	$9.50	
Rem & Replace Wood Casing Window Trim Set	3 EA @ $52.93 [a]	$158.79	$0.00	$158.79	
Paint Cased Opening	7 EA @ $28.73 [a]	$201.11	$0.00	$201.11	
Rem & Replace Register	3 EA @ $21.36 [a]	$64.08	$0.00	$64.08	
Rem & Replace Window, Casement, Wood, 11 - 13 SF, Elite	2 EA @ $499.67 [a]	$999.34	$0.00	$999.34	
Rem & Replace Window, Fixed, Wood, 15 - 20 SF, Deluxe	1 EA @ $428.72 [a]	$428.72	$0.00	$428.72	
Rem & Replace Sliding Glass Door, Wood 6' Deluxe	3 EA @ $1,278.66 [a]	$3,835.98	$0.00	$3,835.98	
	Sunroom Total	$8,838.63	$123.60	$8,715.03	
Coverage - Flood, Building Totals		**$169,368.80**	**$674.19**	**$168,694.61**	

Summary

	Repl. Cost	Depr.	ACV
Estimate Totals	**$169,368.80**	**$674.19**	**$168,694.61**
Less Amount Not Subject To Overhead & Profit	-$3,888.15	-$637.30	-$3,250.85
Amount Subject To Overhead & Profit	$165,480.65	$36.89	$165,443.76
Contractor's Overhead & Profit (20%)	$33,096.13	$7.38	$33,088.75
Sub-Total	$198,576.78	$44.27	$198,532.51
Amount Not Subject To Overhead & Profit	$3,888.15	$637.30	$3,250.85
Total With Overhead & Profit	$202,464.93	$681.57	$201,783.36
Less Non-Recoverable Depreciation	-$637.30	-$637.30	
Sub-Total	$201,827.63	$44.27	$201,783.36
Less Deductible Applied	-$1,000.00		-$1,000.00
Less Excess	-$42,427.63	-$44.27	-$42,383.36
Net Claim	**$158,400.00**	**$0.00**	**$158,400.00**
Less Prior Payments	-$91,204.03		-$91,204.03
Net Claim Payable	**$67,195.97**	**$0.00**	**$67,195.97**

The foregoing is the Public Adjuster's summary of damage for which coverage should have been available at the time of the loss, and the amounts owed for each item required to restore the property to its pre-loss condition. All unit pricing is derived from current area labor and materials, current area contractor prices and amounts actually paid in comparable area claims settlements.

Price Database Legend

a = MSB Richmond Residential - 1/2004
b = MSB Market Cost Data 2003-10

* = Modified

PROPOSAL Page No. of Pages

BUD'S HEATING & AIR CONDITIONING
2413-A Wolf Trap Road
Yorktown, Virginia 23692
(757) 890-2600

PROPOSAL SUBMITTED TO: LARRY BOARDMAN		PHONE: 303-9867	DATE: 11/11/03
STREET: 14 W. SANDY POINT DR		JOB NAME:	
CITY, STATE and ZIP CODE: POQUOSON VA 23662		JOB LOCATION:	
ARCHITECT:	DATE OF PLANS:		JOB PHONE:

We hereby submit specifications and estimates for

① FURNISH + INSTALL NEW OIL HOT AIR DOWNFLOW FURNACE WITH 3½ TON 10 SEER CENTRAL AIR CONDENSING UNIT + MATCHING CASED EVAPORATOR COIL. REPLACE COMPLETE DUCT SYSTEM UNDER HOUSE. DUCT SYSTEM CONSISTS OF 26 GAUGE GALVANIZED TRUNK DUCT WITH 2" FOIL BACKED ISULATION + FIBERGLASS FLEX RUNS TO EXISTING FLOOR TERMINATION. ALL MATERIALS + LABOR NECESSARY TO COMPLETE INSTALLATION ARE INCLUDED. RESET OIL TANK + REPLACE OIL LINES TO FURNACE

DUCT SYSTEM 6000.00
HVAC EQUIPMENT 6800.00
TOTAL 12800.00

We Propose hereby to furnish material and labor — complete in accordance with above specifications, for the sum of: _____ dollars ($ _____).

Payment to be made as follows: NO MONEY DOWN - IN FULL UPON COMPLETION

All material is guaranteed to be as specified. All work to be completed in a workmanlike manner according to standard practices. Any alteration or deviation from above specifications involving extra costs will be executed only upon written orders, and will become an extra charge over and above the estimate. All agreements contingent upon strikes, accidents or delays beyond our control. Owner to carry fire, tornado and other necessary insurance. Our workers are fully covered by Workman's Compensation Insurance.

Authorized Signature: [signature]

Note: This proposal may be withdrawn by us if not accepted within 30 days.

Acceptance of Proposal — The above prices, specifications and conditions are satisfactory and are hereby accepted. You are authorized to do the work as specified. Payment will be made as outlined above.

Signature _____

Date of Acceptance: _____

Signature _____

PROPOSAL

Page No. ____ of ____ Pages

A TO Z
HOME REPAIR & REMODELING
LEE CROCKETT
1-800-242-1935 767-068-9346

PROPOSAL SUBMITTED TO: Larry Bossekman
STREET
PHONE
DATE
JOB NAME
CITY, STATE and ZIP CODE
JOB LOCATION: 14 West Sandy Point Pequannock NJ
ARCHITECT
DATE OF PLANS
TELEPHONE

We hereby submit specifications and estimates for:

58 - Receptables
Demo old wire and Receptables - New wire rough-in
New Receptables
Top Out and Permit.

$12,800 Labor & material

We Propose hereby to furnish material and labor — complete in accordance with above specifications, for the sum of:
twelve thousand - eight hundred + no/100 dollars ($ 12,800.00)
Payment to be made as follows:
1/3 down 1/3 half way 1/3 complete

All material is guaranteed to be as specified. All work to be completed in a workmanlike manner according to standard practices. Any alteration or deviation from above specifications involving extra costs will be executed only upon written orders, and will become an extra charge over and above the estimate. All agreements contingent upon strikes, accidents or delays beyond our control. Owner to carry fire, tornado and other necessary insurance. Our workers are fully covered by workmens compensation insurance.

Authorized Signature

Note: This proposal may be withdrawn by us if not accepted within days

Acceptance of Proposal — The above prices, specifications and conditions are satisfactory and are hereby accepted. You are authorized to do the work as specified. Payment will be made as outlined above.

Signature E L Crockett

Date of Acceptance

Signature

PROPOSAL Page No. of Pages

A TO Z
HOME REPAIR & REMODELING
LEE CROCKETT
1-800-242-1935 757-868-8346

PROPOSAL SUBMITTED TO: Larry Bearekman	PHONE: 303-9862	DATE: 9-19-03
STREET: 14 West Sandy Point	JOB NAME: Flood Damage - Crawl Space	
CITY, STATE and ZIP CODE: Poquoson VA 23662	JOB LOCATION: Same	
ARCHITECT:	DATE OF PLANS:	JOB PHONE:

We hereby submit specifications and estimates for:

Note: 2300 sq ft. Crawl Space. Access is obstructed and clearance under house is limited, no electricity.

#1 Remove Insulation from under house $2,070.00
#2 Remove Ductwork from Crawl space 19 registers 1,725.00
#3 Spray Anti-mildew spray under floors and on Foundation 1,035.00
$4,830.00

10/15/03 pd $4830.00 Ck# 3589

We Propose hereby to furnish material and labor — complete in accordance with above specifications, for the sum of:

dollars ($ 4830.00).

Payment to be made as follows:
Payments when requested as items completed.

All material is guaranteed to be as specified. All work to be completed in a workmanlike manner according to standard practices. Any alteration or deviation from above specifications involving extra costs will be executed only upon written orders, and will become an extra charge over and above the estimate. All agreements contingent upon strikes, accidents or delays beyond our control. Owner to carry fire, tornado and other necessary insurance. Our workers are fully covered by Workman's Compensation Insurance.

Authorized Signature: E L Crockett

Note: This proposal may be withdrawn by us if not accepted within 30 days.

Acceptance of Proposal — The above prices, specifications and conditions are satisfactory and are hereby accepted. You are authorized to do the work as specified. Payment will be made as outlined above.

Signature: Larry Bearekman

Date of Acceptance: 9-19-03

Signature

PROPOSAL Page No. of Pages

A TO Z
HOME REPAIR & REMODELING
LEE CROCKETT
1-800-242-1935 757-868-9346

PROPOSAL SUBMITTED TO: Larry Beerekman	PHONE: 303-9860	DATE: 9-19-03
STREET: 14 West Sandy Point	JOB NAME: Flood Damage - Interior	
CITY, STATE and ZIP CODE: Dogueson VA 23664	JOB LOCATION: Same	
ARCHITECT / DATE OF PLANS		JOB PHONE

We hereby submit specifications and estimates for:

Note: 2300 sq ft single story, furniture and debris in house
{no electricity}

#1 Remove wet carpet and padding $1,030.00

#2 Remove doors, baseboard, closet organizers.
and plaster/sheetrock up to 4 feet on exterior walls and interior 1,728.00

#3 Remove 4" insulation from exterior and interior
walls where found 53 sq ft 80.00

4 Apply Anti-Mildew spray on slaters floors
and studs 36" 530.00

4,100.00

10/25/03 ppd 4,100.00 Check #3597

We Propose hereby to furnish material and labor — complete in accordance with above specifications, for the sum of:

dollars ($ 4,100.00).

Payment to be made as follows:
Payments when requested as items completed.

All material is guaranteed to be as specified. All work to be completed in a workmanlike manner according to standard practices. Any alteration or deviation from above specifications involving extra costs will be executed only upon written orders, and will become an extra charge over and above the estimate. All agreements contingent upon strikes, accidents or delays beyond our control. Owner to carry fire, tornado and other necessary insurance. Our workers are fully covered by Workman's Compensation Insurance.

Authorized Signature: L L Crockett

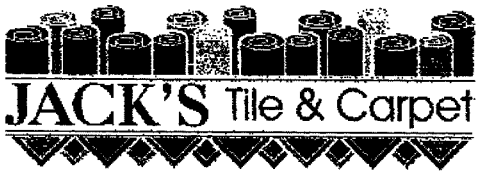
Note: This proposal may be withdrawn by us if not accepted within 30 days.

Acceptance of Proposal — The above prices, specifications and conditions are satisfactory and are hereby accepted. You are authorized to do the work as specified. Payment will be made as outlined above.

Signature: Larry Beerekman

Date of Acceptance: 9/19/03

Signature



October 23, 2003

Mr. Larry Berrickman
14 West Sandy Point
Poquoson, VA

Re: Proposal for Replacement of Carpet

Attn: Mr. Berrickman

Replacement of CARPET due to water damage from Hurricane Isabel.

Supply and install CARPET (Pattern Berber), pad included, in Foyer, Family room, 3 Bedrooms, and Hall.

121YDS @ $24.40/YD = $2952.40

Supply and install CARPET (Popcorn Pebble Berber), pad included, in Family room, Master Bedroom, and Sitting Room.

124.23YDS @ $22.00/YD = $2733.06

TOTAL PRICE = $5685.46

WE PROPOSE HEREBY TO FURNISH MATERIAL & LABOR COMPLETE IN ACCORDANCE WITH ABOVE SPECIFICATIONS, FOR THE SUM OF:

_____ dollars (_____)

Authorized Signature _____

Payment is to be made as follows:

_____

All material is guaranteed to be as specified. All work to be completed in a workmanlike manner according to standard practices. Any alteration or deviation from above specifications involving extra costs will executed only upon written orders, and will become an extra charge over and above the estimate. All agreements contingent upon strikes, accidents or delays beyond our control. Owner to carry fire, tornado and other necessary insurance. Our workers are fully covered by Workman's Compensation. This proposal may be withdrawn by us if not accepted within thirty days.

Signature(Customer): _____ Date: _____

720 Thimble Shoals Blvd., Suite 119, Newport News, VA 23606 (757) 873-6853 (757) 873-6903

Exhibit T

Adjuster Summary

Claim # 641-242452-2

Montgomery Associates, Inc.

Consultant
Daniel Montgomery
Phone (804) 695-2598
Fax (804) 695-0719

1235 Jungle Avenue North
St. Petersburg, FL 33710
(727) 463-6633

September 13, 2004

Insured Name Bearekman, Larry & Marcia
Loss Address 14 W Sandy Point, Poquoson, VA 23662
Phone Number **Policy #** 0804464550 **Catastrophe #** 39
Other Phone **Ins Claim #** 641-242452-2 **Date of Loss** 9/18/03
Ins Company Allstate Flood Insurance Program

Coverage - Flood, Building

Exterior (80' 6" x 21' 4" x 8')

7,308 sf Floor	7,019 sf Wall	7,308 sf Ceiling	252 lf Floor	252 lf Ceiling	18,463 cf Volume

Offset(s) 62' 6" x 3' 6" 15' x 6' 19' x 14' 10"

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout Water w/heavy mud, limited access crawlspace	2308 SF @ $0.76 [a]	$1,754.08	$0.00	$1,754.08		
Clean Disinfect/Deodorize, per SF Crawlspace	2308 SF @ $0.35 [a]	$807.80	$0.00	$807.80		
Clean Mildecide Treat and Seal Joist System	2308 SF @ $0.83 [a]	$1,915.64	$0.00	$1,915.64		
Clean Remediate, treat and seal contaminated wall framing	1211.4 SF @ $1.23 [a]	$1,490.02	$0.00	$1,490.02		
Tear Out Ductwork per SF Crawlspace	2308 SF @ $0.50 [a]	$1,154.00	$0.00	$1,154.00		
Tear Out Floor Insulation Wet Removal & Bagging	2308 SF @ $0.75 [a]	$1,731.00	$0.00	$1,731.00		
Replace Floor Insulation	2308 SF @ $0.74 [a]	$1,707.92	$0.00	$1,707.92		
Replace Floor Insulation Wire Suspension Ties	2308 SF @ $0.25 [a]	$577.00	$0.00	$577.00		
Replace Floor Insulation Poly Vapor Barrier	2308 SF @ $0.40 [a]	$923.20	$0.00	$923.20		
Replace Pipe insulation Foam Wrapped, crawlspace area	252 LF @ $1.23 [a]	$309.96	$0.00	$309.96		
Tear Out Wall Insulation	1009.5 SF @ $0.11 [a]	$111.05	$0.00	$111.05		
Replace Wall Insulation	1009.5 SF @ $0.35 [a]	$353.33	$0.00	$353.33		
Remove Debris 40 Yd. Load	1 LD @ $717.77 [a]	$717.77	$0.00	$717.77		
Special Jobsite clean-up Interim and final, 1 hr /100 sf area	2308 EA @ $0.22 [a]	$507.76	$0.00	$507.76		
Replace Electrical Work Sub-floor junction boxes, connections, wiring	2308 LS @ $0.83 [a]	$1,915.64	$0.00	$1,915.64		
Replace HVAC, per LS	1 LS @ $12,800.00 [a*]	$12,800.00	$0.00	$12,800.00		
Per Buds Heating and Air Conditioning						
Rem & Replace Brick Veneer	726.84 EA @ $15.27 [a]	$11,098.85	$0.00	$11,098.85		
Replace Tuck Pointing	242.28 EA @ $5.58 [a]	$1,351.92	$0.00	$1,351.92		
Rem & Replace Insulation, Fiberboard	726.84 SF @ $1.17 [a]	$850.40	$0.00	$850.40		
Rem & Replace Siding, Aluminum	355.35 SF @ $1.37 [a]	$486.83	Material			
	323.04 SF @ $1.59	$513.63	Labor			
		$1,000.46	$0.00	$1,000.46		
Rem & Replace Insulation, Polyisocyanurate	323.04 SF @ $1.12 [a]	$361.80	$0.00	$361.80		

		Repl. Cost	Depr.	ACV	OP	RD
Rem & Replace Wall Sheathing Plywood 1/2"	224 SF @ $1.25 [a]	$280.00	$0.00	$280.00		
Deduct General demolition work	1 LS @ $4,100.00 [w]	$4,100.00	$0.00	$4,100.00	N	N
General demolition work performed by A to Z Home Repair, credited to overall demolition and partial mildecide per estimate						
	Exterior Total	$47,819.60	$0.00	$47,819.60		

Crawlspace (80' 6" x 21' 4" x 2')

2,308 sf Floor 505 sf Wall 2,308 sf Ceiling 252 lf Floor 252 lf Ceiling 4,616 cf Volume

Offset(s) 62' 6" x 3' 6" 15' x 6' 19' x 14' 10"

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout Water w/heavy mud, limited access crawlspace	2308 SF @ $0.76 [w]	$1,754.08	$0.00	$1,754.08		
Clean Disinfect/Deodorize, per SF Crawlspace	1 LS @ $1,035.00 [w*]	$1,035.00	$0.00	$1,035.00	N	N
Per A to Z Home Repair						
Clean Mildecide Treat and Seal Joist System	2308 SF @ $0.83 [a]	$1,915.64	$0.00	$1,915.64		
Tear Out Ductwork per SF Crawlspace	1 LS @ $1,725.00 [a*]	$1,725.00	$0.00	$1,725.00	N	N
Per A to Z Home Repair						
Tear Out Floor Insulation Wet Removal & Bagging	1 LS @ $2,070.00 [a*]	$2,070.00	$0.00	$2,070.00	N	N
Per A to Z Home Repair						
Replace Floor Insulation	2308 SF @ $0.74 [a]	$1,707.92	$0.00	$1,707.92		
Replace Floor Insulation Wire Suspension Ties	2308 SF @ $0.25 [a]	$577.00	$0.00	$577.00		
Replace Floor Insulation Poly Vapor Barrier	1200 SF @ $0.40 [a]	$480.00	$0.00	$480.00		
Replace Pipe Insulation Foam Wrapped, crawlspace area	257 LF @ $1.23 [a]	$309.96	$0.00	$309.96		
Rem & Replace Foundation Vents	6 EA @ $53.46 [a]	$320.76	$0.00	$320.76		
Rem & Replace Access Door	1 EA @ $82.28 [a]	$82.28	$0.00	$82.28		
Rem & Replace Concrete Block Foundation Pier, 2"x2'X3' per pier	6 EA @ $216.24 [a]	$1,297.44	$0.00	$1,297.44		
Repair Jack, brace and re level joist system	2308 SF @ $3.00 [a]	$6,924.00	$0.00	$6,924.00		
Rem & Replace Stud Wall 2"x4" - 16" OC	28 SF @ $1.20 [a]	$33.60	$0.00	$33.60		
Foundation cripple wall under office area.						
	Crawlspace Total	$20,232.68	$0.00	$20,232.68		

Front Elevation

		Repl. Cost	Depr.	ACV	OP	RD
Rem & Replace Storm Window, Aluminum	3 EA @ $150.54 [a]	$451.62	$0.00	$451.62		
Rem & Replace Window, Double Hung, Wood	9 EA @ $341.13 [a]	$3,070.17	$0.00	$3,070.17		
Rem & Reinstall Shutters, Plastic	2 PR @ $16.21 [a]	$32.42	$0.00	$32.42		
Rem & Reinstall Downspout	30 LF @ $1.85 [a]	$55.50	$0.00	$55.50		
Remove Patio Posts, Iron, Scrolled	4 EA @ $6.66 [b]	$26.64	$0.00	$26.64		
Replace Patio Posts, Iron, Scrolled	4 EA @ $53.29 [b]	$213.16	$0.00	$213.16		

		Repl. Cost	Depr.	ACV	OP	RD
Paint Patio Posts, Iron, Scrolled	4 EA @ $9.03 [b]	$36.12	$0.00	$36.12		
Rem & Replace Railing, Wrought Iron	5 LF @ $12.44 [a]	$62.20	$0.00	$62.20		
Paint Railing, Wrought Iron	5 LF @ $1.58 [a]	$7.90	$0.00	$7.90		
Front Elevation Total		$3,955.73	$0.00	$3,955.73		

Right Elevation

		Repl. Cost	Depr.	ACV	OP	RD
Rem & Replace Window, Casement, Vinyl, 7 - 10 SF, Deluxe	2 EA @ $403.67 [a]	$807.34	$0.00	$807.34		
Rem & Replace Window, Fixed, Vinyl, 15 - 20 SF, Deluxe	1 EA @ $382.72 [a]	$382.72	$0.00	$382.72		
Rem & Reinstall Downspout	10 LF @ $1.85 [a]	$18.50	$0.00	$18.50		
Right Elevation Total		$1,208.56	$0.00	$1,208.56		

Rear Elevation

		Repl. Cost	Depr.	ACV	OP	RD
Rem & Reinstall Deck Railing	50 LF @ $2.39 [a]	$119.50	$0.00	$119.50		
Rem & Reinstall Deck Steps	6 TR @ $6.61 [a]	$39.66	$0.00	$39.66		
Rem & Reinstall Deck Flooring, Treated Pine	225 SF @ $0.68 [a]	$153.00	$0.00	$153.00		
Rem & Reinstall Joists, Treated Pine	162 LF @ $0.71 [a]	$115.02	$0.00	$115.02		
Removal and reinstallation of joists and decking to allow access to repair damaged dwelling						
Rem & Replace Sliding Glass Door, Wood 6' Deluxe	4 EA @ $1,278.66 [a]	$5,114.64	$0.00	$5,114.64		
Rem & Replace Casing Exterior	80 LF @ $2.73 [a]	$218.40	$0.00	$218.40		
Paint Casing Exterior	80 LF @ $0.32 [a]	$25.60	$0.00	$25.60		
Rem & Replace Full Screen, Aluminum, Large	3 EA @ $49.51 [a]	$148.53	$0.00	$148.53		
Rem & Reinstall Downspout	40 LF @ $1.85 [a]	$74.00	$0.00	$74.00		
Rem & Reinstall Soffit Vinyl	28 SF @ $1.26 [a]	$35.28	$0.00	$35.28		
Replace Jack/Shore & Brace	8 HR @ $30.88 [a]	$247.04	$0.00	$247.04		
Jack, shore and brace porch roof for removal of post supports to access damage to dwelling.						
Rem & Replace Posts, Treated Pine 4"x4"	32 LF @ $2.35 [a]	$75.20	$0.00	$75.20		
Replace Battens, Vertical, 24" O.C., 1"x2"	224 SF @ $0.23 [b]	$51.52	$0.00	$51.52		
Rescreen Frame Fiberglass	224 SF @ $2.03 [a]	$454.72	$0.00	$454.72		
Replace Door, Storm/Screen, Wood	1 EA @ $216.10 [b]	$216.10	$0.00	$216.10		
Rem & Replace Deck Flooring, Treated Pine	252 SF @ $2.33 [a]	$587.16	$0.00	$587.16		
Rem & Replace Joists, Treated Pine	144 LF @ $2.96 [a]	$426.24	$0.00	$426.24		
Rem & Replace Panel Door, Steel	1 EA @ $337.82 [a]	$337.82	$0.00	$337.82		
Rear Elevation Total		$8,439.43	$0.00	$8,439.43		

Left Elevation

		Repl. Cost	Depr.	ACV	OP	RD

		Repl. Cost	Depr.	ACV	OP	RD
Rem & Replace Windowsill, Masonry Brick	8 LF @ $11.39 [a]	$91.12	$0.00	$91.12		
	Left Elevation Total	$91.12	$0.00	$91.12		

Entry (11' x 4' 8" x 8')

59 sf Floor 216 sf Wall 59 sf Ceiling 27 lf Floor 27 lf Ceiling 471 cf Volume

Closet(s) 3' 6" x 2' 2"

Missing Wall(s) 11' x 8' 4' 8" x 8'

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	59 SF @ $1.00 [a]	$59.00	$0.00	$59.00		
Rem & Replace Plaster & Lath Walls	12 SY @ $52.00 [a]	$624.00	$0.00	$624.00		
Clean Remediate, treat and seal contaminated wall framing	108 SF @ $1.23 [a]	$132.84	$0.00	$132.84		
Replace Texture Walls	216 SF @ $0.54 [a]	$116.64	$0.00	$116.64		
Paint Plaster & Lath Walls	24 SY @ $3.70 [a]	$88.80	$0.00	$88.80		
Rem & Replace Panel Door w/Glass, Steel	1 EA @ $325.44 [a]	$325.44	$0.00	$325.44		
Paint Panel Door w/Glass, Steel	1 EA @ $40.90 [a]	$40.90	$0.00	$40.90		
Rem & Replace Threshold, Aluminum	1 EA @ $30.17 [a]	$30.17	$0.00	$30.17		
Rem & Reinstall Lockset Exterior, Entry	1 EA @ $14.94 [a]	$14.94	$0.00	$14.94		
Rem & Replace Casing Exterior	17 LF @ $2.73 [a]	$46.41	$0.00	$46.41		
Paint Casing Exterior	17 LF @ $0.32 [a]	$5.44	$0.00	$5.44		
Rem & Replace Cased Opening, Door	3 EA @ $49.66 [a]	$148.98	$0.00	$148.98		
Paint Cased Opening	3 EA @ $28.73 [a]	$86.19	$0.00	$86.19		
Rem & Replace Base Molding, Wood 4"	27 LF @ $2.97 [a]	$80.19	$0.00	$80.19		
Paint Base Molding, Wood 4"	27 LF @ $0.57 [a]	$15.39	$0.00	$15.39		
Rem & Replace Molding 1"	27 LF @ $1.33 [a]	$35.91	$0.00	$35.91		
Rem & Replace T&G Hardwood Floor	61.95 SF @ $4.36 [a]	$270.10	Material			
	59 SF @ $2.26	$133.34	Labor			
		$403.44	$0.00	$403.44		
Special Sand, Stain & Finish Wood Floor	59 SF @ $2.62 [b]	$154.58	$0.00	$154.58		
Rem & Replace Subfloor - Wood 1"	59 SF @ $2.01 [a]	$118.59	$0.00	$118.59		
Rem/Reset Blinds (EA)	1 EA @ $13.87 [b]	$13.87	$0.00	$13.87		
	Entry Total	$2,541.72	$0.00	$2,541.72		

Den (16' 4" x 13' 5" x 8' 8")

219 sf Floor 412 sf Wall 219 sf Ceiling 46 lf Floor 60 lf Ceiling 1,899 cf Volume

Missing Wall(s) 13' x 8'

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	219 SF @ $1.00 [a]	$219.00	$0.00	$219.00		
Rem & Replace Plaster & Lath Walls	22.89 SY @ $52.00 [a]	$1,190.28	$0.00	$1,190.28		
Clean Remediate, treat and seal contaminated wall framing	206 SF @ $1.23 [a]	$253.38	$0.00	$253.38		
Replace Texture Walls	412 SF @ $0.54 [a]	$222.48	$0.00	$222.48		
Paint Plaster & Lath Walls	45.78 SY @ $3.70 [a]	$169.39	$0.00	$169.39		
Rem & Replace Base Molding, Wood 4"	46 LF @ $2.97 [a]	$136.62	$0.00	$136.62		
Paint Base Molding, Wood 4"	46 LF @ $0.57 [a]	$26.22	$0.00	$26.22		
Rem & Replace Molding 1"	46 LF @ $1.33 [a]	$61.18	$0.00	$61.18		
Rem & Replace T&G Hardwood Floor	229.95 SF @ $4.36 [a]	$1,002.58	Material			

		Repl. Cost	Depr.	ACV	OP	RD
	219 SF @ $2.26	$494.94	Labor			
		$1,497.52	$0.00	$1,497.52		
Special Sand, Stain & Finish Wood Floor	219 SF @ $2.62 [b]	$573.78	$0.00	$573.78		
Rem & Replace Subfloor - Wood 1"	219 SF @ $2.01 [a]	$440.19	$0.00	$440.19		
Rem & Replace Tile Floor, Clay	10 SF @ $9.76 [a]	$97.60	$0.00	$97.60		
Rem & Replace Insulation, Fiberglass	64 SF @ $1.46 [a]	$93.44	$0.00	$93.44		
Replace Insulation, Fiberboard	64 SF @ $0.83 [a]	$53.12	$0.00	$53.12		
Rem/Reset Blinds (EA)	3 EA @ $13.87 [b]	$41.61	$0.00	$41.61		
Rem & Reinstall Wood Casing Window Trim Set	3 EA @ $52.93 [a]	$158.79	$0.00	$158.79		
Paint Cased Opening	3 EA @ $28.73 [a]	$86.19	$0.00	$86.19		
Remove Fireplace, Gas	1 EA @ $23.61 [b]	$23.61	$0.00	$23.61		
Replace Fireplace, Gas	1 EA @ $1,755.19 [b]	$1,755.19	$0.00	$1,755.19		
Replace Fireplace Screen	1 EA @ $78.27 [b]	$78.27	$0.00	$78.27		
Rem & Replace Register	2 EA @ $21.36 [a]	$42.72	$0.00	$42.72		
	Den Total	$7,220.58	$0.00	$7,220.58		

Dining Room (12' 3" x 10' 6" x 8')

129 sf Floor	312 sf Wall	129 sf Ceiling	39 lf Floor	39 lf Ceiling	1,029 cf Volume

Missing Wall(s) 6' 6" x 8'

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	129 SF @ $1.00 [a]	$129.00	$0.00	$129.00		
Rem & Replace Plaster & Lath Walls	17.34 SY @ $52.00 [a]	$901.68	$0.00	$901.68		
Clean Remediate, treat and seal contaminated wall framing	156 SF @ $1.23 [a]	$191.88	$0.00	$191.88		
Replace Texture Walls	312 SF @ $0.54 [a]	$168.48	$0.00	$168.48		
Paint Plaster & Lath Walls	34.67 SY @ $3.70 [a]	$128.28	$0.00	$128.28		
Rem & Replace Base Molding, Wood 4"	39 LF @ $2.97 [a]	$115.83	$0.00	$115.83		
Paint Base Molding, Wood 4"	39 LF @ $0.57 [a]	$22.23	$0.00	$22.23		
Rem & Replace Molding 1"	39 LF @ $1.33 [a]	$51.87	$0.00	$51.87		
Rem & Replace T&G Hardwood Floor	135.45 SF @ $4.36 [a]	$590.56	Material			
	129 SF @ $2.26	$291.54	Labor			
		$882.10	$0.00	$882.10		
Special Sand, Stain & Finish Wood Floor	129 SF @ $2.62 [b]	$337.98	$0.00	$337.98		
Rem & Replace Subfloor - Wood 1"	129 SF @ $2.01 [a]	$259.29	$0.00	$259.29		
Rem/Reset Blinds (EA)	2 EA @ $13.87 [a]	$27.74	$0.00	$27.74		
Remove Door, Patio, Swing, Wood, 6'	1 EA @ $22.04 [b]	$22.04	$0.00	$22.04		
Replace Door, Patio, Swing, Wood, 6'	1 EA @ $968.80 [b]	$968.80	$0.00	$968.80		
Rem & Reinstall Lockset Exterior, Entry	2 EA @ $14.94 [a]	$29.88	$0.00	$29.88		
Paint Door, Patio, Swing	2 EA @ $45.04 [b]	$90.08	$0.00	$90.08		
Rem & Replace Pocket Door	1 EA @ $177.59 [a]	$177.59	$0.00	$177.59		
Paint Pocket Door	1 EA @ $30.44 [a]	$30.44	$0.00	$30.44		
Rem & Replace Cased Opening, Door	3 EA @ $49.66 [a]	$148.98	$0.00	$148.98		
Paint Cased Opening	3 EA @ $28.73 [a]	$86.19	$0.00	$86.19		
Rem & Replace Register	1 EA @ $21.36 [a]	$21.36	$0.00	$21.36		
	Dining Room Total	$4,791.72	$0.00	$4,791.72		

Bedroom Hallway (11' 9" x 3' 2" x 8')

47 sf Floor	296 sf Wall	47 sf Ceiling	37 lf Floor	37 lf Ceiling	379 cf Volume

Offset(s) 2' 10" x 3' 7"

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	47 SF @ $1.00 [a]	$47.00	$0.00	$47.00		
Rem & Replace Plaster & Lath Walls	16.45 SY @ $52.00 [a]	$855.40	$0.00	$855.40		
Clean Remediate, treat and seal contaminated wall framing	148 SF @ $1.23 [a]	$182.04	$0.00	$182.04		
Replace Texture Walls	296 SF @ $0.54 [a]	$159.84	$0.00	$159.84		
Paint Plaster & Lath Walls	32.89 SY @ $3.70 [a]	$121.69	$0.00	$121.69		
Rem & Replace Base Molding, Wood 4"	37 LF @ $2.97 [a]	$109.89	$0.00	$109.89		
Paint Base Molding, Wood 4"	37 LF @ $0.57 [a]	$21.09	$0.00	$21.09		
Rem & Replace Molding 1"	37 LF @ $1.33 [a]	$49.21	$0.00	$49.21		
Rem & Replace T&G Hardwood Floor	49.35 SF @ $4.36 [a]	$215.17	Material			
	47 SF @ $2.26	$106.22	Labor			
		$321.39	$0.00	$321.39		
Special Sand, Stain & Finish Wood Floor	47 SF @ $2.62 [b]	$123.14	$0.00	$123.14		
Rem & Replace Subfloor - Wood 1"	47 SF @ $2.01 [a]	$94.47	$0.00	$94.47		
Rem & Replace Panel Door, Pre-Hung	1 EA @ $277.48 [a]	$277.48	$0.00	$277.48		
Rem & Reinstall Lockset Interior, Passage	1 EA @ $9.50 [a]	$9.50	$0.00	$9.50		
Paint Panel Door, Pre-Hung	1 EA @ $40.59 [a]	$40.59	$0.00	$40.59		
Rem & Replace Cased Opening, Door	5 EA @ $49.66 [a]	$248.30	$0.00	$248.30		
Paint Cased Opening	5 EA @ $28.73 [a]	$143.65	$0.00	$143.65		
Bedroom Hallway Total		$2,804.68	$0.00	$2,804.68		

Front Bedroom (10' 7" x 10' 9" x 8')

128 sf Floor | 484 sf Wall | 128 sf Ceiling | 60 lf Floor | 60 lf Ceiling | 1,027 cf Volume

Closet(s) 6' 9" x 2' 2"

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	128 SF @ $1.00 [a]	$128.00	$0.00	$128.00		
Rem & Replace Plaster & Lath Walls	26.89 SY @ $52.00 [a]	$1,398.28	$0.00	$1,398.28		
Clean Remediate, treat and seal contaminated wall framing	242 SF @ $1.23 [a]	$297.66	$0.00	$297.66		
Replace Texture Walls	484 SF @ $0.54 [a]	$261.36	$0.00	$261.36		
Paint Plaster & Lath Walls	53.78 SY @ $3.70 [a]	$198.99	$0.00	$198.99		
Rem & Replace Base Molding, Wood 4"	60 LF @ $2.97 [a]	$178.20	$0.00	$178.20		
Paint Base Molding, Wood 4"	60 LF @ $0.57 [a]	$34.20	$0.00	$34.20		
Rem & Replace Molding 1"	60 LF @ $1.33 [a]	$79.80	$0.00	$79.80		
Rem & Replace T&G Hardwood Floor	134.4 SF @ $4.36 [a]	$585.98	Material			
	128 SF @ $2.26	$289.28	Labor			
		$875.26	$0.00	$875.26		
Special Sand, Stain & Finish Wood Floor	128 SF @ $2.62 [b]	$335.36	$0.00	$335.36		
Rem & Replace Subfloor - Wood 1"	128 SF @ $2.01 [a]	$257.28	$0.00	$257.28		
Rem & Replace Register	1 EA @ $21.36 [a]	$21.36	$0.00	$21.36		
Rem & Replace Flush Int. HC Door, Pre-Hung	1 EA @ $166.53 [a]	$166.53	$0.00	$166.53		
Rem & Reinstall Lockset Interior, Passage	1 EA @ $9.50 [a]	$9.50	$0.00	$9.50		
Paint Flush Int. HC Door, Pre-Hung	1 EA @ $27.15 [a]	$27.15	$0.00	$27.15		
Rem & Replace Door Jamb, Interior - expanded jamb	1 EA @ $78.68 [a]	$78.68	$0.00	$78.68		
Rem & Replace Bi-Pass Int. Doors, Flush	1 ST @ $203.11 [a]	$203.11	$0.00	$203.11		
Paint Bi-Pass Int. Doors, Flush	1 ST @ $30.44 [a]	$30.44	$0.00	$30.44		
Rem & Replace Wood Casing Window Trim	2 EA @ $52.93 [a]	$105.86	$0.00	$105.86		

		Repl. Cost	Depr.	ACV	OP	RD
Set						
Rem/Reset Blinds (EA)	2 EA @ $13.87 [b]	$27.74	$0.00	$27.74		
Rem & Replace Cased Opening, Door	2 EA @ $49.66 [a]	$99.32	$0.00	$99.32		
Paint Cased Opening	4 EA @ $28.73 [a]	$114.92	$0.00	$114.92		
Rem & Replace Shelving	8 LF @ $6.34 [a]	$50.72	$0.00	$50.72		
Paint Shelving	8 LF @ $0.42 [a]	$3.36	$0.00	$3.36		
	Front Bedroom Total	$4,983.08	$0.00	$4,983.08		

Front Corner Bedroom (12' x 10' 7" x 8')

142 sf Floor | 468 sf Wall | 142 sf Ceiling | 58 lf Floor | 64 lf Ceiling | 1,137 cf Volume

Closet(s) 7' x 2' 2"
Missing Wall(s) 6' x 6' 8"

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	142 SF @ $1.00 [a]	$142.00	$0.00	$142.00		
Rem & Replace Plaster & Lath Walls	26 SY @ $52.00 [a]	$1,352.00	$0.00	$1,352.00		
Clean Remediate, treat and seal contaminated wall framing	234 SF @ $1.23 [a]	$287.82	$0.00	$287.82		
Replace Texture Walls	468 SF @ $0.54 [a]	$252.72	$0.00	$252.72		
Paint Plaster & Lath Walls	52 SY @ $3.70 [a]	$192.40	$0.00	$192.40		
Rem & Replace Base Molding, Wood 4"	58 LF @ $2.97 [a]	$172.26	$0.00	$172.26		
Paint Base Molding, Wood 4"	58 LF @ $0.57 [a]	$33.06	$0.00	$33.06		
Rem & Replace Molding 1"	58 LF @ $1.33 [a]	$77.14	$0.00	$77.14		
Rem & Replace T&G Hardwood Floor	149.1 SF @ $4.36 [a]	$650.08	Material			
	142 SF @ $2.26	$320.92	Labor			
		$971.00	$0.00	$971.00		
Special Sand, Stain & Finish Wood Floor	142 SF @ $2.62 [b]	$372.04	$0.00	$372.04		
Rem & Replace Subfloor - Wood 1"	142 SF @ $2.01 [a]	$285.42	$0.00	$285.42		
Rem & Replace Register	1 EA @ $21.36 [a]	$21.36	$0.00	$21.36		
Rem & Replace Flush Int. HC Door, Pre-Hung	1 EA @ $166.53 [a]	$166.53	$0.00	$166.53		
Rem & Reinstall Lockset Interior, Passage	1 EA @ $9.50 [a]	$9.50	$0.00	$9.50		
Paint Flush Int. HC Door, Pre-Hung	1 EA @ $27.15 [a]	$27.15	$0.00	$27.15		
Rem & Replace Folding Accordion Door, 6'	1 EA @ $156.58 [a]	$156.58	$0.00	$156.58		
Rem & Replace Door Jamb, Interior expanded jamb	2 EA @ $78.68 [a]	$157.36	$0.00	$157.36		
Rem & Replace Bi-Fold Int. Doors, Louver 6' Average Grade	1 ST @ $261.10 [a]	$261.10	$0.00	$261.10		
Paint Bi-Fold Int. Doors, Louver 6' Average Grade	1 ST @ $32.47 [a]	$32.47	$0.00	$32.47		
Rem & Replace Wood Casing Window Trim Set	3 EA @ $52.93 [a]	$158.79	$0.00	$158.79		
Rem/Reset Blinds (EA)	3 EA @ $13.87 [a]	$41.61	$0.00	$41.61		
Rem & Replace Cased Opening, Door	3 EA @ $49.66 [a]	$148.98	$0.00	$148.98		
Paint Cased Opening	6 EA @ $28.73 [a]	$172.38	$0.00	$172.38		
Rem & Replace Shelving	8 LF @ $6.34 [a]	$50.72	$0.00	$50.72		
Paint Shelving	8 LF @ $0.42 [a]	$3.36	$0.00	$3.36		
	Front Corner Bedroom Total	$5,545.75	$0.00	$5,545.75		

Rear Corner Bedroom (12' 3" x 12' x 8')

147 sf Floor | 388 sf Wall | 147 sf Ceiling | 48 lf Floor | 48 lf Ceiling | 1,176 cf Volume

		Repl. Cost	Depr.	ACV	OP RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	147 SF @ $1.00 [a]	$147.00	$0.00	$147.00	
Rem & Replace Plaster & Lath Walls	21.56 SY @ $52.00 [a]	$1,121.12	$0.00	$1,121.12	
Clean Remediate, treat and seal contaminated wall framing	194 SF @ $1.23 [a]	$238.62	$0.00	$238.62	
Replace Texture Walls	388 SF @ $0.54 [a]	$209.52	$0.00	$209.52	
Paint Plaster & Lath Walls	43.12 SY @ $3.70 [a]	$159.54	$0.00	$159.54	
Rem & Replace Base Molding, Wood 4"	48 LF @ $2.97 [a]	$142.56	$0.00	$142.56	
Paint Base Molding, Wood 4"	48 LF @ $0.57 [a]	$27.36	$0.00	$27.36	
Rem & Replace Molding 1"	48 LF @ $1.33 [a]	$63.84	$0.00	$63.84	
Rem & Replace T&G Hardwood Floor	154.35 SF @ $4.36 [a]	$672.97	Material		
	147 SF @ $2.26	$332.22	Labor		
		$1,005.19	$0.00	$1,005.19	
Special Sand, Stain & Finish Wood Floor	147 SF @ $2.62 [b]	$385.14	$0.00	$385.14	
Rem & Replace Subfloor - Wood 1"	147 SF @ $2.01 [a]	$295.47	$0.00	$295.47	
Rem & Replace Register	1 EA @ $21.36 [a]	$21.36	$0.00	$21.36	
Rem & Replace Flush Int. HC Door, Pre-Hung	1 EA @ $166.53 [a]	$166.53	$0.00	$166.53	
Rem & Reinstall Lockset Interior, Passage	1 EA @ $9.50 [a]	$9.50	$0.00	$9.50	
Paint Flush Int. HC Door, Pre-Hung	1 EA @ $27.15 [a]	$27.15	$0.00	$27.15	
Rem & Replace Wood Casing Window Trim Set	2 EA @ $52.93 [a]	$105.86	$0.00	$105.86	
Rem/Reset Blinds (EA)	2 EA @ $13.87 [b]	$27.74	$0.00	$27.74	
Rem & Replace Cased Opening, Door	2 EA @ $49.66 [a]	$99.32	$0.00	$99.32	
Paint Cased Opening	4 EA @ $28.73 [a]	$114.92	$0.00	$114.92	
Rear Corner Bedroom Total		$4,367.74	$0.00	$4,367.74	

Bedroom Bath (8' 8" x 4' 8" x 8')

40 sf Floor 213 sf Wall 40 sf Ceiling 27 lf Floor 27 lf Ceiling 324 cf Volume

		Repl. Cost	Depr.	ACV	OP RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	40 SF @ $1.00 [a]	$40.00	$0.00	$40.00	
Rem & Replace Sheetrock Walls	106.5 SF @ $1.81 [a]	$192.77	$0.00	$192.77	
Rem & Replace Cement Board Wall 1/2"	106.5 SF @ $2.96 [a]	$315.24	$0.00	$315.24	
Replace Wallpaper Sizing	106.5 SF @ $0.30 [a]	$31.95	$0.00	$31.95	
Replace Wallpaper	124.61 SF @ $0.25 [a]	$31.15	Material		
	106.5 SF @ $1.20	$127.80	Labor		
		$158.95	$0.00	$158.95	
Rem & Replace Ceramic Tile Walls	106.5 SF @ $11.45 [a]	$1,219.43	$0.00	$1,219.43	
Replace Ceramic Soap Dish	1 EA @ $19.96 [b]	$19.96	$0.00	$19.96	
Clean Remediate, treat and seal contaminated wall framing	106.5 SF @ $1.23 [a]	$131.00	$0.00	$131.00	
Rem & Replace Wood Casing Window Trim Set	1 EA @ $52.93 [a]	$52.93	$0.00	$52.93	
Rem/Reset Blinds (EA)	1 EA @ $13.87 [b]	$13.87	$0.00	$13.87	
Rem & Replace Base Molding, Wood 4"	14 LF @ $2.97 [a]	$41.58	$0.00	$41.58	
Paint Base Molding, Wood 4"	14 LF @ $0.57 [a]	$7.98	$0.00	$7.98	
Rem & Replace Underlay, Plywood	40 SF @ $1.50 [a]	$60.00	$0.00	$60.00	
Rem & Replace Subfloor - Wood 1"	40 SF @ $2.01 [a]	$80.40	$0.00	$80.40	
Rem & Replace Vanity 30", Deluxe	1 EA @ $267.22 [a]	$267.22	$0.00	$267.22	
Rem & Reinstall Countertop, Cultured Marble w/Lav	1 LF @ $19.63 [a]	$19.63	$0.00	$19.63	

		Repl. Cost	Depr.	ACV	OP	RD
Rem & Reinstall Faucet, Lavatory	1 EA @ $29.64 [a]	$29.64	$0.00	$29.64		
Rem & Reinstall Faucet, Combination Shower/Bath	1 EA @ $68.40 [a]	$68.40	$0.00	$68.40		
Rem & Reinstall Bathtub, Enamel	1 EA @ $104.88 [a]	$104.88	$0.00	$104.88		
Clean Bathtub, Enamel	1 EA @ $7.93 [a]	$7.93	$0.00	$7.93		
Rem & Reinstall Commode (Toilet)	1 EA @ $79.80 [a]	$79.80	$0.00	$79.80		
Clean Commode (Toilet)	1 EA @ $10.98 [a]	$10.98	$0.00	$10.98		
Rem & Reinstall Wall Mirror	12 SF @ $2.76 [a]	$33.12	$0.00	$33.12		
Rem & Replace Flush Int. HC Door, Pre-Hung	1 EA @ $166.53 [a]	$166.53	$0.00	$166.53		
Paint Flush Int. HC Door, Pre-Hung	1 EA @ $27.15 [a]	$27.15	$0.00	$27.15		
Rem & Replace Cased Opening, Door	1 EA @ $49.66 [a]	$49.66	$0.00	$49.66		
Paint Cased Opening	2 EA @ $28.73 [b]	$57.46	$0.00	$57.46		
Rem & Reinstall Lockset Interior, Privacy	1 EA @ $9.50 [a]	$9.50	$0.00	$9.50		
Replace Tile Floor, Ceramic	24 SF @ $7.67 [a]	$184.08	$0.00	$184.08		
Rem & Replace Underlay, Cement Board	40 SF @ $1.25 [a]	$50.00	$0.00	$50.00		
	Bedroom Bath Total	$3,532.04	$0.00	$3,532.04		

Hall Bath (8' 10" x 4' 10" x 8')

65 sf Floor	359 sf Wall	65 sf Ceiling	45 lf Floor	45 lf Ceiling	518 cf Volume

Closet(s) 3' 5" x 2' 8"
Offset(s) 4' 10" x 2' 8"

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	65 SF @ $1.00 [a]	$65.00	$0.00	$65.00		
Rem & Replace Sheetrock Walls	215.4 SF @ $1.81 [a]	$389.87	$0.00	$389.87		
Rem & Replace Cement Board Wall 1/2"	143.6 SF @ $2.96 [a]	$425.06	$0.00	$425.06		
Replace Wallpaper Sizing	179.5 SF @ $0.30 [a]	$53.85	$0.00	$53.85		
Replace Wallpaper	210.07 SF @ $0.25 [a]	$52.51	Material			
	179.5 SF @ $1.20	$215.40	Labor			
		$267.91	$0.00	$267.91		
Rem & Replace Ceramic Tile Walls	179.5 SF @ $11.45 [a]	$2,055.28	$0.00	$2,055.28		
Replace Ceramic Soap Dish	1 EA @ $19.96 [b]	$19.96	$0.00	$19.96		
Replace Ceramic Paper Holder	1 EA @ $24.95 [b]	$24.95	$0.00	$24.95		
Rem/Reset Ceramic Towel Bar	2 EA @ $24.51 [b]	$49.02	$0.00	$49.02		
Replace Ceramic Glass Holder	2 EA @ $19.92 [b]	$39.84	$0.00	$39.84		
Clean Remediate, treat and seal contaminated wall framing	179.5 SF @ $1.23 [a]	$220.79	$0.00	$220.79		
Rem & Replace Wood Casing Window Trim Set	1 EA @ $52.93 [a]	$52.93	$0.00	$52.93		
Rem/Reset Blinds (EA)	1 EA @ $13.87 [b]	$13.87	$0.00	$13.87		
Rem & Replace Base Molding, Wood 4"	10 LF @ $2.97 [a]	$29.70	$0.00	$29.70		
Paint Base Molding, Wood 4"	10 LF @ $0.57 [a]	$5.70	$0.00	$5.70		
Rem & Replace Base Molding, Ceramic	14 LF @ $9.54 [a]	$133.56	$0.00	$133.56		
Rem & Replace Underlay, Plywood	65 SF @ $1.50 [a]	$97.50	$0.00	$97.50		
Rem & Replace Subfloor - Wood 1"	65 SF @ $2.01 [a]	$130.65	$0.00	$130.65		
Rem & Replace Vanity 24" Deluxe	1 EA @ $205.21 [a]	$205.21	$0.00	$205.21		
Rem & Reinstall Countertop, Cultured Marble w/Lav	1 LF @ $19.63 [a]	$19.63	$0.00	$19.63		
Rem & Reinstall Faucet, Lavatory	1 EA @ $29.64 [a]	$29.64	$0.00	$29.64		
Rem & Reinstall Faucet, Combination Shower/Bath	1 EA @ $68.40 [a]	$68.40	$0.00	$68.40		

		Repl. Cost	Depr.	ACV	OP	RD
Rem & Reinstall Bathtub, Enamel	1 EA @ $104.88 [a]	$104.88	$0.00	$104.88		
Clean Bathtub, Enamel	1 EA @ $7.93 [a]	$7.93	$0.00	$7.93		
Rem & Reinstall Commode (Toilet)	1 EA @ $79.80 [a]	$79.80	$0.00	$79.80		
Clean Commode (Toilet)	1 EA @ $10.98 [a]	$10.98	$0.00	$10.98		
Rem & Reinstall Wall Mirror	12 SF @ $2.76 [a]	$33.12	$0.00	$33.12		
Rem & Replace Flush Int. HC Door, Pre-Hung	2 EA @ $166.53 [a]	$333.06	$0.00	$333.06		
Paint Flush Int. HC Door, Pre-Hung	2 EA @ $27.15 [b]	$54.30	$0.00	$54.30		
Rem & Replace Cased Opening, Door	3 EA @ $49.66 [b]	$148.98	$0.00	$148.98		
Paint Cased Opening	4 EA @ $28.73 [b]	$114.92	$0.00	$114.92		
Rem & Reinstall Lockset Interior, Privacy	1 EA @ $9.50 [a]	$9.50	$0.00	$9.50		
Rem & Reinstall Lockset Interior, Passage	1 EA @ $9.50 [a]	$9.50	$0.00	$9.50		
Replace Tile Floor, Ceramic	39 SF @ $7.67 [a]	$299.13	$0.00	$299.13		
Rem & Replace Underlay, Cement Board	65 SF @ $1.25 [a]	$81.25	$0.00	$81.25		
Rem & Replace Shelving	20 LF @ $6.34 [a]	$126.80	$0.00	$126.80		
Paint Shelving	20 LF @ $0.42 [a]	$8.40	$0.00	$8.40		
Rem & Replace Register	1 EA @ $21.36 [a]	$21.36	$0.00	$21.36		
Rem & Reinstall Towel Bar	2 EA @ $9.33 [a]	$18.66	$0.00	$18.66		
	Hall Bath Total	$5,860.89	$0.00	$5,860.89		

Kitchen (11' 4" x 12' 5" x 8')

141 sf Floor | 317 sf Wall | 141 sf Ceiling | 38 lf Floor | 48 lf Ceiling | 1,126 cf Volume

Missing Wall(s) 9' x 7'

		Repl. Cost	Depr.	ACV	OP	RD
Clean Mockout, clean, deodorize and mildecide per SF floor area	141 SF @ $1.00 [a]	$141.00	$0.00	$141.00		
Clean Remediate, treat and seal contaminated wall framing	158.5 SF @ $1.23 [a]	$194.96	$0.00	$194.96		
Rem & Replace Plaster & Lath Walls	17.62 SY @ $52.00 [a]	$916.24	$0.00	$916.24		
Paint Plaster & Lath Walls	35.23 SY @ $3.70 [a]	$130.35	$0.00	$130.35		
Rem & Replace Cabinet, Base, Wood, Deluxe	12 LF @ $116.64 [a]	$1,399.68	$0.00	$1,399.68		
Rem & Replace Cabinet, Full Height, Wood, Deluxe	2 LF @ $170.56 [a]	$341.12	$0.00	$341.12		
Rem & Replace Cabinet, Wall, Wood Deluxe	10.6 LF @ $163.35 [a]	$1,731.51	$0.00	$1,731.51		
Special Seal & Paint Base Cabinet, In/Out	12 LF @ $21.24 [b]	$254.88	$0.00	$254.88		
Special Seal & Paint Tall Cab, In/Out	2 LF @ $27.12 [b]	$54.24	$0.00	$54.24		
Special Seal & Paint Wall Cabinet, In/Out	10.6 LF @ $16.34 [b]	$173.20	$0.00	$173.20		
Rem & Replace Countertop, Formica	12 LF @ $27.76 [a]	$333.12	$0.00	$333.12		
Rem & Replace Dishwasher	1 EA @ $570.43 [a*]	$570.43	$0.00	$570.43	N	N
Rem & Replace Refrigerator w/Bottom Freezer	1 EA @ $1,700.85 [a*]	$1,700.85	$340.17	$1,360.68	N	N
Rem & Reinstall Wall Oven	1 EA @ $51.19 [a]	$51.19	$0.00	$51.19		
Rem & Reinstall Cooktop, Electric	1 EA @ $109.85 [a]	$109.85	$0.00	$109.85		
Rem & Reinstall Kitchen Sink, Double	1 EA @ $79.80 [a]	$79.80	$0.00	$79.80		
Rem & Reinstall Faucet, Kitchen	1 EA @ $59.28 [a]	$59.28	$0.00	$59.28		
Rem & Replace Vinyl Sheet Floor	15.67 SY @ $28.87 [a]	$452.39	$0.00	$452.39		
Prepare Underlay Felt moisture barrier	141 EA @ $0.36 [a]	$50.76	$0.00	$50.76		
Rem & Replace Underlay, Plywood 1/2"	141 SF @ $1.50 [a]	$211.50	$0.00	$211.50		
Rem & Replace Subfloor - Plywood 3/4"	141 SF @ $1.63 [a]	$229.83	$0.00	$229.83		
Rem & Replace Subfloor - Wood 1"	141 SF @ $2.01 [a]	$283.41	$0.00	$283.41		
Rem & Replace Base Molding, Wood 3"	12.6 LF @ $2.08 [a]	$26.21	$0.00	$26.21		
Rem & Replace Shoe Molding	12.6 LF @ $1.19 [a]	$14.99	$0.00	$14.99		
Paint Base Molding, Wood 3"	12.6 LF @ $0.43 [a]	$5.42	$0.00	$5.42		

		Repl. Cost	Depr.	ACV	OP	RD
Rem & Replace Cased Opening, Door	1 EA @ $49.66 [a]	$49.66	$0.00	$49.66		
Paint Cased Opening	1 EA @ $28.73 [a]	$28.73	$0.00	$28.73		
Rem/Reset Blinds (EA)	1 EA @ $13.87 [b]	$13.87	$0.00	$13.87		
	Kitchen Total	$9,608.47	$340.17	$9,268.30		

Office/Laundry Area (20' x 11' 6" x 8')

315 sf Floor 955 sf Wall 315 sf Ceiling 119 lf Floor 119 lf Ceiling 2,516 cf Volume

Closet(s) 8' 2" x 3' 2" 4' 4" x 2' 10" 1' 10" x 1' 6"

Offset(s) 9' x 3' 5' x 3' 4"

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	315 SF @ $1.00 [a]	$315.00	$0.00	$315.00		
Clean Remediate, treat and seal contaminated wall framing	477.5 SF @ $1.23 [a]	$587.33	$0.00	$587.33		
Rem & Replace Plaster & Lath Walls	53.06 SY @ $52.00 [a]	$2,759.12	$0.00	$2,759.12		
Rem & Replace Insulation, Fiberglass	238.75 SF @ $1.46 [a]	$348.58	$0.00	$348.58		
Paint Plaster & Lath Walls	106.12 SY @ $3.70 [a]	$392.64	$0.00	$392.64		
Rem & Replace Cased Opening, Door	7 EA @ $49.66 [a]	$347.62	$0.00	$347.62		
Paint Cased Opening	9 EA @ $28.73 [a]	$258.57	$0.00	$258.57		
Rem & Replace Wood Casing Window Trim Set	2 EA @ $52.93 [a]	$105.86	$0.00	$105.86		
Rem & Replace Panel Door, Pre-Hung	2 EA @ $277.48 [a]	$554.96	$0.00	$554.96		
Paint Panel Door, Pre-Hung	2 EA @ $40.59 [a]	$81.18	$0.00	$81.18		
Rem & Replace Bi-Fold Int. Doors, Panel	2 ST @ $319.11 [a]	$638.22	$0.00	$638.22		
Paint Bi-Fold Int. Doors, Panel	2 ST @ $30.44 [a]	$60.88	$0.00	$60.88		
Rem & Replace Cafe Doors	1 PR @ $116.56 [a]	$116.56	$0.00	$116.56		
Finish Cafe Doors	1 PR @ $33.40 [a]	$33.40	$0.00	$33.40		
Rem & Replace Panel Door w/Glass, Steel	1 EA @ $325.44 [a]	$325.44	$0.00	$325.44		
Paint Panel Door w/Glass, Steel	1 EA @ $40.90 [a]	$40.90	$0.00	$40.90		
Rem & Reinstall Lockset Interior, Passage	3 EA @ $9.50 [a]	$28.50	$0.00	$28.50		
Rem & Reinstall Lockset Exterior, Entry	1 EA @ $14.94 [a]	$14.94	$0.00	$14.94		
Rem & Replace Threshold, Aluminum	1 EA @ $30.17 [a]	$30.17	$0.00	$30.17		
Rem & Replace Vinyl Sheet Floor	35 SY @ $28.87 [a]	$1,010.45	$0.00	$1,010.45		
Prepare Underlay Felt moisture barrier	315 EA @ $0.36 [a]	$113.40	$0.00	$113.40		
Rem & Replace Underlay, Plywood 3/4"	315 SF @ $1.72 [a]	$541.80	$0.00	$541.80		
Rem & Replace Subfloor - Plywood 3/4"	315 SF @ $1.63 [a]	$513.45	$0.00	$513.45		
Rem & Replace Base Molding, Wood 4"	119 LF @ $2.97 [a]	$353.43	$0.00	$353.43		
Rem & Replace Shoe Molding	119 LF @ $1.19 [a]	$141.61	$0.00	$141.61		
Paint Base Molding, Wood 4"	119 LF @ $0.57 [a]	$67.83	$0.00	$67.83		
Rem & Replace Water Heater, Natural Gas, 50 Gallon, Deluxe	1 EA @ $379.26 [a*]	$379.26	$36.89	$342.37		
Rem & Reinstall Faucet, Kitchen	1 EA @ $59.28 [a]	$59.28	$0.00	$59.28		
Rem & Reinstall Bar Sink	1 EA @ $57.00 [a]	$57.00	$0.00	$57.00		
Rem & Replace Cabinet, Island Base, Wood	5 LF @ $140.85 [a]	$704.25	$0.00	$704.25		
Rem & Replace Cabinet, Base, Wood	3 LF @ $91.20 [a]	$273.60	$0.00	$273.60		
Rem & Replace Countertop, Formica	9 LF @ $27.76 [a]	$249.84	$0.00	$249.84		
Rem & Replace Access Door	1 EA @ $82.28 [a]	$82.28	$0.00	$82.28		
Rem/Reset Shutters, Interior	2 PR @ $25.01 [b]	$50.02	$0.00	$50.02		
Rem/Reset Blinds (EA)	3 EA @ $13.87 [b]	$41.61	$0.00	$41.61		
	Office/Laundry Area Total	$11,878.98	$36.89	$11,842.09		

Master Suite Hallway (6' 2" x 3' 8" x 8')

23 sf Floor | 157 sf Wall | 23 sf Ceiling | 20 lf Floor | 20 lf Ceiling | 181 cf Volume

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	23 SF @ $1.00 [b]	$23.00	$0.00	$23.00		
Clean Remediate, treat and seal contaminated wall framing	78.5 SF @ $1.23 [a]	$96.56	$0.00	$96.56		
Rem & Replace Sheetrock Walls	157 SF @ $1.81 [a]	$284.17	$0.00	$284.17		
Rem & Replace Insulation, Fiberglass	47.1 SF @ $1.46 [a]	$68.77	$0.00	$68.77		
Paint Sheetrock Walls	157 SF @ $0.41 [a]	$64.37	$0.00	$64.37		
Rem & Replace Cased Opening, Door	3 EA @ $49.66 [a]	$148.98	$0.00	$148.98		
Special Remove Wet Pad/Carpeting	23 SF @ $0.32 [b]	$7.36	$0.00	$7.36		
Replace Carpet Pad, per SY	2.56 SY @ $4.01 [a]	$10.27	$1.03	$9.24	N	N
Replace Carpet, Nylon (SY), 26 OZ	2.71 SY @ $16.20 [a]	$43.90	Material			
	2.56 SY @ $3.52	$9.01	Labor			
		$52.91	$10.38	$42.53	N	N
Rem & Replace Subfloor - Plywood 3/4"	23 SF @ $1.63 [a]	$37.49	$0.00	$37.49		
Master Suite Hallway Total		$793.88	$11.61	$782.27		

Master Bedroom (18' 2" x 16' x 8')

321 sf Floor | 725 sf Wall | 321 sf Ceiling | 90 lf Floor | 90 lf Ceiling | 2,566 cf Volume

Closet(s) 5' 10" x 5' 2"

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	321 SF @ $1.00 [a]	$321.00	$0.00	$321.00		
Clean Remediate, treat and seal contaminated wall framing	361.5 SF @ $1.23 [a]	$444.65	$0.00	$444.65		
Rem & Replace Sheetrock Walls	723 SF @ $1.81 [a]	$1,308.63	$0.00	$1,308.63		
Paint Sheetrock Walls	723 SF @ $0.41 [a]	$296.43	$0.00	$296.43		
Rem & Replace Cased Opening, Door	3 EA @ $49.66 [a]	$148.98	$0.00	$148.98		
Special Remove Wet Pad/Carpeting	321 SF @ $0.32 [b]	$102.72	$0.00	$102.72		
Replace Carpet Pad, per SY	35.67 SY @ $4.01 [a]	$143.04	$14.30	$128.74	N	N
Replace Carpet, Nylon (SY), 26 OZ	37.81 SY @ $16.20 [a]	$612.52	Material			
	35.67 SY @ $3.52	$125.56	Labor			
		$738.08	$147.62	$590.46	N	N
Rem & Replace Subfloor - Plywood 3/4"	321 SF @ $1.63 [a]	$523.23	$0.00	$523.23		
Rem & Replace Panel Door, Pre-Hung	2 EA @ $277.48 [a]	$554.96	$0.00	$554.96		
Rem & Reinstall Lockset Interior, Passage	2 EA @ $9.50 [a]	$19.00	$0.00	$19.00		
Rem & Replace Wood Casing Window Trim Set	4 EA @ $52.93 [a]	$211.72	$0.00	$211.72		
Paint Cased Opening	7 EA @ $28.73 [a]	$201.11	$0.00	$201.11		
Rem/Reset Blinds (EA)	3 EA @ $13.87 [b]	$41.61	$0.00	$41.61		
Rem & Replace Register	2 EA @ $21.36 [a]	$42.72	$0.00	$42.72		
Master Bedroom Total		$5,097.88	$161.92	$4,935.96		

Master Bathroom (8' x 5' 2" x 8')

41 sf Floor | 211 sf Wall | 41 sf Ceiling | 26 lf Floor | 26 lf Ceiling | 331 cf Volume

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	41 SF @ $1.00 [a]	$41.00	$0.00	$41.00		

		Repl. Cost	Depr.	ACV	OP	RD
Clean Remediate, treat and seal contaminated wall framing	105.5 SF @ $1.23 [a]	$129.76	$0.00	$129.76		
Rem & Replace Sheetrock Walls	105.5 SF @ $1.81 [a]	$190.96	$0.00	$190.96		
Rem & Replace Cement Board Wall 1/2"	105.5 SF @ $2.96 [a]	$312.28	$0.00	$312.28		
Replace Wallpaper Sizing	105.5 SF @ $0.30 [a]	$31.65	$0.00	$31.65		
Replace Wallpaper	123.44 SF @ $0.25 [a]	$30.86	Material			
	105.5 SF @ $1.20	$126.60	Labor			
		$157.46	$0.00	$157.46		
Rem & Replace Ceramic Tile Walls	105.5 SF @ $11.45 [a]	$1,207.97	$0.00	$1,207.97		
Replace Ceramic Soap Dish	1 EA @ $19.96 [b]	$19.96	$0.00	$19.96		
Rem & Replace Base Molding, Ceramic	8 LF @ $9.54 [a]	$76.32	$0.00	$76.32		
Replace Threshold (EA), Marble	1 EA @ $66.53 [b]	$66.53	$0.00	$66.53		
Rem & Replace Vanity 30", Deluxe	1 EA @ $267.22 [a]	$267.22	$0.00	$267.22		
Rem & Reinstall Countertop, Cultured Marble w/Lav	1 LF @ $19.63 [a]	$19.63	$0.00	$19.63		
Rem & Reinstall Faucet, Lavatory	1 EA @ $29.64 [a]	$29.64	$0.00	$29.64		
Rem & Reinstall Faucet, Combination Shower/Bath	1 EA @ $68.40 [a]	$68.40	$0.00	$68.40		
Rem & Reinstall Bathtub, Enamel	1 EA @ $104.88 [a]	$104.88	$0.00	$104.88		
Clean Bathtub, Enamel	1 EA @ $7.93 [a]	$7.93	$0.00	$7.93		
Rem & Reinstall Commode (Toilet)	1 EA @ $79.80 [a]	$79.80	$0.00	$79.80		
Clean Commode (Toilet)	1 EA @ $10.98 [a]	$10.98	$0.00	$10.98		
Rem & Reinstall Wall Mirror	18 SF @ $2.76 [a]	$49.68	$0.00	$49.68		
Rem & Replace Flush Int. HC Door, Pre-Hung	1 EA @ $166.53 [a]	$166.53	$0.00	$166.53		
Paint Flush Int. HC Door, Pre-Hung	1 EA @ $27.15 [a]	$27.15	$0.00	$27.15		
Rem & Replace Cased Opening, Door	1 EA @ $49.66 [a]	$49.66	$0.00	$49.66		
Paint Cased Opening	1 EA @ $28.73 [a]	$28.73	$0.00	$28.73		
Rem & Reinstall Lockset Interior, Privacy	1 EA @ $9.50 [a]	$9.50	$0.00	$9.50		
Replace Tile Floor, Ceramic	25 SF @ $7.67 [a]	$191.75	$0.00	$191.75		
Rem & Replace Underlay, Cement Board	41 SF @ $1.25 [a]	$51.25	$0.00	$51.25		
Rem & Replace Subfloor - Plywood 3/4"	41 SF @ $1.63 [a]	$66.83	$0.00	$66.83		
	Master Bathroom Total	$3,463.45	$0.00	$3,463.45		

Sunroom (18' 2" x 13' 6" x 8')

245 sf Floor 432 sf Wall 254 sf Ceiling 45 lf Floor 64 lf Ceiling 2,369 cf Volume

Door(s) 6' x 6' 8" (3)

Ceiling - Vaulted (gable) 45 sf Wall 9 sf Ceiling 1 lf Ceiling 307 cf Volume

		Repl. Cost	Depr.	ACV	OP	RD
Clean Muckout, clean, deodorize and mildecide per SF floor area	245 SF @ $1.00 [a]	$245.00	$0.00	$245.00		
Clean Remediate, treat and seal contaminated wall framing	216 SF @ $1.23 [a]	$265.68	$0.00	$265.68		
Rem & Replace Sheetrock Walls	432 SF @ $1.81 [a]	$781.92	$0.00	$781.92		
Paint Sheetrock Walls	432 SF @ $0.41 [a]	$177.12	$0.00	$177.12		
Rem & Replace Insulation, Fiberglass	64.8 SF @ $1.46 [a]	$94.61	$0.00	$94.61		
Rem & Replace Cased Opening, Door	3 EA @ $49.66 [a]	$148.98	$0.00	$148.98		
Special Remove Wet Pad/Carpeting	245 SF @ $0.32 [b]	$78.40	$0.00	$78.40		
Replace Carpet Pad, per SY	27.23 SY @ $4.01 [a]	$109.19	$10.92	$98.27	N	N
Replace Carpet, Nylon (SY), 26 OZ	28.86 SY @ $16.20 [a]	$467.53	Material			
	27.23 SY @ $3.52	$95.85	Labor			
		$563.38	$112.68	$450.70	N	N

		Repl. Cost	Depr.	ACV	OP	RD
Rem & Replace Subfloor - Plywood 3/4"	245 SF @ $1.63 [a]	$399.35	$0.00	$399.35		
Rem & Replace Panel Door, Pre-Hung	1 EA @ $277.48 [a]	$277.48	$0.00	$277.48		
Rem & Reinstall Lockset Interior, Passage	1 EA @ $9.50 [a]	$9.50	$0.00	$9.50		
Rem & Replace Wood Casing Window Trim Set	3 EA @ $52.93 [a]	$158.79	$0.00	$158.79		
Paint Cased Opening	7 EA @ $28.73 [a]	$201.11	$0.00	$201.11		
Rem & Replace Register	3 EA @ $21.36 [a]	$64.08	$0.00	$64.08		
Rem & Replace Window, Casement, Wood, 11 - 13 SF, Elite	2 EA @ $499.67 [a]	$999.34	$0.00	$999.34		
Rem & Replace Window, Fixed, Wood, 15 - 20 SF, Deluxe	1 EA @ $428.72 [a]	$428.72	$0.00	$428.72		
Rem & Replace Sliding Glass Door, Wood 6' Deluxe	3 EA @ $1,278.66 [a]	$3,835.98	$0.00	$3,835.98		
	Sunroom Total	$8,838.63	$123.60	$8,715.03		
Coverage - Flood, Building Totals		**$163,076.61**	$674.19	**$162,402.42**		

Summary

	Repl. Cost	Depr.	ACV
Estimate Totals	**$163,076.61**	**$674.19**	**$162,402.42**
Less Amount Not Subject To Overhead & Profit	-$12,818.15	-$637.30	-$12,180.85
Amount Subject To Overhead & Profit	$150,258.46	$36.89	$150,221.57
Contractor's Overhead & Profit (20%)	$30,051.69	$7.38	$30,044.31
Sub-Total	$180,310.15	$44.27	$180,265.88
Amount Not Subject To Overhead & Profit	$12,818.15	$637.30	$12,180.85
Total With Overhead & Profit	$193,128.30	$681.57	$192,446.73
Less Non-Recoverable Depreciation	-$637.30	-$637.30	
Sub-Total	$192,491.00	$44.27	$192,446.73
Less Deductible Applied	-$1,000.00		-$1,000.00
Less Excess	-$33,091.00	-$44.27	-$33,046.73
Net Claim	**$158,400.00**	**$0.00**	**$158,400.00**
Less Prior Payments	-$91,204.03		-$91,204.03
Net Claim Payable	**$67,195.97**	**$0.00**	**$67,195.97**

The foregoing is the Public Adjuster's summary of damage for which coverage should have been available at the time of the loss, and the amounts owed for each item required to restore the property to its pre-loss condition. All unit pricing is derived from current area labor and materials, current area contractor prices and amounts actually paid in comparable area claims settlements.

Price Database Legend
a = MSB Richmond Residential - 1/2004
b = MSB Market Cost Data 2003-10

w = Write-in
* = Modified

Exhibit U

POLICY NO. FI.
0804464550
POLICY TERM
04/16/2003 - 04/16/2004
AMT OF BLDG COV AT TIME OF LOSS
158,400.00
AMT OF CNTS COV AT TIME OF LOSS
0.00

U.S. DEPARTMENT OF HOMELAND SECURITY
FEDERAL EMERGENCY MANAGEMENT AGENCY
NATIONAL FLOOD INSURANCE PROGRAM

PROOF OF LOSS

(See reverse side for Privacy Act Statement and Paperwork Burden Disclosure Notice)

O.M.B. No. 1660-0005
Expires JUNE 30, 2007

AGENT

AGENCY AT

TO THE NATIONAL FLOOD INSURANCE PROGRAM:

At time of loss, by the above indicated policy of insurance, you insured the interest of Larry and Marcia Bearekman, 14 W. Sandy Point, Poquoson, VA

against loss by flood to the property described according to the terms and conditions of said policy and of all forms, endorsements, transfers and assignments attached thereto.

TIME AND ORIGIN — A Flood loss occurred about the hour of 12:00 o'clock P. M., on the 18th day of September 2003. The cause of the said loss was: Tidal flooding

OCCUPANCY — The premises described, or containing the property described, was occupied at the time of the loss as follows, and for no other purpose whatever: Owner occupied permanent residence

INTEREST — No other person or persons had any interest therein or encumbrance thereon except National City Mortgage and US Small Business Administration and Montgomery Associates, Inc.

1. FULL AMOUNT OF INSURANCE application to the property for which claim is presented is	$	158,400.00
2. ACTUAL CASH VALUE of building structures	$	137,956.00
3. ADD ACTUAL CASH VALUE OF CONTENTS of personal property insured	$	0.00
4. ACTUAL CASH VALUE OF ALL PROPERTY	$	137,956.00
5. FULL COST OF REPAIR OR REPLACEMENT (Building and Contents)	$	101,286.97
6. LESS APPLICABLE DEPRECIATION	$	0.00
7. ACTUAL CASH VALUE LOSS is	$	101,286.97
8. LESS DEDUCTIBLES	$	34,091.00
9. NET AMOUNT CLAIMED under above numbered policy is	$	67,195.97

The said loss did not originate by any act, design or procurement on the part of your insured, nothing has been done by or with the privity or consent of your insured to violate the conditions of the policy, or render it void; no articles are mentioned herein or in annexed schedules but such as were destroyed or damaged at the time of said loss, no property saved has in any manner been concealed, and no attempt to deceive the said insurer as to the extent of said loss, has in any manner been made. Any other information that may be required will be furnished and considered a part of this proof.

I understand that this insurance (policy) is issued Pursuant to the National Flood Insurance Act of 1968, or Any Act Amendatory thereof, and Applicable Federal Regulations in Title 44 of the Code of Federal Regulations, Subchapter B, and that knowingly an willfully making any false answers or misrepresentations of fact may be punishable by fine or imprisonment under applicable United States Codes.

Subrogation - To the extent of the payment made or advanced under this policy; the insured hereby assigns, transfers and sets over to the insurer all rights, claims or interest that he has against any person, firm or corporation liable for the loss or damage to the property for which payment is made or advanced. He also hereby authorizes the insurer to sue any such third party in his name.

The insured hereby warrants that no release has been given or will be given or settlement or compromise made or agreed upon with any third party who may be liable in damages to the insured with respect to the claim being made herein.

The furnishing of this blank or the preparation of proofs by a representative of the above insurer is not a waiver of any of its rights.

State of

County of

Insured

Subscribed and sworn before me this day of , 20

Notary Public

Allstate.
You're in good hands.

National
Catastrophe Team

SEPTEMBER 25TH, 2004

MR. LARRY BEAREKMEN
MRS. MARCIA A. BEAREKMEN
14 W SANDY POINT
YORKTOWN, VA 23692

RE: CLAIM NO. 6412417542
POLICY NO 080446455
DATE/LOSS 09 18 04

DEAR MR. AND MRS. BEAREKMEN

I'M WRITING IN REGARDS TO THE FLOOD CLAIM WHICH WAS REPORTED UNDER THE ABOVE CAPTIONED LOSS.

WE HAVE RECEIVED A SIGNED, NOTORIZED PROOF OF LOSS, IN THE AMOUNT OF $67,195.97, DATED SEPTEMBER 16TH, 2004. WHICH HAD NO ATTACHED ESTIMATES OR ETC. ATTACHED TO IT.

PLEASE UNDERSTAND THAT ALLSTATE OBLIGATION AS A SERVICING CARRIER FOR THE NATIONAL FLOOD INSURANCE PROGRAM IS TO PAY FOR ALL CLAIMS THAT QUALIFY FOR COVERAGE UNDER THE FLOOD POLICY. WE, ALLSTATE, MUST COMPLY WITH THE REQUIREMENTS AND PROVISIONS OF THIS FEDERAL POLICY..

IN REFERENCE TO THE ATTACHED PROOF OF LOSS, IN THE AMOUNT OF $67,195.97, DATED SEPTEMBER 16TH, 2004, WHICH HAS NO ATTACHED ESTIMATES OR ETC ATTACHED TO IT, TO JUSTIFY WHAT THESE FIGURES ARE FOR. WE CAN NOT ACCEPT THIS PROOF OF LOSS, WE EXPRESSIVELY REJECT ANY AND ALL STATEMENTS CONTAINED IN THE SAID PROOF OF LOSS .

BY THIS LETTER, WE DO NOT INTEND TO WAIVE OR RELINQUISH ANY OF THE RIGHTS OR DEFENSES, EITHER LISTED OR UNLISTED, UNDER THIS POLICY OF INSURANCE.

SINCERELY,

BRIAN SCOTT
NCT/ CLAIMS MANAGER

CC: NFIP

Allstate Insurance Company
PO Box 94054 Palatine, IL 60094 Phone 800.547.6878 Fax 888.859.2046

12/13/2004 01:47 TEL 7578688372 Bearekman 003

Exhibit V

POLICY NO. FL
0804464550
POLICY TERM
04/16/2003 - 04/16/2004
AMT OF BLDG COV AT TIME OF LOSS
158,400.00
AMT OF CNTS COV AT TIME OF LOSS
0.00

U.S. DEPARTMENT OF HOMELAND SECURITY
FEDERAL EMERGENCY MANAGEMENT AGENCY
NATIONAL FLOOD INSURANCE PROGRAM

PROOF OF LOSS

(See reverse side for Privacy Act Statement and Paperwork Burden Disclosure Notice)

O.M.B. No. 1660-0005
Expires JUNE 30, 2007

AGENT

AGENCY AT

TO THE NATIONAL FLOOD INSURANCE PROGRAM:
At time of loss, by the above indicated policy of insurance, you insured the interest of
Larry and Marcia Bearekman, 14 W. Sandy Point, Poquoson, VA

against loss by flood to the property described according to the terms and conditions of said policy and all forms, endorsements, transfers and assignments attached thereto.

TIME AND ORIGIN — A Flood loss occurred about the hour of 12:00 o'clock P. M., on the 16th day of September 2003. The cause of the said loss was: Tidal flooding

OCCUPANCY — The premises described, or containing the property described, was occupied at the time of the loss as follows, and for no other purpose whatever: Owner occupied permanent residence

INTEREST — No other person or persons had any interest therein or encumbrance thereon except
National City Mortgage and US Small Business Administration and Montgomery Associates, Inc.

1. FULL AMOUNT OF INSURANCE application to the property for which claim is presented is	$	158,400.00
2. ACTUAL CASH VALUE of building structures	$	137,956.00
3. AND ACTUAL CASH VALUE OF CONTENTS of personal property insured	$	0.00
4. ACTUAL CASH VALUE OF ALL PROPERTY	$	137,956.00
5. FULL COST OF REPAIR OR REPLACEMENT (Building and Contents)	$	101,286.97
6. LESS APPLICABLE DEPRECIATION	$	0.00
7. ACTUAL CASH VALUE LOSS is	$	101,286.97
8. LESS DEDUCTIBLES	$	34,091.00
9. NET AMOUNT CLAIMED under above numbered policy is	$	67,195.97

The said loss did not originate by any act, design or procurement on the part of your insured, nothing has been done by or with the privity or consent of your insured to violate the conditions of the policy, or render it void; no articles are mentioned herein or in annexed schedules but such as were destroyed or damaged at the time of said loss, no property saved has in any manner been concealed, and no attempt to deceive the said insurer as to the extent of said loss, has in any manner been made. Any other information that may be required will be furnished and considered a part of this proof.

I understand that this insurance (policy) is issued Pursuant to the National Flood Insurance Act of 1968, as amended, and Applicable Federal Regulations in Title 44 of the Code of Federal Regulations, Subchapter B, and that knowingly or willfully making any false answers or misrepresentations of fact may be punishable by fine or imprisonment under applicable United States Codes.

Subrogation - To the extent of the payment made or advanced under this policy, the insured hereby assigns, transfers and sets over to the insurer all rights, claims or interest that he has against any person, firm or corporation liable for the loss or damage to the property for which payment is made or advanced. He also hereby authorizes the insurer to sue any such third party in his name.

The insured hereby warrants that no release has been given or will be given or settlement or compromise made or agreed upon with any third party who may be liable in damages to the insured with respect to the claim being made herein.

The furnishing of this blank or the preparation of proofs by a representative of the above insurer is not a waiver of any of its rights.

State of Virginia
City/County of Poquoson

Larry C. Bearekman
Marcia A. Bearekman
Insured

Subscribed and sworn before me this 16th day of September, 2004

Martha B. Sharon
Notary Public
My commission expires 1/31/06

FEMA Form 81-42, 811 Pre — REPLACES ALL PREVIOUS EDITIONS

F-101 (7/04)
TOTAL P.02

ASSOCIATION OF STATE FLOODPLAIN MANAGERS, INC.
2809 Fish Hatchery Road, Suite 204, Madison, Wisconsin 53713 www.floods.org
Phone: 608-274-0123 Fax: 608-274-0696 Email: asfpm@floods.org

TESTIMONY

Association of State Floodplain Managers, Inc.

before the
Subcommittee on Housing and Community Opportunity
House Committee on Financial Services

Bunning-Bereuter-Blumenauer Flood Insurance Reform Act Implementation and Flood Insurance Claims Issues

presented by
Chad Berginnis, CFM, ASFPM Chair
State of Ohio

April 14, 2005

INTRODUCTION

The Association of State Floodplain Managers, Inc., and its 20 State Chapters represent over 7,000 state and local officials and other professionals who are engaged in all aspects of floodplain management and hazard mitigation, including management, engineering, planning, community development, hydrology, forecasting, emergency response, water resources, and insurance. All are concerned with working to reduce our nation's flood-related losses. Our State and local members are the federal government's partners in implementing programs and working to achieve effectiveness to meet our shared objectives. Many of our members are designated by their governors to coordinate the National Flood Insurance Program (NFIP). For more information on the Association, please visit http://www.floods.org.

Representatives Bereuter, Blumenauer, and Baker worked extremely hard the last several years to improve the NFIP, culminating in the passage of the Bunning-Bereuter-Blumenuaer Flood Insurance Reform Act of 2004 (2004 Reform Act). The ASFPM was pleased to have been a part of effort. From our perspective, the Act contains three critical elements:

1. The creation of a short term, aggressive program to mitigate repetitive loss properties.
2. Changes to existing NFIP-funded mitigation programs and use of insurance claim payments for compliance with planning and land use control measures.
3. Changes to improve insurance claims handling, agent education, and property owner notification.

The Nation's floodplain managers have been anxiously awaiting implementation of the 2004 Reform Act and are disappointed that the Administration's budget request for FY 2006 does little to move in that direction. The ASFPM appreciates that the Subcommittee is holding this hearing to monitor both the implementation of the 2004 Reform Act and ongoing implementation of the NFIP. We thank you for inviting us to offer our views. This testimony addresses:

1. The Repetitive Loss Problem: Summary
2. Repetitive Loss Implementation Issues:
   - Funding Source and Amounts; 2006 Budget Request
   - Basic FMA: State and community Caps and Limitations on Time to Expend
   - Rulemaking for Pilot Program and FMA Individual Program
3. Changes to Existing NFIP & Mitigation Programs:
   - Status of ICC Changes
   - Guidance to Qualify for Reduced Community Match
   - Eligible Activities: Inclusion of the "Demo/Rebuild" Option
4. Adequacy of Flood Insurance Coverage
5. Related NFIP Issues
   - Taxation of Mitigation Benefits
   - Flood Map Modernization
   - FEMA in DHS: Impacts on Programs and Legacy Missions

1. THE REPETITIVE LOSS PROBLEM: SUMMARY

It is important to put the repetitive loss problem in context. While the exact number is not known, it is estimated that over 9 to 11 million buildings are in the areas we call special flood hazard areas that are shown on FEMA's Flood Insurance Rate Maps. About 4.5 million buildings both in and out of the floodplain are insured today (up from only 2 million just 9 years ago). Of those, about 40,000 are on FEMA's list of repetitively flooded properties. Nearly 10,000 have experienced four or more losses, or two or more losses which combine to exceed the building's value as reported on the flood insurance policy. This means that initially we are focusing attention on one-quarter of one percent of the insured buildings. But the impact is huge, since that small fraction accounts for over 25% of the NFIP's losses since 1978.

Why should everybody be concerned about this issue? All current and future NFIP policyholders will benefit because the pressure to raise the rates will be significantly diminished. FEMA reports that properties that have received multiple insurance claim payments account for an average of $200 million in claims each year. FEMA asserts that this is the most significant factor driving rate increases on all types of policies and all policyholders. Repetitive claims affect the stability of the National Flood Insurance Fund.

FEMA has recognized the repetitive loss problem and in recent years has taken positive steps to help identify issues and to use existing mechanisms to begin to address it. For example, handling of flood insurance policies for certain repetitive loss properties has been consolidated in a special direct facility so targeted outreach and data collection efforts can occur. Also, in recent years Flood Mitigation Assistance Program funds were prioritized for repetitive loss properties, and the first year of FEMA's Pre-Disaster Mitigation program identified mitigation of repetitive loss properties as a national priority.

In December 2003, FEMA convened a meeting of stakeholders to obtain input into a Repetitive Loss Action Plan. A draft plan was produced, but as of early 2005 ASFPM has not been advised of the status or steps taken towards finalizing the plan and its implementation.

2. REPETITIVE LOSS PROGRAM IMPLEMENTATION ISSUES

FUNDING SOURCE AND AMOUNTS; FY2006 BUDGET REQUEST

The Flood Insurance Reform Act of 2004 authorizes additional funding and mechanisms to focus mitigation efforts on "severe" repetitive loss structures that result in disproportionate claims on the National Flood Insurance Fund (the Fund). Importantly, the additional mitigation funding is to be derived from that Fund, which recognizes that the NFIP and policyholders, rather than taxpayers as a whole, will benefit from the added mitigation elements. A primary focus of the Act is to augment the existing Flood Mitigation Assistance Program in three ways:

- **Basic Flood Mitigation Assistance Program:** Increases the authorized limit of funding for the Basic FMA to $40 million per year; the funds are to be transferred from the National Flood Insurance Fund and are to remain available until expended. As authorized in 1994, Basic FMA had an annual ceiling of $20 million and FEMA imposes a 2-year limitation on availability, causing difficulties for many communities and property owners.

- **Pilot Program:** Authorizes the Pilot Program, which essentially is an adjunct to the Basic FMA program with particular focus on "severe repetitive loss properties" as defined by the Act. The Pilot Program, authorized for just five years, has an authorized limit of funding of $40 million per year. These funds are to be transferred from the National Flood Insurance Fund and they are time-limited; the Act specifies that assistance may not be provided after September 30, 2009. The Act states that the transfer of funds shall not be subject to offsetting collections through premium rates, and S. Report 108-262 clarifies that the policy service fee shall not be increased because of the transfer.
- **FMA Individual Program:** Authorizes a program, with an annual funding limit of $10 million, under which FEMA may work directly with individual property owners of severe repetitive loss properties if a state or community do not meet the requirements.

With respect to these programs and the President's Budget for FY2006, the budget request includes only $28 million to be transferred from the National Flood Insurance Fund for the Basic FMA program and which are to be available for only two years (the request does not include funds for the Pilot Program or the Individual Program). The Basic FMA program is a fully functioning, mature program. Therefore, ASFPM is puzzled why the budget requested only an additional $8 million. Given FEMA's long-standing and repeated emphasis on the long-term benefits of mitigation of repetitive loss properties, ASFPM does not understand the Administration's reluctance to move more aggressively. We recognize the need for rulemaking for the Pilot Program and the FMA Individual Program. However, at this rate two years of the 5-year Pilot Program will be lost. This points out the urgency of moving to implementation as quickly as possible.

Undersecretary Brown testified last month that FEMA was still analyzing exactly from where the funds to implement the 2004 Reform Act would be derived. He differentiated between premium income and policy service fee income. During that testimony, it was clear that the requested increase of $8 million will come from policy service fee income (the traditional source of FMA funds). The 2004 Reform Act does not specify which part of the NFIF the funds should come from, although transfers for both the Pilot Program and the Individual Program are not to be subject to offsetting collections through premium rates for flood insurance coverage and Senate Report 108-262 clarifies that the policy service fee is not to be increased because of the transfer.

The ASFPM asserts that it should not matter whether the transfers come from flood insurance premium income or policy service fee income, and that both sources are acceptable. Although there may be some trepidation about transferring premium dollars because it is a nontraditional use, there is a precedent. Prior to the National Flood Insurance Reform Act of 1994 the NFIP contained a provision in Section 1362 under which certain properties were purchased using NFIP funds; this mitigation provision was repealed and replaced with the FMA program. We submit that mitigation of repetitive losses is a direct investment in stabilizing the National Flood Insurance Fund since future repetitive claims will be reduced or eliminated.

►► **ASFPM urges the Subcommittee to clarify that the funds to implement repetitive loss mitigation programs authorized by the 2004 Reform Act may be transferred from premium income and/or policy service fee income.**

BASIC FMA: STATE AND COMMUNITY CAPS; LIMITATION ON TIME TO EXPEND

An issue not addressed in the 2004 Reform Act is the existing per state and per community limitation under the Basic FMA program. The statute imposes a per state limit of $10 million and a per community limit of $3.3 million in any 5-year period. Many of the active states and communities are approaching those limits, especially those with large numbers of repetitive loss properties. For example, two communities with the greatest number of repetitively-flooded homes have aggressive and active mitigation programs – and both are poised to pursue the additional Basic FMA funds and Pilot Program funds. However, since the funding amount was doubled, implementation in these communities and others may be hampered if FEMA does not request changes to those limits.

The 2004 Reform Act explicitly makes Basic FMA funding "available until expended" yet the Administration's request for FY 2006 continues to impose a 2-year limitation. Mitigation projects can take a long time because of the importance of working with property owners to encourage participation and, sometimes, because qualified contractors are difficult to find especially in disaster areas where there is a lot of repair activity. ASFPM understands the need for States and communities to make progress when scarce funds are obligated. However, that can be accomplished without imposing an artificial limit on the availability of the funds.

►► **ASFPM urges the Subcommittee to request that FEMA, as part of its FY 2006 budget request, eliminate the per state and per community limits and clarify that the Basic FMA funds are to remain available until expended.**

RULEMAKING FOR PILOT PROGRAM AND INDIVIDUAL PROPERTY PROGRAM

The 2004 Reform Act directed FEMA to consult with state and local officials regarding these programs within 90 days of enactment. FEMA electronically solicited comments on 10 questions and conducted the consultation session in November 2004. It is our understanding that FEMA is engaged in the rulemaking process. Because the Pilot Program is scheduled to expire in 2009 and two years have already been lost, it is critical that the program rules be available as soon as possible.

The fact that the Individual Program does not expire should not lessen the importance of implementation as quickly as possible. ASFPM expects the Individual Property Program to be most effective for non-residential buildings which represent a disproportionately large percentage of the repetitive loss problem. Many communities are reluctant to expend scarce staff resources on projects that do not mitigate losses on primary residences even though flooded businesses and industries can adversely affect local economies.

►► **ASFPM suggests that the Subcommittee request that FEMA report on the status and schedule for publication of implementation rules for both the Pilot Program and the Individual Property Program.**

3. CHANGES TO EXISTING NFIP & MITIGATION PROGRAMS

The 2004 Reform Act contains several provisions that are intended to make existing NFIP and Mitigation programs more effective.

STATUS OF ICC CHANGES

The National Flood Insurance Reform Act of 1994 authorized a powerful new mitigation tool – mitigation coverage as part of the standard flood insurance policy. Called ICC or "Increased Cost of Compliance," it was touted by FEMA – and expected by others – to be one of the best tools to effect more post-flood mitigation, in part because it is funded by a separate premium included in all flood insurance policies. Although FEMA announced an increase of the benefit under ICC to $30,000 (effective May 1, 2003), as currently administered this increase has not increased the size of claim payments made for most eligible mitigation activities. The average ICC payment to support an acquisition project is on the order of $7,000 and the average payment for elevation projects averages about $16,000.

Currently, ICC premiums account for over $80 million in income, but most of that is not utilized for ICC claim payments. It appears that ICC income cross-subsidizes the National Flood Insurance Fund and is not being used for its intended purposes.

Because of the under-utilization of ICC, the ASFPM supported the ICC reforms in the 2004 Reform Act. Importantly, the change allows ICC claims to be triggered as part of an offer of mitigation through one of FEMA's mitigation programs and modifies the definition of substantial damage to recognize community efforts that go beyond the minimum standards of the NFIP.

One of the more difficult parts of many mitigation projects is finding the non-federal match. ICC claim payments are considered non-federal funds because they are from flood insurance premiums (not taxpayer dollars). For insured property owners, this makes ICC a readily-available, valuable source of the match and thus can help property owners recover. As a result of the large number of floods and hurricane disasters last year, significant post-disaster mitigation funds have been made available. The 2004 Reform Act changes to ICC must be implemented as quickly as possible in order to bring about the anticipated benefits in the coming flood and hurricane season.

ASFPM has met with FEMA on a number of occasions in the past three years to discuss administrative adjustments to how ICC is administered and how insurance adjusters handle ICC claims, especially when the recipient of ICC payment is also participating in a FEMA. The ASFPM urges that there be ONE process, and that the ICC process cede to the FEMA grant process. Otherwise homeowners, community officials, and states will have twice the number of requirements to satisfy and the complexity and frustration will be overwhelming. To date, the changes that were indicated as workable have not been implemented, specifically:

1. When paired with a mitigation grant for buyout, the ICC payment for demolition must be expanded to include all elements of demolition and lot restoration. Currently only certain costs associated with the primary structure are eligible.

2. FEMA must direct adjusters to handle ICC claims congruent with the timeframe of mitigation grants to the maximum extent possible. This will be even more important as a result of the 2004 Reform Act which will increase the number of insured property owners undertaking mitigation who will be eligible for the ICC payment.
3. FEMA must not allow conflicts in determining which parts of mitigation projects are eligible under ICC and which are eligible under FEMA's grant programs. The two components must be made to work together and the claims adjuster and the mitigation manager must be in partnership focused on getting the funding invested in cost-effective mitigation measures.

►► **ASFPM suggests that the Subcommittee urge FEMA to make the necessary administrative changes promptly. This is absolutely necessary so that ICC can function effectively under all circumstances and specifically as directed by the 2004 Reform Act.**

GUIDANCE TO QUALIFY FOR REDUCED COMMUNITY MATCH

The 2004 Reform Act authorizes a reduced non-federal match for FMA grants if a State's Hazard Mitigation Plan indicates how the State intends to reduce the number of severe repetitive loss properties and if FEMA determines that the State has taken such actions. FEMA reports that 43 states have FEMA-approved State Mitigation Plans. ASFPM acknowledges the diligent and hard work that FEMA has contributed to this effort. However, guidance related to qualifying for the reduced match has not been issued. Interested State have no option but to proceed on their own.

ELIGIBLE ACTIVITIES: INCLUSION OF THE "DEMO/REBUILD" OPTION

The 2004 Reform Act recognizes, for the first time officially, the mitigation alternative that involves demolition of substandard buildings and rebuilding fully-compliant buildings. This alternative, called "modified elevation" by FEMA and referred to as "demo/rebuild" by many, offers an option for property owners and communities in cases where mitigation is cost-effective, but elevation-in-place is not be feasible. This occurs most commonly when older homes are structurally unsound and also do not meet other health and safety codes.

Under all of its mitigation programs FEMA has approved use of grant funds "on a pilot basis" for demo/rebuild in several states over the past five years. Although States and communities report that the process has been made more complicated and difficult than necessary, the results are soundly endorsed. Elevation is effective in many cases, but it cannot be applied to many older homes. Without demo/rebuild as an option, many at-risk, flood-prone, low income homeowners will not benefit from mitigation. Jefferson Parish, LA, one of the most repetitively-flooded communities, has used demo/rebuild with five homeowners. The results, reported by Emergency Preparedness Director Walter Maestri, are "extremely successful." Unfortunately, Dr. Maestri and others report that FEMA has suddenly withdrawn support for demo/rebuild without explanation.

The 2004 Reform Act explicitly includes demolish and rebuild as an eligible mitigation activity under the Pilot Program. This was included in response to concerns that many

communities need options that keep neighborhoods intact and allow property owners to retain ownership of their land. ASFPM acknowledges that demo/rebuild requires careful and thoughtful application and we appreciate FEMA's undertaking pilot projects in order to evaluate effectiveness. However, we remain concerned that FEMA may interpret the Act to allow use of this viable option only under the Pilot Program and disallow it for all other grant programs.

►► **ASFPM requests that the Subcommittee clarify that demo/rebuild is a viable mitigation activity under all mitigation grant programs.**

4. ADEQUACY OF FLOOD INSURANCE COVERAGE

The 2004 Reform Act calls for a GAO study and report regarding the adequacy of coverage provided under the National Flood Insurance Program's flood insurance policies and payments made to policyholders who file claims for eligible damage. We wish to express concern with the statement in the Act that it is a goal of the NFIP to restore flood victims to pre-flood conditions.

Many ASFPM members work with flood victims as they attempt to repair and rebuild. We appreciate the dilemma that flood victims face when insurance claims fall short of amounts needed to fully restore them to their pre-flood conditions. We believe a significant part of the problem is in the adjustment process, and we note that the 2004 Reform Act should lead to improvements in this arena. We submit that rather than assume the solution is to raise the rates sufficient to make payments large enough to restore claimants to pre-flood condition, it is more important to focus on mitigation measures to reduce damage, thus reducing claims against the program. By aggressively implementing the mitigation programs authorized by the 2004 Reform Act, the pressure to raise the rates can be reduced and, eventually, it may be feasible for coverage to expand to address more of the concerns raised by flood victims.

We must be mindful that since the inception of the NFIP, there has been a struggle between what should be covered under a flood insurance policy and affordability. One of the most common complaints that floodplain managers receive is that flood insurance policy "costs too much." FEMA has the difficult challenge of optimizing the coverage limits while keeping flood insurance premiums low. We wish to point out that if coverage was changed to provide payments sufficient to flood victims wholly restored to pre-flood conditions that the policy would cost much more – more than most policyholders could either afford or be willing to pay.

5. RELATED NFIP ISSUES

ASFPM respectfully brings to the Subcommittee's attention a number of issues that have bearing on the success of the 2004 Reform Act.

TAXATION OF MITIGATION BENEFITS

Currently, all of the NFIP-funded mitigation programs (Basic FMA, Pilot Program, and Individual Program) and all of FEMA's other mitigation programs, are subject to a June 28, 2004 ruling by the Internal Revenue Service that mitigation payments are taxable as personal income when the property remains in private ownership. Our members are reporting that this ruling is directly responsible for flood-damaged property owners and communities declining to

participate. Importantly, many property owners accepted mitigation offers before the ruling and without knowledge of the tax implications – now they are receiving form 1099s for the 2004 tax year and many are struggling with the financial implications.

The White House and the Department of the Treasury have indicated support for legislation to make clear that mitigation funds should not be considered income for tax purposes. In response, the House has passed H.R. 1134, which states that mitigation funds are not taxable, but only prospectively. Apparently the Department of the Treasury has indicated that the IRS would not take any steps to enforce the Ruling for 2004 or any earlier year. To our knowledge this position has not been formalized and it is unclear how it will be communicated to affected states, communities and property owners. Representative Baker of this Subcommittee has introduced H.R. 804 which would clarify that NFIP mitigation programs should not be considered as income for the purposes of means tested federal programs, such as Medicaid or Pell Grants. The ASFPM strongly supports both bills – and the clarification by Treasury – and hopes that action is taken soon.

FLOOD MAP MODERNIZATION

The President's budget request for the past two years has included FEMA's Flood Map Modernization as a Presidential Initiative. FEMA, in partnership with States and communities, is working to revise and update the Nation's flood maps. The maps are not only important for flood zone determinations for flood insurance and for land use/development decisions, but are also important for the NFIP mitigation programs. For example, the ICC mitigation insurance claim payment is almost never used in areas outside of FEMA mapped flood zones because there is no provision for regulatory compliance. In addition, fully one-third of flood insurance claims are in areas not shown on FEMA maps. With respect to repetitive flood claims, approximately 25% of properties that have received multiple claims are located outside of areas mapped as flood-prone. This clearly points to the need for good quality flood maps not only for land management purposes but also to reduce the NFIP's repetitive loss problem.

The Administration's FY 2006 proposed budget for FEMA contains $200 million for Map Modernization (Map Mod). The ASFPM is appreciative of the Administration's support of this initiative and hopes the Congressional support will continue throughout the entire effort.

However, there are some significant issues that, if not addressed, could be detrimental. The metrics (key performance indicators) that drive Map Mod may well result in maps that don't satisfy the quality objectives unless some modifications are made. FEMA's current metrics: (1) map 100% of the Nation in 5 years; (2) $750 million to a billion (based on an estimate prepared in 1996-97); and (3) ensure a basic (or foundational) level of quality, i.e., all floodplains identified will match best available (existing) topography. ASFPM recognizes FEMA's move to adopt this quality standard, which is essential to a successful flood mapping program.

Unfortunately, those three metrics cannot be met simultaneously. A number of the assumptions made in 1996, such as the time and effort required to translate existing studies from the old cartographic base onto a GIS base, are not as simple as we thought. In order to make the maps accurate and to remap waterways and coastal areas that need new studies, we are finding that more time and effort is necessary as the process gets underway.

Most floodplain managers agree: Every map that is produced must be an accurate map – even if it means that not all communities get studied in next 5 years. As we stick to the metrics described above, too often it results in simply digitizing existing data without matching topography, so an old inaccurate map is still an inaccurate map, only it is on a digital (GIS) base instead of a cartographic (paper) base. That happens because when the metric of mapping 100% of the nation in 5 years is matched with the money allocated and time, the quality metric often is sacrificed.

Communities will balk at adopting these as "new" maps without the quality match or limited studies in critical areas, since it does not solve their flood map problems, nor will it improve the mapping they currently use. Without good maps we will erode the ability of communities, and collectively, the Nation, to reduce flood loses, damages and loss of life from flooding.

The ASFPM feels strongly that the first five years of Map Mod will be successful if we focus on producing quality flood maps for the highest priority communities. Mapping 100% of the nation is an appropriate goal, but the timeframe to develop "adequate" maps needs to be extended. In future years there will be a need to extend the program on to the next tier of communities.

Furthermore, under the current scenario, not all stream miles in all communities will be studied, nor will all areas that need detailed study areas have them, nor will out-of-date hydrologic/hydraulic data be updated. The process needs to identify the priority of these additional parameters that go into making quality flood maps: developing flood risk information for those unstudied stream miles, identifying existing and future growth areas where detailed flood study data is needed, and updating those areas where existing hydrologic and hydraulic data are no longer accurate. This will allow communities to have good data for critical areas now, and help them plan for future development so they do not create tomorrow's flood disasters.

FEMA IN DHS: IMPACTS ON PROGRAMS AND LEGACY MISSIONS

FEMA has several critical missions that are vital to nearly every community and state in the country. Its legacy missions, those that pre-date becoming a part of the Department of Homeland Security, were to prepare for, respond to, recover from, and mitigate against all hazards. Since nearly the entire nation is at risk from and vulnerable to natural hazards, FEMA's focus tended to be on natural hazards. Now that FEMA is part of the Department of Homeland Security, we have been witness to the systematic dismantling of FEMA – funds have been transferred and staff positions have been lost.

FEMA has borne a large share of the DHS organizational costs and administrative realignment of staff, and, if something isn't done soon, FEMA will bear little resemblance to the agency it once was. Mitigation and long-term cost containment are particularly at-risk. Many are concerned that it will be difficult, if not impossible, to implement the repetitive loss programs envisioned in the 2004 Reform Act if FEMA does not have sufficient staff to administer the Flood Mitigation Assistance programs and other pre- and post-disaster mitigation programs. Ultimately the Members of Congress in every district will have to respond to constituents when FEMA can no longer implement its programs and missions. We urge the

Subcommittee to pay close attention to such issues and take action to ensure that FEMA and the National Flood Insurance Program have the capacity to carry out their legacy missions.

CONCLUSION

We appreciate that in the past Congress has provided an array of flood mitigation tools which increase the prospect that communities, states, and businesses and families can become more resistant to future flood disasters. The repetitive loss programs established in the 2004 Reform Act build on the Congress' work in this area. This Subcommittee's support of the new authorities and funding to allow us to mitigate repetitive loss properties are vital next steps.

Thank you for the opportunity to provide our thoughts and recommendations on these important issues. The ASFPM and its members look forward to working with you as we move towards a common goal of reducing flood losses.

For more information, contact Larry Larson, Executive Director, (608) 274-0123, (larry@floods.org) or Rebecca Quinn, Legislative Officer (410) 267-6968 (rcquinn@earthlink.net).

TESTIMONY OF DONALD L. GRIFFIN
BEFORE
HOUSE FINANCIAL SERVICES COMMITTEE
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
CONCERNING
THE NATIONAL FLOOD INSURANCE PROGRAM
ON BEHALF OF
THE PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA

APRIL 14, 2005

My name is Don Griffin and I am Vice President of Personal Lines for the Property Casualty Insurers Association of America. PCI is a trade association representing over 1,000 property/casualty insurers that write almost 40 percent of all the insurance policies in the United States. PCI was founded on the philosophy that consumers are best served by free, fair, and well-regulated insurance markets in which a wide variety of financially healthy companies compete for business on the basis of price, product innovation and quality, and customer service.

Thank you for the opportunity to appear before you today and to present information to the Committee regarding the effectiveness of the National Flood Insurance Program, the claims process, the standards used to settle claims and how this federal program could be improved.

Introduction

The committee requested comment on four key issues:

- Understanding the flood insurance policy and making the process of the purchasing and filing claims easier for policyholders to understand.
- The appeals process and adequacy of payments.
- Coordination between private "Write-Your-Own" (WYO) insurers, NFIP and the Federal Emergency Management Agency (FEMA).
- Training for agents and company personnel.

As indicated in the request, many of these issues were raised at a hearing before this committee in March 2004, prior to the passage of the Flood Insurance Reform Act of 2004-P.L. 108-262. ("The Act"). Included in the reform package are several key provisions that we believe, once implemented, will help resolve some of the issues raised during that hearing.

Understanding the Flood Insurance Policy

The flood insurance policy, like any other insurance contract, may be confusing and difficult to understand. The program is complex and generally viewed as more of a hindrance than a help during the sales process. However, we believe that the program is an excellent example of a public/private partnership that works. Since its establishment by Congress in 1968, the program has provided a mechanism for property owners to protect against financial ruin from devastating floods. However, let me be clear: when the policy form was developed it was not then, nor is it now, designed to put a policyholder back to the same condition as before a loss – and therein, lies much of the problem. The policy does not provide coverage for personal property (i.e., contents) unless specifically purchased. And even when purchased, the coverage provided is on an "actual cash value" basis (replacement cost minus depreciation) rather than the cost to replace the item. This is but one example of how the flood policy differs from coverage commonly offered under a homeowners policy. The policy also does not offer coverage for items below ground level (e.g., in a basement) unless used for the maintenance or heating, etc. of the property.

The provisions of Title II provide that the policyholder be provided with a supplemental form, that sets forth, "...in simple terms, the exact coverages being purchased, and any exclusions...that apply to the coverage purchased..." PCI has been working with FEMA/NFIP staff on this and the other requirements of Title II and we believe it will help provide a basic framework for the policy provisions.

Insurance agents find the program complex. In fact, oftentimes merely determining the proper "location" on a flood map and/or the proper premium to charge is a challenge. This becomes a more significant problem when, as a result of a claim, it is determined that the premium charged is incorrect for the coverage purchased. At that point, the policy is "reformed" to provide the coverage that would have been purchased with the premium paid, often resulting in less coverage for the policyholder than they originally thought. Another problem associated with this purchase is the requirement that the coverage be purchased to meet the "federally-backed mortgage". While this is a valuable requirement of the program, many policyholders do not understand the need, and merely buy whatever is required by the mortgagee, thus leaving them without personal property coverage in many cases.

Understanding the Claims and Appeals Process

The flood claims process in many cases is not significantly different from the claims process for a homeowners policy, although the loss settlement is very different. In most cases, the WYO policyholder contacts his agent or company and files the claim. However, the WYO insurer does not establish the rules for the settlement of those claims. The policy provisions and the rules established to meet the provisions of the contract by FEMA/NFIP dictate the settlement provisions.

One of the problems with claims related to Hurricane Isabel (2003) was that allegedly, the agent and the adjuster often provided different answers to the same question, and claims were settled differently depending on the insurer. Certainly some of these allegations are true. Part of the problem stemmed from the fact that the areas affected by Hurricane Isabel had not experienced this type of catastrophe in many years. Thus, policyholders were unfamiliar with the policy provisions and the claims process. In some cases, customers did not purchase the appropriate coverage. Also, agents and claims adjusters were sometimes not familiar with these issues either. As a result, there were conflicts. There were approximately 24,000 claims following this storm. FEMA/NFIP sent letters to every claimant allowing them to have their claim reviewed. Just over eight percent requested that review and only four percent obtained a settlement different than the original amount. That means, no matter how you look at it, ninety-two percent of the claimants were either satisfied or at least understood their settlement. This is not meant to diminish the problems associated with individual claimants as a result of the program/process, it is just meant to put it into perspective.

The industry learned, as it does from any catastrophic event, how to better service its policyholders. Another set of events took place in 2004, when four hurricanes hit Florida and several other states. However, the vast number of those flood claims (approximately 50,000 out of 1.6 million total claims in Florida) were settled without many of the problems experienced in 2003. Part of this is due to the fact that the policyholders and adjusters in the most affected areas had more experience with the program. Also, the industry and FEMA/NFIP consistently applied the settlement provisions of the contract. Again, this does not mean there were not individual claims problems, merely that, overall, the process worked better.

The Act also established an appeals process. It requires that the policyholder be informed of "the number and dollar value of claims filed under a flood insurance policy over the life of the property, and the effect under the National Flood Insurance Act of 1968, of the filing of any further claims under a flood insurance policy with respect to the property..." PCI is again working with FEMA/NFIP through the Institute for Business and Home Safety's (IBHS) Flood Committee to meet the requirements of this section of the new law. This section also includes a requirement for a claims handbook. The availability of a simple claims handbook, along with the outline of the appeals process should make the process for policyholders and WYO insurers easier to understand and use.

Coordination between private WYO insurers, NFIP and FEMA

This is an area that has been strained in recent years due to political and directional changes. The leadership of Mr. David Maurstad as Director of the program beginning in 2004 has made a significant difference in the interactions with WYO insurers. His belief in the importance of this public/private partnership has been helpful and he, along with the capable and understanding staff, have made significant strides over the past year to renew this partnership relationship. The WYO insurers have worked with the FEMA/NFIP on a variety of issues, including the design and implementation of the Title II provisions and we look forward to making the program even more successful.

It cannot be stressed enough that this program is a success, with the premiums collected offsetting a significant number of claims every year and allowing individuals and businesses to get back to "normal" as soon as possible after a flooding event. It is also important to remember that the WYO insurers write the significant majority of all the flood insurance under the program, so this partnership is extremely important to the policyholders, the WYO insurers and the federal government.

Training for agents and company personnel

The act requires that individual states include a requirement for training of agents on the flood insurance program. The basic outline of the training has been developed; however, at this time, unless a state already required training on the program as part of the licensing process, I do not believe that the states have had the opportunity to implement these requirements. The WYO Flood Insurance Coalition supports the training of both agents and WYO insurer personnel on the rules and coverages within the program and will work with the states to implement this important training.

Improvements to the program

There are several areas of the program that could be improved. We would welcome the opportunity to work with this Committee, Congress and FEMA/NFIP to make any substantive changes that would improve the sales process, compliance and understanding of the program by the policyholders.

One area of particular importance is maintaining the program at the federal level. PCI believes that it is vital that all aspects of this program remain under federal jurisdiction. In recent years, there have been attempts to manipulate the provisions of the program to try court cases involving claims payments to the original sale of the product by the agent/insurer sales representative in state courts rather than federal courts. This, and any other attempts to erode the federal authority of this program, should be avoided, as it will add to the costs of the program through the variances in application throughout the states.

The existing program is extremely complex, and PCI and the IBHS Flood Committee would be very willing to work with FEMA/NFIP to look for ways to simplify administration. Simplifying the sales process for the agent, streamlining the processing for the WYO insurers and increasing the understanding of the program and claims process for the policyholder will benefit everyone. Such program improvements could increase purchases of the product (e.g., less federal subsidy of the NFIP), lower costs for the WYO insurers and thus for the program itself, and reduce problems when claims arise.

For example, one of the new provisions of the Act (Sec. 203) requires the purchaser sign an acknowledgement form. This requirement, due in many cases to how the flood policy is purchased and distributed, will be costly and will not produce the desired result of an informed policyholder. The flood insurance purchase includes a waiting period (other

than in certain circumstances for a real estate closing) and thus the policy is not issued and delivered at the time of purchase. Thus, this acknowledgement form must be sent out later, with the hope it is signed and returned. Many policyholders will likely not return this form and the cost to follow-up, along with the liability for obtaining acknowledgement is problematic for both the WYO insurers as well as FEMA/NFIP. This has been, and continues to be, the subject of significant discussion within the industry.

Additional comments

The provisions of the Act establish a pilot program for mitigation of severe repetitive loss properties and revises the existing flood mitigation assistance program. PCI encourages Congress to fully appropriate the funds called for by these sections of the law. Rebuilding or substantially repairing repetitive loss properties poses significant problems for both policyholders, insurers and the federal government. It needlessly encourages improper land use, puts people and property in dangerous situations and is costly to private industry as well as the federal government. Insurers, even if there is not a flood loss, insure the property for other events (e.g., windstorm) and thus, if the repetitive loss property is rebuilt in an area subject to these coastal exposures, the insurance industry is called upon to provide coverage. This is a situation that does not benefit anyone and, again, we support the appropriation of the funds needed to implement the provisions of the law.

It was mentioned before, but it should be reinforced, that the National Flood Insurance Program works. There may be ways to improve it, some of which were discussed above, but overall; it is a program that provides important catastrophic protection for our nation's property owners. The insurance industry is already working with FEMA/NFIP to address areas of concern and we are willing to work with this Committee and Congress on further improvements to the program.

Donald L. Griffin, CPCU, ARC, ARe, ARM, AU
Professional Information/Experience

Don Griffin is vice president, personal lines for the Property Casualty Insurers Association of America (PCI). PCI is a national property and casualty trade association with more than 1,000 member companies that write almost 40 percent of the nation's automobile, homeowners, business and workers compensation insurance.

Don's current responsibilities include policy development and issue identification as member liaison for the personal and commercial property, catastrophe and service contract reimbursement areas. He is PCI's point person in Des Plaines on terrorism insurance and flood insurance issues. He has over 20 years of experience in the property and casualty insurance business including management responsibilities at both agency and company levels.

In 2004, he helped form the "WYO Flood Insurance Coalition". This coalition includes more than 80 of the WYO companies writing about 95 percent of the flood insurance premiums through the WYO program. The coalition includes representation from the national property and casualty trade associations, their members, independent national companies and the Institute for Business and Home Safety. He is the coordinating leader of this coalition.

Prior to joining PCI, he worked for the attorney-in-fact of a reciprocal exchange, the California Casualty Indemnity Exchange group based in San Mateo, California. As Assistant Vice President in the product development area, he drafted policy language, coordinated company-wide compliance projects (such as compliance with Proposition 103) and filed both forms and rates with various state insurance departments. He served as risk manager and purchased the corporate property and casualty insurance as well as the reinsurance for the group.

His past experience also includes profit and loss responsibility for personal lines at Hall's Insurance Agency, Inc., a mid-sized independent insurance agency in southeast Texas with more than 6,000 personal lines clients. This agency was also the largest agency writer of flood insurance in the state.

He is a member of the Society of Chartered Property Casualty Underwriters, and holds the Associate in Regulation and Compliance, Associate in Reinsurance, Associate in Risk Management, and Associate in Underwriting designations.

United States Government Accountability Office

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Testimony before the Subcommittee on Housing and Community Opportunity, Committee on Financial Services, House of Representatives

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NATIONAL FLOOD INSURANCE PROGRAM

Oversight of Policy Issuance and Claims

Statement of William O. Jenkins, Jr., Director,
Homeland Security and Justice Issues

GAO-05-532T

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Highlights

Highlights of GAO-05-532T, a testimony before the Subcommittee on Housing and Community Opportunity, Committee on Financial Services, House of Representatives

NATIONAL FLOOD INSURANCE PROGRAM

Oversight of Policy Issuance and Claims

Why GAO Did This Study

According to the National Flood Insurance Program (NFIP), 90 percent of all natural disasters in the United States involve flooding. Because of the catastrophic and unpredictable nature of floods, private insurance companies do not typically cover flood losses. Congress established the NFIP in 1968 to provide an insurance alternative to disaster assistance in response to the escalating costs of repairing flood damage.

During congressional hearings on provisions of the Flood Insurance Reform Act of 2004, several legislators testified on NFIP shortcomings, as reported by constituents whose properties had been flooded by Hurricane Isabel in September 2003. The act required GAO to study coverage provided under the NFIP. It also required the Federal Emergency Management Agency (FEMA), the administrator of the NFIP, to take steps to address concerns about coverage and claims procedures.

Today's testimony is based on work in progress to address this mandate. It provides preliminary information on (1) the types of coverage limits, restrictions, and exclusions under the NFIP; (2) how FEMA, in partnership with private insurers, manages and oversees the NFIP and the views of selected private sector program managers on how the program is working; and (3) the status of FEMA's efforts to comply with provisions of the Flood Insurance Reform Act.

www.gao.gov/cgi-bin/getrpt?GAO-05-532T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William O. Jenkins Jr. at (202) 512-8757 or jenkinswo@gao.gov..

What GAO Found

As a result of policy limits, restrictions, and exclusions, insurance payments to claimants for flood damage may not cover all of the costs of repairing or replacing damaged property. Some limitations are embedded in statute and others have been promulgated by FEMA pursuant to its statutory authority. FEMA officials said that the coverage limitations are necessary to keep the NFIP self-supporting and actuarially sound. Thus, the program is designed to strike a balance between premium prices and coverage. For example, homeowners may choose not to insure personal property under the program. If they do elect to have this coverage, the value of personal property is depreciated. Basement coverage does not include payment to repair or replace finished walls and floors.

The work of selling, servicing, and adjusting claims on NFIP policies is carried out by thousands of private sector insurance agents and adjusters under the regulation, management, and oversight of about 40 FEMA employees assisted by about 170 contractor employees. Agents are the main point of contact for policyholders. Four private sector NFIP managers we interviewed said that the agents have varying levels of NFIP knowledge. While training and support are available, historically neither FEMA nor the insurance companies have required completion of training or demonstration of basic program knowledge. Flood-certified adjusters are responsible for assessing damage and estimating losses when flooding occurs. Unlike agents, adjusters have mandatory training requirements. FEMA has oversight mechanisms in place to review the operations of the insurance companies and the work of adjusters. The private sector NFIP managers GAO interviewed were generally supportive of the program. However, they said that FEMA should find ways to make it less complex than and more similar to other property insurance programs.

FEMA has taken steps to address its mandates in the Flood Insurance Reform Act, but it did not meet the 6-month timeframe specified. For example, to establish an insurance agent training requirement, an official said FEMA is discussing options but has not developed an action plan. To meet the requirement to provide "simple and complete information" to NFIP policyholders, FEMA has drafted materials explaining coverage, deductibles, and claim- and appeals-related procedures that it expects to have finalized by October 2005.

Source: FEMA.

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to participate in today's hearing to discuss the National Flood Insurance Program (NFIP) and the Federal Emergency Management Agency's (FEMA) role in overseeing processes for issuing policies and adjusting claims after floods occur.[1] My testimony is based on preliminary results to date of our ongoing review of the NFIP, as mandated by the Flood Insurance Reform Act of 2004.[2]

According to NFIP statistics, 90 percent of all natural disasters in the United States involve flooding. However, flooding is generally excluded from homeowner policies that typically cover damage from losses including wind, fire, and theft. Because of the catastrophic nature of flooding and the inability to adequately predict flood risks, private insurance companies are largely unwilling to underwrite and bear the risk of flood insurance.

Under the National Flood Insurance Act of 1968,[3] Congress established the NFIP to provide an insurance alternative to disaster assistance in response to the escalating costs of repairing flood damage. In creating the NFIP, Congress found that "a program of flood insurance with large-scale participation of the federal government and carried out to the maximum extent practicable by the private insurance industry is feasible and can be initiated."[4] Under the NFIP, homeowners with mortgages insured by federal lenders on property in communities identified to be in special high-risk flood hazard areas are required to purchase flood insurance on their dwellings, up to a maximum of $250,000 in coverage for single-family homes. Optional, lower-cost coverage is also available under the NFIP to protect homes in areas of low to moderate risk. To insure furniture and

[1]FEMA, the agency responsible for coordinating the federal response to disasters, manages and oversees the NFIP. In March 2003, FEMA and its approximately 2,500 staff became part of the Department of Homeland Security (DHS). Most of FEMA—including its Federal Insurance and Mitigation Administration, which is responsible for administering the NFIP—is now part of the department's Emergency Preparedness and Response Directorate. However, FEMA has retained its name and individual identity within the department.

[2]P.L. 108-264 (June 30, 2004).

[3]42 U.S.C. 4001, et seq.

[4]42 U.S.C. 4001(b).

other contents against flood, property owners must purchase separate NFIP personal property coverage for up to $100,000.

FEMA, the agency responsible for coordinating the federal response to disasters, administers the NFIP. FEMA has been generally successful in keeping the NFIP on sound financial footing. FEMA reports that the NFIP is self-supporting for the average historical loss year, which means that operating expenses and flood insurance claims are not paid for by the taxpayer, but through premiums collected on flood insurance policies. FEMA has exercised its authority to borrow from the Treasury three times in the last decade when losses were heavy. However, it has repaid all borrowed funds with interest.

By 2005, the NFIP is projected to have approximately 4.7 million policyholders in the nearly 19,000 participating communities, with $699 billion of insurance in force. Since its inception, the program has paid about $12 billion in insurance claims, primarily from policyholder premiums that otherwise would have been paid through taxpayer-funded disaster relief or been borne by the home and business owners themselves.

During congressional hearings held last year on the Flood Insurance Reform Act of 2004, several legislators testified on NFIP concerns as reported by constituents whose properties had been flooded by Hurricane Isabel in September 2003. Problems they reported included inadequate payments and unclear policies and procedures for filing and adjusting damage claims. According to NFIP statistical data, NFIP policyholders filed about 23,770 claims for $454.2 million for flood damage as a result of this storm, primarily in Maryland, Virginia, and North Carolina.

Several months later, the hurricane season that began in August 2004 struck hard in Florida and other East and Gulf Coast states. In Florida alone, more than one in five homes suffered wind, rain, flood, or other damage from the hurricanes, according to FEMA. According to NFIP data, the combined impact of Hurricanes Charley, Frances, Ivan, and Jeanne in August and September 2004 made them the most costly catastrophes in U.S. history, surpassing the costs of Hurricane Andrew in 1992 and the World Trade Center and Pentagon terrorist attacks in 2001. FEMA reported that these storms resulted in 59,125 NFIP claims for more than $1.3 billion in payments as of March 2005 on claims that have been closed.

To meet our legislative mandate, as modified and expanded to include information on the 2004 hurricane season, and as discussed with your committee and the Senate Committee on Banking, Housing, and Urban

Affairs, we are reviewing several issues related to NFIP claims and FEMA's oversight role. Today, we are prepared to provide preliminary information on (1) the types of limits, restrictions, and exclusions to coverage that exist under the NFIP; (2) how FEMA, in partnership with private insurers, manages and oversees the NFIP, and the views of selected private sector NFIP program managers on how the program is working; and (3) the current status of FEMA's efforts to comply with provisions of the Flood Insurance Reform Act that mandate it establish insurance agent education and training requirements, new processes for explaining coverage to policyholders when they purchase and renew policies, and an appeals process for claimants.[5] In addition, appendix I presents data on policies in force and payments claimants received under the NFIP for flood events over the life of the program through 2004.

To address these issues, we collected data from the NFIP management information system, examined program documentation, and interviewed officials of FEMA and its program contractor. We also interviewed four private sector NFIP program managers for insurance companies and managers at one vendor—a company that subcontracts with insurance companies to handle all or part of their flood business. Using a semistructured interview instrument, we asked these managers how their operations are managed and reviewed, how they believe the program is working, and what suggestions they have for improvements. In consultation with FEMA officials, we selected the interviewees because they are among the largest private sector partners for the NFIP. We observed FEMA-sponsored training of insurance agents and adjusters and a FEMA oversight review of the management of a private insurance company's NFIP business.

Our work that forms the basis of the preliminary observations presented in our testimony today is still in progress. For example, we have not yet completed our review of the NFIP program and the claims made after Hurricane Isabel and the 2004 hurricane season. Among the ongoing work to be completed prior to issuing our report later this year are (1) an assessment of the reliability of FEMA's management information system, (2) interviews with the general adjusters who supervised claims adjustments in Maryland after Hurricane Isabel and in Florida during the 2004 hurricane season, (3) observations of FEMA's monitoring and oversight activities, and (4) a review of the operational reviews FEMA has

[5]See P.L. 108-264, Sections 202-205, 207.

done over the last several years. Our work is being done in accordance with generally accepted government auditing standards.[6]

In summary, we found:

- The NFIP is not designed to cover all flood losses. Some limitations are embedded in statute and others have been promulgated by FEMA pursuant to its statutory authority to keep the program self-supporting and actuarially sound. For example, the limited coverage allowed for basements does not include payment to repair or replace finished walls, floors, furniture, and other personal property.

- The work of selling, servicing, and adjusting claims on NFIP policies is carried out by thousands of private sector insurance agents, adjusters, and other employees. The private sector effort is regulated, managed, and overseen by about 40 FEMA employees with the assistance of about 170 contractor employees. The private sector program managers we interviewed said that the NFIP has many positive aspects, but its implementation is complex for policyholders, agents, and adjusters. Each of the four interviewees, when asked how the NFIP could be improved, said that FEMA should look for ways to make the program less complex and more similar to other property insurance programs.

- Although its 6-month deadline elapsed in December 2004, FEMA continues its efforts to comply with mandates of the Flood Insurance Reform Act that it establish (1) insurance agent education and training requirements, (2) new processes for explaining coverage to policyholders when they purchase and renew policies, and (3) an appeals process for claimants who are dissatisfied with the settlement of their claims. FEMA officials said that the rule-making process required for two of the initiatives takes more than 6 months to complete. On the third initiative, FEMA is awaiting DHS approval of materials it has prepared to explain coverage to policyholders. A FEMA official estimated that it would be after October 2005 before it has fully complied with the mandates.

[6]We plan to issue a final report in September 2005 on the issues we discuss today and the results of our examination of actions taken by FEMA on a representative sample of Hurricane Isabel claims for which claimants requested reviews of initial determinations.

NFIP Is Not Designed to Cover All Flood Losses

As a result of coverage limits, restrictions, and exclusions in NFIP policies, insurance payments for flood damage may not pay all of the costs of repairing or replacing flood-damaged property. Certain NFIP limitations are embedded in statute; others have been promulgated by FEMA pursuant to its statutory authority. FEMA officials said that the coverage limitations are necessary to keep the NFIP self-supporting and actuarially sound. Thus, the program is designed to strike a balance between premium prices and coverage.

The following are several examples of NFIP coverage limitations, restrictions, and exclusions that affect the premium and amount a claimant could expect to receive for flood damage:

- Homeowners are required to insure their homes for the amount of their federally backed mortgages. If a home is insured for less than 80 percent of its full replacement cost or the maximum coverage amount of $250,000, or it is not a primary residence, NFIP will pay the actual cash value for the damage. The actual cash value represents the original cost of the structure less depreciation and, in most cases, will not cover the full cost to repair damage to or replace the dwelling. The value of physical depreciation is based on the age and condition of the item.
- If a home is insured for 80 percent or more of its full replacement cost or the maximum coverage amount of $250,000 and is a primary residence, NFIP will pay replacement costs for damage to the dwelling. The policy defines replacement cost as coverage to replace the damaged part of the dwelling with materials of like kind and quality to what was damaged. The policy will pay the amount actually spent for this repair or replacement up to its limit.
- A homeowner may choose not to insure personal property under the program.
- A deductible amount is applied against claims for dwellings and personal property.
- Basements, which are defined as building areas below grade level on all sides, have limited coverage that does not include payment to repair or replace finished walls, floors, furniture, and other personal property.
- The personal property limit paid for jewelry, artwork, and home business equipment is $2,500 for all items combined. No coverage is provided on these items if they are located in a basement.

- Actual cash value, not replacement value, is paid on all covered furniture and other personal property. Thus, personal property is also depreciated.
- A detached garage is covered by the dwelling policy only if it is used solely for vehicles and storage. If the garage is improved (e.g., a sink is installed), flood damage to the structure is not covered under the NFIP.

In a hypothetical property adjustment we developed with the assistance of FEMA's director of claims, a poorly maintained 30-year-old home located in a designated flood zone had flood damage when a nearby river overflowed. The property was valued at $60,000. It was insured under the NFIP for $30,000. Although a contractor estimated it would cost $40,000 to repair damages to the structure and personal property losses totaled another $10,000, a NFIP adjuster determined that payment on the claim was $8,000.

The following circumstances reduced the amount of coverage:

- The homeowner had chosen not to insure his personal property.
- Because the homeowner did not insure the structure for at least 80 percent of its value, actual cash value will be paid for repairs or replacement of damage to the dwelling. Since the condition is poor, the actual cash value will be low.
- A $1,000 deductible will be applied.
- The adjuster determined that some problems that needed to be addressed had not been caused by the flood (e.g., leaking pipes in the bathroom and preexisting mold in the basement).
- Only limited coverage is allowed in the basement of the home, where the largest amount of damage occurred.

Private Insurers Sell, Service, and Adjust Claims under FEMA Management and Oversight

The work of selling, servicing, and adjusting claims on NFIP policies is carried out by thousands of private sector insurance agents and adjusters who work independently or are employed by insurance companies or vendors under subcontract to insurance companies to handle their flood business. In contrast, according to a FEMA official, about 40 FEMA employees are responsible for regulating, managing, and overseeing the program, which is expected to grow to about 4.7 million policies in 2005. FEMA is assisted in this effort by about 170 contractor employees.

According to FEMA, about 95 percent of the NFIP policies in force are written by agents who work for or represent 94 private insurance companies that issue policies and adjust flood claims in their own names. The companies, called write-your-own companies, receive an expense allowance from FEMA of about one-third of the premium amounts for their services and are required to remit premium income in excess of this allowance to the National Flood Insurance Fund.[7] The insurance companies share the FEMA expense allowance with the agent selling and servicing the policy and a vendor, if the company has subcontracted with one to handle all or part of its flood insurance business.

Independent Agents Are the Main Point of Contact for Policyholders

Flood program managers for each of the four write-your-own companies we visited said that insurance agents were the main point of contact for policyholders and those seeking to purchase flood insurance. The managers we interviewed noted that agents had varying levels of knowledge about the NFIP. For example, one flood manager noted:

> It is clear that some agents do not understand the program. It is very complex and different from the other lines of insurance. Flood insurance is much more complex than automobile and homeowners insurance. Some items of specific concern are definitions of elevated buildings and basements.

Officials at FEMA, the four insurance companies, and the vendor said that they offered support to the insurance agents who sell and service NFIP policies. Reported support included training, help from telephone hotline customer service representatives, development of rate quotes, and Web sites with NFIP information. However, other than requiring that agents meet basic state insurance licensing requirements, neither FEMA nor the four insurance companies have historically required that agents complete training or demonstrate a basic level of knowledge of the NFIP to sell flood policies.

Adjusters Are the Eyes and Ears of the NFIP

When losses occur, flood adjusters employed by insurance companies or independent contractors become the eyes and ears of the NFIP. Claims adjusters are assigned to policyholders by their insurance companies after the policyholders have notified their agents of a flood loss and the agents

[7]The other 5 percent of policies are sold and serviced by state-licensed insurance agents and brokers who deal directly with FEMA.

have written loss reports. Adjusters are responsible for assessing damage; estimating losses; and submitting required reports, work sheets, and photographs to the claimants' insurance company, where the claim is reviewed and, if approved, processed for payment. They work under the coordination of a general adjuster assigned to manage claims adjustments for the flood event.

Unlike agents who sell flood insurance policies, adjusters must be certified by FEMA to work on NFIP claims. To be approved to adjust residential flood losses, an adjuster must have at least 4 consecutive years of full-time property loss adjusting experience and have attended an adjuster workshop, among other requirements. To keep their certifications current, adjusters are required to take a 1-day refresher workshop each year and pass a written examination testing their knowledge each year.

FEMA's program contractor maintains a database of independent adjusters who are qualified to adjust flood claims. A FEMA official said that 4,844 flood-certified adjusters are registered in the database, as of April 2005. A NFIP official noted that the adjuster community is stretched thin when a major flood event occurs.

Adjusters and insurance companies are paid for claims settlements from the National Flood Insurance Fund based on the size of the losses they settle. The write-your-own company receives about 3.3 percent of the incurred loss, according to FEMA's NFIP claims director. Adjusters are to be paid at the time claims are settled based on a standard fee schedule. For example, an adjuster receives $1,000 for a claim of between $25,000 and $35,000.

FEMA Oversees Work of Insurance Companies and Adjusters

FEMA's primary method of overseeing the work of write-your-own companies is to conduct an operational review of every participating company at least every 3 years. In addition, FEMA relies on about 10 general adjusters[8] employed by its program contractor to check the

[8]According to the FEMA director of NFIP claims, general adjusters are experienced property adjusters who operate in the manner of supervisory adjusters. Resident general adjusters are responsible for surveying an area that has flooded either immediately before or after a flood event to estimate the number of claims that will be made. General adjusters coordinate claims adjustment activities at disaster locations, do adjuster training, and respond to questions from adjusters in addition to their oversight roles.

work of claims adjusters[9] in reinspections of a sample of adjustments done after every flood event.

According to the FEMA director of NFIP claims, one or two employees from FEMA's NFIP Claims and Underwriting sections go on-site to review the operations of write-your-own companies at least every 3 years. They do reviews more frequently, if necessary, to follow up on any findings from a previous visit.[10] The auditors are to request that a random sample of 100 files be pulled for them to review. Files that are closed without payment and those with particularly large settlements are to be included in the sample of files reviewed. Auditors are to check the files for completeness and accuracy. For example, they must make sure that there are photographs to document damage. Auditors are also to look at internal controls in place at the company.

If a write-your-own company does not pass an operational review, FEMA requires that it develop an action plan to correct the problems and schedules a follow-up review in 6 months to determine whether progress has been made, according to the NFIP director of claims. If the company continues to have problems and fails to implement an action plan, it can ultimately be withdrawn from the NFIP. According to FEMA officials, a company has been asked to withdraw from the NFIP once in the program's history. About 3 years ago, a write-your-own company was withdrawn from the NFIP in part because of issues raised in operational reviews and in part to other financial problems.

Three of the four flood program managers for write-your-own companies whom we interviewed thought operational reviews were an effective way for FEMA to ensure that the NFIP is run according to established legislation and regulation. The fourth manager said that he had no opinion one way or the other. Interviewees noted that the reviews caught problems, and while FEMA had a small audit staff, the auditors were knowledgeable and provided about the right level of review. Two of the four flood program managers said that recent operational reviews had identified problems on policies they had recently purchased from other

[9]In addition, financial reviews of the write-your-own companies are done and data submitted for payment and statistical reporting are edited.

[10]Some operational reviews are done at vendor locations rather than at the write-your-own company.

companies and that they were working to rewrite some policies and address other oversight issues.

General adjusters are to do reinspections of open claims. FEMA chooses a random sample of about 4 percent of the claims for every flood event to reinspect, according to the NFIP claims director. If the general adjuster determines that a company paid for an expense that should not have been covered, FEMA is to be reimbursed by the write-your-own company. If a general adjuster finds that an adjuster missed an item in the original inspection, the general adjuster is to add it back into the claims report so that the policyholder will be compensated for it.

The instructors at an adjuster refresher training session we attended noted the following as common errors identified in reinspections of claims:

- improper measurement of room dimensions;
- improper allocation of damage between wind and flood (homeowners' policies cover wind damage, while the NFIP covers flood losses);
- poor communication with homeowners on the process they are following to inspect the property and settle the claim.

Stakeholders Said the NFIP Has Many Positive Aspects but Implementation Is Complex

The flood program managers for the write-your-own companies and the vendor managers we interviewed were generally supportive of the NFIP and found many positive aspects to the program. One write-your-own company program manager said:

> "I am in the flood insurance business because I believe in the program. It does a lot of good. Floods are horrible occurrences. A homeowner sees the water coming but can do nothing to stop it. The smell is horrible. Whole communities are affected, and the emotional toll is tremendous. I have seen the NFIP do great good for many people."

Each of the interviewees, when asked how the NFIP could be improved, said that FEMA should look for ways to make the program less complex and more similar to other property insurance programs. For example, a vendor manager noted, "if the customers, the agents, and the adjusters all have difficulty understanding the program, it is too complicated."

A flood program manager said:

"As FEMA has tried to make the flood program more actuarily sound, it has made it more complex. FEMA has required of us more information, more forms, and more photos to be scanned into files. Those requirements cost money to implement. As an industry, we are looking at how the flood line might be more compatible with other lines of insurance business to be more cost-efficient. Now the flood business is so unique that it requires special handling."

FEMA officials said that some documentation (i.e., elevation certificates) is required because the NFIP is part of FEMA's broader flood plain management strategy that combines insurance protection with hazard mitigation to reduce future flood damage to homes. The officials noted that, while the NFIP has different requirements than homeowners insurance, it is not necessarily more complex and that the more familiar agents become with the requirements of the NFIP, the easier it becomes for them to routinely handle documentation requirements.

FEMA Continues Efforts to Comply with Legislative Mandates

Congress mandated that within 6 months of the enactment of the Flood Insurance Reform Act, FEMA establish (1) insurance agent education and training requirements, (2) new processes for explaining coverage to policyholders when they purchase and renew policies, and (3) an appeals process for claimants who are dissatisfied with the settlement of their claims. The 6-month mandated deadline elapsed on December 30, 2004, but FEMA is still working to complete these mandated efforts. According to FEMA officials, in order to address the requirements to establish insurance agent education and training and for explaining coverage to policyholders, the agency must go through the rule-making process. FEMA officials also said to address the requirement for explaining policy coverage, they are waiting for DHS approval before finalizing the draft materials that will accompany the flood insurance policy. When DHS approves the draft materials, they will be published in the *Federal Register* as part of the rule-making process. Regarding the requirement for an appeals process, the agency must initiate and complete formal rule making. FEMA officials said that this process takes more than 6 months and could not be completed within the mandated time frame.

FEMA Is Coordinating with the States to Establish Training and Education Requirements

To address the requirement in the Flood Insurance Reform Act of 2004 to establish insurance agent education and training requirements, FEMA is working with state insurance commissions. An official said FEMA is still in the planning stages of meeting the requirement and is discussing options with state insurance commissions, but has not yet developed an action plan.

FEMA Has Drafted New Materials on Consumer Policy Information

When a customer purchases a flood insurance policy, the main document he or she is to receive from the insurance agent is the policy. A congressional report accompanying the Flood Insurance Reform Act stated that the NFIP did not provide "simple" forms or claims guidelines for flood victims to follow, making access to information about flood insurance policies difficult to obtain.[11] To address this concern, the act requires FEMA to provide simplified forms and a flood insurance claims handbook to policyholders at the time of purchase or renewal and at the time of flood loss.[12] FEMA has drafted new materials that would be provided to the policyholder at the time of purchase or renewal of the flood insurance policy. The draft material includes:

- a supplemental form that would explain the policy, such as the amount of deductibles, the exact coverage being purchased, exclusions from coverage, and an explanation of how lost items and damages will be valued under the policy at the time of loss;
- a flood insurance handbook to describe procedures to be followed to file a claim and provide detailed information on an appeals process that FEMA is to develop; and
- an acknowledgment form that the policyholder has received the flood insurance policy and that the policy only covers building property for the dwelling and does not provide coverage for contents or personal property.

Before the materials are finalized, FEMA must go through rule making and publish them in the *Federal Register*. FEMA expects to have these forms and handbook finalized by October 2005.

FEMA Is Establishing a Formal Appeals Process to Address Consumer Complaints

If a policyholder has a grievance about a flood insurance claim, proof of loss, or loss estimate, he or she may informally appeal to the insurance agent, to the insurance adjustor's supervisor, or to a hotline where a customer representative is to provide assistance. There is currently no official recourse for the policyholder. To provide official recourse to policyholders, section 205 of the Flood Insurance Reform Act requires that FEMA establish a formal appeals process through which policyholders

[11]Senate Report No. 108-262 (2004).

[12]See P.L. 108-264, Sections 202-204 (June 30, 2004).

may appeal decisions on their claims. FEMA is developing a formal appeals process for a policyholder to follow if he or she has a grievance. The proposed new appeals process must go through the rule-making process with publication of a draft and a final set of procedures in the *Federal Register*. A FEMA official was uncertain when the process would be completed, but said that it would be after October 2005.

Mr. Chairman and Members of the Committee, this concludes my prepared statement. I would be pleased to answer any questions you and the Committee members may have.

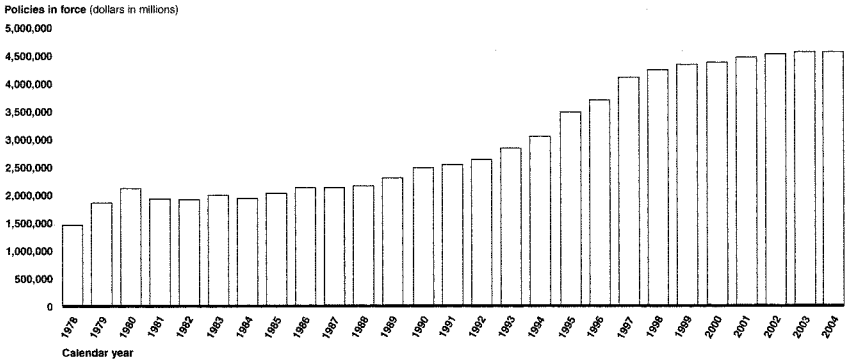
Contacts and Staff Acknowledgments

For further information about this statement, please contact William O. Jenkins, Jr. Director, Homeland Security and Justice Issues, on (202) 512-8777 or jenkinswo@gao.gov or Christopher Keisling, Assistant Director, Homeland Security and Justice, on (404) 679-1917 or at keislingc@gao.gov.

Major contributors to this testimony included Christine Davis, Pawnee Davis, and Deborah Knorr.

Appendix I: NFIP Payments Made to Claimants and Policies in Force, 1972-2004

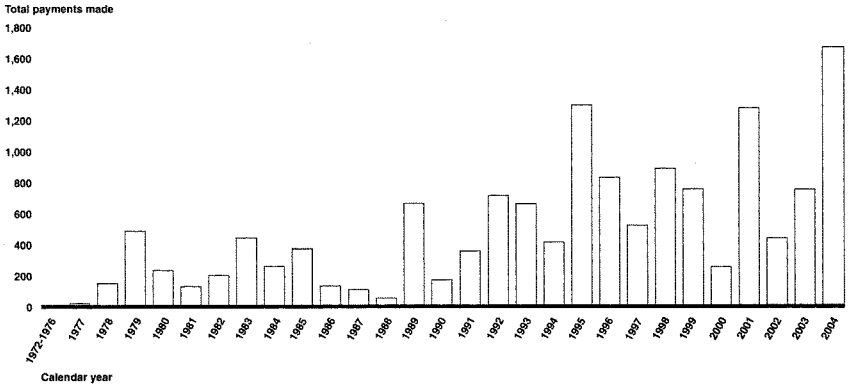
Figure 1: Total NFIP Payments to Claimants, 1972-2004



Source: NFIP.

Note: Data compiled and available as of February 28, 2005.

Figure 2: Policies In Force, 1978-2004



Source: NFIP.

Note: Data compiled and available as of December 31, 2004.

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WRITTEN STATEMENT AND REPORT OF

STEVEN J. KANSTOROOM
PATTERN RECOGNITION AND FRAUD DETECTION EXPERT

BEFORE THE

HOUSE OF REPRESENTATIVES HOUSING AND COMMUNITY OPPORTUNITY SUBCOMMITTEE

"REVIEW AND OVERSIGHT OF THE NATIONAL FLOOD INSURANCE PROGRAM"

APRIL 14, 2005

This report and its embedded links to documents and video referenced herein can be viewed online at
www.femainfo.us

Mr. Chairman, thank you for inviting me to testify today. My name is Steve Kanstoroom.

Background and Experience

I have spent more than 6,000 hours investigating National Flood Insurance Program (NFIP) related problems over the past 15 months. Prior to Hurricane Isabel, I had recently retired after working for twenty two years as a pattern recognition and fraud detection expert. My experience was primarily with massive systems and programs. These systems were responsible for supporting more than ten million customers and processing billions of dollars of transactions per year. An underlying requirement of each of my projects since the early nineties was to comprehend, design, automate, audit and manage systems that interpreted complex federal regulations as they pertained to various consumer activities. In each case, I was tasked with the responsibility of assuring the complex regulations were applied uniformly to all consumers. I was also solely responsible for all management aspects of the systems and the data that they processed.

Prior to that I designed and ran systems that processed data for the U.S. Department of Justice and other government agencies.

I gained my experience in protecting multi-billion dollar bank and corporate portfolios, from leading experts of the nation's largest banks, credit bureaus, MasterCard International, Visa USA, the U.S. Secret Service, the U.S. Postal Inspectors and others.

Most recently I focused my experience upon finding the root cause of the problems within the NFIP.

History

In December 2003, I found that my elderly neighbors had received pennies on the dollar for their flood loss. They were living in my unheated, flood damaged home that I believed was unfit for my family to live in. It was 16 degrees outside. I felt something was dreadfully wrong and set out to find what it was.

Initially, I determined that FEMA had sanctioned the wrong use of a cost book for determining insurance losses. The publisher of the book, Mr. Gary Moselle of Craftsman Book Company, offered to fly from California to testify here today. His written testimony states "Such use of our data was never intended by the publisher and, if used as is, would result in pennies on the dollar for insurance claims". In fact, this was the core issue in March 2004 that caused the Senate Banking Committee to direct the independent review of all Isabel claims.

The day after the hearing, the Federal Insurance Administrator made very positive statements to the press regarding my work and findings. I was then recognized as someone that perhaps could get the ear of people in a position to remedy the NFIP problems. Soon thereafter, industry insiders started calling, and in April 2004, people from inside the NFIP did as well – late at night. They explained wrongdoing and, fearful of reprisals, started leaving documents for me at various locations around the DC area.

Findings – Executive Overview

I learned that, rather than conduct an independent review of Isabel claims as the Senate Banking Committee directed, leaked documents revealed that FEMA quietly assembled a Task Force comprised of the identical management and same adjusters or adjusting firms that originally low-balled the victims' claims.

Video tape reveals that FEMA has taken the remarkable position that the program is intended to provide "some assistance." FEMA's insurance partners have gone as far as to say the NFIP doesn't offer insurance at all, but merely a form of aid. Former Federal Insurance Administrator J. Robert Hunter wrote in the attached letter to the contrary. He describes the NFIP, during his tenure under Presidents Ford and Carter as an agency that "always restored victims to their pre-flood condition, less their deductible."

Former Federal Insurance Administrator Jo Ann Howard also wrote a letter regarding her tenure from 1998 through 2001. Both former administrators describe the NFIP operating in sharp contrast to the NFIP's current positions. Mr. Hunter made himself available to testify in this hearing.

Mr. Hunter's letter and videotaped interview also describe the rationale for the low-balling of claims encountered by flood victims, the same rationale I learned from an insurance industry examiner.

Mr. Hunter states that the reason for the low-balling is due to the insurance industry's concern for setting a precedent on their non-flood claims – the same thing that I was told by an insurance claims examiner and numerous adjusters.

Mr. Hunter said in his letter, and later in his linked video interview, "History seems to be repeating itself. Similar to [Kanstoroom's] findings, in the early 1970s I found private insurance carriers refusing to pay legitimate claims out of concern for setting precedent related to similar language in their homeowners insurance policies. In fact, they told me so point blank. At the time the private carriers were members of the National Flood Insurers Association ("NFIA"). NFIA members were refusing to pay claims related to evacuations. I asked the General Counsel of HUD (the agency in which the FIA was located prior to being sent into FEMA) to review the matter to determine if our interpretation of coverage was correct. He agreed and issued orders for NFIA to pay the claims. NFIA refused and we began a process to have them kicked out of the program, which was accomplished in the late 1970s".

Regardless of FEMA's current interpretation of the congressional intent for the NFIP, I discovered a training disparity that an industry official, Mr. William Griffin, Jr., wished to testify to today. Mr. Griffin's sworn statement attests to the fact FEMA's private contractor, Computer Sciences Corporation (CSC) trains sales agents to tell policyholders they will be restored to their pre-flood condition while simultaneously training claims adjusters to allow only narrowly defined coverages in limited amounts. Mr. Griffin's written testimony is attached. I too can attest to this fact. I too attended the training.

I learned that FEMA's private contractor, CSC, is responsible for the day-to-day affairs of the NFIP, including training its sales agents and claims adjusters. Maryland State Senator Grosfeld wished to testify here today, that as early as July, 2004, CSC was aware of the training disparity as well as intentional training misrepresentations, such as instructing adjusters to suggest and allow for deodorizers as way of remediating toxic substances. I made CSC aware of these and other problems in a meeting held in the Senator's office. CSC's Vice President and Deputy General Counsel clearly stated that "FEMA has approved all of our actions."

In the meeting, information was presented regarding CSC wrongly telling victims and adjusters they trained that fuel oil contamination could be remediated with what amounts to perfume. To date, CSC has failed to take any corrective action regarding the contaminated properties sited as examples.

Concerning this point, Senator Grosfeld wrote in part, "The information regarding the fuel oil contamination was also quite alarming, particularly given that weeks later Governor Ehrlich announced that the state had just completed cleaning up 600 tons of contaminated soil. To think the state hauled people's front yards away due to the toxicity, yet victims have been left to live in houses knowingly contaminated with toxic and suspected substances is unconscionable."

Government and industry whistleblowers also expressed a desire to testify today. They wished to testify that the identical management, and same adjusters or adjusting firms that originally low-balled the claims were also responsible for the failed Isabel Task Force review. Others wanted to testify regarding directions they received to low-ball the victims' flood claims.

Linkage to Florida Wind and Flood Claims Problems

And lastly, Mr. Moselle wanted to point out that these issues are inextricably linked to the property insurance industry. The same problems that plagued Isabel victims resurfaced in the Southern storms last Fall.

Citing a September 13, 2004 WINK TV news report from Ft. Myers, Florida, Mr. Moselle's testimony says in part, "I understand from a number of articles in the public domain that insurance adjusters routinely take the position that they are not permitted to deviate from the electronic book of numbers. For the reasons outlined above, taking such a position will result in a woefully inadequate reimbursement of damages, easily less than fifty percent of the actual repair cost. Moreover, leading the consumer to believe that new construction pricing represent a fair and complete valuation of their damages is, in my expert opinion, fraudulent.

In September 2004, I received another call from Mr. Kanstoroom regarding the use of our New Construction database, in Florida, for adjusting wind and flood claims.

I immediately wrote a letter to Florida's Chief Financial Officer Tom Gallagher, Governor Jeb Bush, and the Florida Attorney General, Charley Crist. I attempted to alert these officials that, in the wake of such widespread destruction, permitting the use of an artificially low set of numbers for insurance claims adjustments would lead to the same problems for Floridians that Isabel victims had endured for the past year.

I urged the Florida Officials to issue a statement that all losses should be adjusted by starting with repair and renovation cost standards, not the much lower prices for new construction.

I understand from media reports that Mr. Kanstoroom had met with these men as well on this same point.

Nevertheless, apparently no such statement was ever issued and widespread media reports now indicate tremendous suffering is being experienced by Floridians in regards to their insurance claims.

For all of these reasons I respectfully request that you recommend to FEMA, and its insurance partners, that they use the proper price book containing repair and renovation figures as the starting point for writing repair estimates. To allow them to continue to mislead the public into thinking that new construction pricing will result in Replacement Cost Value (RCV) will lead to untold and wholly avoidable suffering by the American

public at a time when they are likely to be under stress and, in some cases, shock from their catastrophic loss."

Data Collection

In August, 2004, the Baltimore County Executive, James T. Smith, Jr., requested that I write a report of my findings. The contents of that report, and information that I have gathered from a victim's website I constructed are included within this document and its attachments.

The website provides information the victims of catastrophic storms can use to help them recover from their loss. It also provides a means for victims to learn about wrongful adjusting practices being replayed in different towns. One of the largest problems victims face is a lack of information. The website helps in that regard. It also helps to determine where the problems are occurring by accepting complaints, and I can tell you, the problems plaguing flood victims are consistent anywhere it floods in the United States.

Underlying Problems

Many factors caused the NFIP problems to occur. The data collected shows:

- Disparate sales agent / adjuster training. Adjusters are trained to tell policyholders they will be restored to their pre-flood condition and will be compensated for the unbroken chain of events flowing from the loss; while claims adjusters are trained to allow narrowly defined coverages in pre-set amounts. This is perhaps the most common and destructive problem reported by victims.

- Adjusters mistakenly believe that direct physical loss means direct contact with flood waters. After two months of my urging FEMA to correct this problem, the NFIP published a Claims Guidance Memorandum on May 7, 2004 attempting to correct this misconception. Unfortunately, Task Force personnel were, and adjusters throughout the industry are, largely unaware of this bulletin. Flood victims are generally also not aware of the bulletin.

  Significant damage to construction materials and personal property can occur regardless of water contact; for example in the event of moisture damage, mold contamination and partial collapse occurs.

  A large number of claims were dramatically reduced, often by more than half, when the claims adjusters refused to consider damage that was not physically contacted by flood waters.

- Non-existent processes for assuring constancy in the interpretation and administration of the flood insurance regulations by the NFIP, CSC, the third party adjusting firms and WYO carriers.

- NFIP Claims Guidance bulletins are not being publicized nor followed by CSC, nor followed in many cases, by the third-party adjusting firms and WYO carriers.

- Adjusters stating that they are required to use new construction pricing in lieu of more costly repair and renovation pricing.

- Adjusters taking depreciation on Replacement Cost Value (RCV) losses.

- Adjusters refusing to reimburse for sales tax charges on taxable items; stating that "the government does not have to pay sales tax".

- Undue pressure exerted on victims by claims adjusters to sign Proof of Loss forms.

- FEMA failing to publicize extended deadlines for filing Proof of Loss forms, leading to additional adjuster pressure to sign Proof of Loss Forms.

- Adjusters wrongly telling victims that a) Advance Payments were no longer available, b) Advance payments could not exceed $10,000 (instead of 50% of the loss), and; c) adjusters telling victims that carriers were not interested in processing an advance payment because they wanted to settle the loss. All of these events lead to additional undue pressure for victims to accept low settlement offers.

- A faceless bureaucracy with seemingly no sense of the consequences they cause that leaves victims feeling hopeless and despairing, suggesting to victims trapped in campers, with no way out that they "get on with their lives".

The low-ball settlements have in many cases left policyholders trapped in campers designed for summer use. Their pipes freeze in the winter leaving them without indoor plumbing. The lack of HVAC in these vehicles designed for intermittent use leads to mold growing on the victim's belongings that are stored under their beds. Victims develop chronic respiratory problems and mold related illnesses, such as recurring sinus infections.

Many victims find themselves in a downward spiral that is impossible to escape. The result is that many families split up, leaving single parent households. Children who once had a home are left with no place to play or study.

Summary

A review of flood insurance complaints from a twelve state area reveals that the problems Isabel victims encountered are identical to those being encountered from Ohio to Texas. The media reports of Isabel problems have been limited to local stories. As a result, victims in other states are at this time largely unaware of the website used for data collection – www.femainfo.us .

FEMA's claims that the program was never designed to restore victims to their pre-flood condition are not consistent with the facts. Its former directors, current marketing practices, and marketing directives contradict FEMA's assertions.

The result is policyholders' damages are inspected by adjusters, who in many cases are wholly unaware of what the proper flood adjusting practices are – they just do as they are trained.

The use of new construction prices exacerbates the low-ball problem. Victims do not realize they are in a negotiation. By starting the negation at thirty cents on the dollar, the victims are severely disadvantaged. By the time they realize they have been shortchanged, many are unaware they can file a supplemental claim. In the event that they do, they are in for a very rough time, and unlikely to achieve a settlement close to what they are entitled to receive.

Many lenders wrongly advise that the limit of insurance must equal the amount of the loan; however, that is incorrect. FEMA's regulations state that :

> The coverage required by law is the lesser of the following:
> The maximum amount of NFIP flood insurance coverage available, the outstanding principal balance of the loan, or; the value of the property minus the land.

Conclusions

The NFIP is in a tailspin. It, like the flood victims, desperately need your intervention. The best way to help the victims is to help the NFIP by adopting the suggestions within this document.

I have offered repeatedly to sit with NFIP officials, as I did prior to the management change at FEMA in the Summer and Fall of 2004 to share my findings. Copies of several of my letters are included in the attachments. I have concrete solutions to complex problems, solutions that will cost the taxpayer nothing, and benefit the NFIP and its policyholders tremendously. The only losers will be those entities that are attempting to gain something for nothing.

Regarding the multiple congressional calls for DOJ and other investigations, its seems that much could be gained by acting upon what the former Federal Insurance

Administrator and Texas Insurance Commissioner J. Robert Hunter stated, "If the training disparity exists as your information indicates, I believe fraud may have occurred on a large scale. I agree with you if such practices are occurring the FTC should also be made aware inasmuch as the private carriers are advertising insurance replacement coverage they later indicate never existed."

In the current climate, the policyholders have virtually no recourse against wrongful, abusive and deceptive NFIP claims practices. The WYO carriers are indemnified by the NFIP, in other words, the policyholders' premiums fund the WYO carriers' legal defense. The FTC could reign in the carriers who it appears have played a large role in the NFIP's demise.

Recommendations – Actions FEMA Can Take

- Provide policyholders the same information regarding their policies as their agents receive in the form of clear, easy to understand benefits and rights.

- Provide policyholders with adjusting highlights at the time of a loss. Included shall be their major benefits; i.e. a) They are to be paid for the unbroken chain of events flowing from the loss, b) RCV losses are not subject to depreciation, c) sales tax is a covered expense for taxable items, d) advance payment rules are clearly defined, e) claims may be reopened in the event hidden damage is found, repair costs rise or materials prices rise, and; f) other key rights regarding the settlement of claims are described.

- Establish a penalty for the parties responsible for delaying claims payments to policyholders that does not come out of the fund containing the policyholders' premiums. In other words, unlike current WYO legal defense expenses, it costs the companies money that are causing damage to the victims.

- Establish a penalty for NFIP's private contractor in the event it fails to disseminate Claims Guidance Memorandums, or otherwise not enforce them..

- Modify the audit requirements for WYO carriers whereby a penalty is not only charged for overpaying a claim, but a similar penalty is charged for underpaying a claim.

- Establish an independent appeals process controlled by flood insurance professionals that have no affiliation with the NFIP, its contractor or private insurance partners. Such professionals should have the authority to make claims decisions and levy penalties for abusive claims practices.

- Act upon the urging of FEMA's approved data vendor, Craftsman Book Corporation, and recommend to "its insurance partners, that they use the proper price book containing repair and renovation figures as the starting point for writing repair estimates".

Recommendations – Actions Congress Can Take

The NFIP issues I have uncovered are repeating themselves across the country. Although FEMA is made aware of the problems occurring in a small town in Pennsylvania for example, and perhaps increases a payment on an individual basis or two, reports of identical problems surface with the next flood in the next town.

- Flood victims across the country would be saved from needless suffering if Congress directed FEMA to issue the Proposed Claims Guidance Memorandum found at Attachment 14. The Memorandum addresses the twenty points of low-balling uncovered in my investigation. If enforced by FEMA and its contractor, this will immediately end the vast majority of low-ball claims practices. As a result, it will immediately reduce the burden upon FEMA, CSC and the Congressional staff tasked with the ongoing paperwork burden associated with mishandled claims.

- Direct the GAO to make use of the 6,000 hour investigation, more than a thousand pages of whistleblower documents and other materials, described in this report, as well as the materials contained within the report prepared by the Maryland Insurance Administration.

- Direct FEMA to implement the recommendations contained in this report.

- Investigate the linkage between alleged problems with CSC in regards to the NFIP and other projects CSC is connected to, and which members of congress have sharply criticized. These projects include the $600 million FBI Trilogy System, and the IRS tax-compliance and enforcement systems.

  Senator Judd Gregg said the FBI had "squandered" $100 million from a supplemental fund on Trilogy. On May 12, 2004, the National Research Council completed a report on the Trilogy Project at the FBI's request.

  The report criticized the Trilogy system as inadequate to perform the functions required and said it is "nearly guaranteed to cause mission critical failures" and urged the bureau to build new systems from scratch. "It is not now, and unlikely to be, an adequate tool for the counter-terrorism analysis" for which it was designed.

  IRS Commissioner Mark Everson barred CSC from performing work on upcoming projects to modernize the IRS tax-compliance and enforcement systems, last spring, according to *Federal Computer Week.* Months later the IRS reversed its position.

Congress can shine the light on these issues, with the material uncovered to date, in the course of several days of hearings. In that time Congress would learn about:

- How the NFIP operated under the tenure of previous administrators.
- The NFIP sales agent and adjuster training disparity.
- The disparity between the NFIP's marketing materials and its adjusting practices.
- The underling reasons for the low-balling of NFIP claims.
- What FEMA's private contractor CSC knew and when they knew it regarding these problems.
- The major issues discovered during the 6,000 hour NFIP investigation.

I believe if Congress were to set dates for such hearings, and permit the key witnesses to testify, all of these issues would likely begin to resolve themselves as a result of the media focus. Your constituents need your help now.

Thank you Mr. Chairman for the opportunity to address your Committee. I welcome your questions. My cell number is 301 503-6078.

Click Here For On-Line Supplemental Documents

Attachment 1 .....Craftsman Book Company, Smoking Gun Document

Attachment 2 .....Craftsman Book Company, Letter to Florida Officials

Attachment 3 .....NFIP Marketing Press Release "Flood Insurance Can Make You Whole"

Attachment 4 .....Former Federal Insurance Administrator J. Robert Hunter; Intent of the Program; History of Low-Ball Pricing

Attachment 5 ..... Former Federal Insurance Administrator Jo Ann Howard; Intent of the Program; Contract of Adhesion; RCV; Industry Lawyer's Potential Conflict of Interest

Attachment 6 .....NFIP Agent / Adjuster Training Disparity Per Industry Exec.

Attachment 7 .....Industry Executive William Griffin, Jr. Written Testimony

Attachment 8 ..... Senator Sharon Grosfeld; Computer Sciences Corporation July 30, 2004 Meeting

Attachment 9 .....Kanstoroom Report, Background

Attachment 10.....Kanstoroom Report, Interim Report

Attachment 11..... NFIP May 7, 2004 Claims Guidance Memo

Attachment 12 .....Letters to FEMA Undersecretary Michael Brown – Pleas for Intervention Regarding NFIP Problems

Attachment 13 .....Letter from Congressman Steny Hoyer to Nationwide Insurance CEO and President and CEO

Attachment 14 .....Proposed NFIP Claims Guidance Bulletin

Attachment 15 .....Summarized Findings

Attachment 16 .....Craftsman Book Company; Re: Fraudulent Use of Database

JO ANN HOWARD
& ASSOCIATES, P.C.

March 7, 2005

Mr. Steve Kanstoroom
[redacted]

Dear Mr. Kanstoroom:

I was disappointed to learn that flood victims in several states are experiencing problems getting claims paid by Write Your Own (WYO) companies and third-party administrators that serve as the arm of the National Flood Insurance Program (NFIP).

I was appointed by President Clinton and served as Federal Insurance Administrator from 1998 until 2001. Before that, I was one of three appointed Texas insurance Board Members. I was appointed by Governor Bill Clements, a Republican. During my tenure at FEMA as Administrator of the NFIP, I was impressed by the attitude of the FEMA Director during my tenure as well as the Flood Insurance Administration staff regarding fair treatment of flood policyholders filing a claim for a flood loss. This was underlined by the fact that many policyholders are required to purchase flood coverage in order to obtain a mortgage loan.

While at FEMA, I attended adjusters' and agents' meetings at various locations and do not ever recall any instructions or implications that anything less than restoring the damaged home to its pre-flood condition was acceptable. The NFIP's regulations provide no incentive for WYO companies to undercut a claim as they pass through the premiums and losses to the federal program, less their commissions for placing the coverage.

While it is true that the coverage has some limitations as to basement coverage, exclusion of certain structures not affixed to the insured structure and some other limitations, we rewrote the policy in Plain English so as to make coverage clear to agents, policyholders and adjusters. The rates are set to be actuarially sound over a period of time, and that is exactly what has occurred. In the event a dispute arose over the policy, inasmuch as FEMA drafted the policy language, we adhered to the interpretation most favorable to the party with no input in the contract language under a contract of adhesion. In other words, the policyholder received the benefit of the doubt.

The dedicated flood program staff I knew and worked closely with in the NFIP were fair and compassionate people who had a great deal of insurance expertise. The claims managers adhered to payment of RCV, replacement cost value as included as part of the premium. I am puzzled as to how this program's policy could have changed in just a few years. The NFIP has been an exemplary program which has saved many families from financial ruin since its inception.

I am troubled by the media reports indicating that people who budget to pay for flood coverage are reporting that they are receiving reduced damages for their flood claims. This is inconsistent with the NFIP's practice of restoring victims' covered losses to their pre-flood condition. During my tenure, and in prior administrations, the NFIP paid for the unbroken chain of events flowing from the flood loss, i.e. direct physical loss. That meant damage was restored as a result of its proximate cause – flood, regardless of contact with flood water. For example, when an air conditioning system's outdoor unit is torn from the

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building leaving its refrigerant lines open to contaminates, other components although not contacted by the flood waters are often affected. In such a case, the indoor air handler would also be covered inasmuch as it was part of a system and could no longer be deemed reliable – there being no way to wholly remove the contaminates. To do any less was not consistent with our regulations. North Carolina had severe flooding in 2000 and many homes had high dollar damages which were paid. Commissioner Long was in touch with FEMA about policyholders in that state as claims were adjusted. The NFIP paid for damages caused by "wicking" in which insulation would carry moisture many feet above the flood water level and damaged the structure to a great extent, as I recall.

I am troubled by the reference I read by Congresswoman Davis in her letter to the President regarding the industry lawyer's potential conflict of interest. I was unaware any such conflict existed during my tenure. The conflict, when coupled with the misinterpretation that the policyholders' premiums held in a Treasury account are federal funds, is significant. The source of funding for all contract benefits and claims expenses under the NFIP is derived solely from policyholders' premiums and not taxpayers' funds, notwithstanding that they may be temporarily held in a Treasury account.

I appreciate your contacting me. Let me know if I can help in any way. Surely this situation will be rectified. I hope so.

Sincerely,

Jo Ann Howard

House Financial Services Committee
Claims Guidance Memorandum - Detail

NFIP Policy Adjuster Training Bulletin

We understand a number of complaints have arisen whereby policyholders are stating that flood adjusters are wrongfully denying coverage. This bulletin is intended to clarify some of the most common points involved in the complaints.

The following parameters are assumed in each example: a) the damaged item in question is a covered item such as sheetrock as opposed to a non-covered item such as a boat; b) the policy deductible and policy limits apply to the entire loss, and; c) unless otherwise described, the SFIP is referring to the Dwelling Form.

Direct Physical Loss
Flood victims report adjusters state: *The SFIP only covers damaged caused by direct physical contact with flood waters.* This is incorrect.

The SFIP pays for losses resulting from the unbroken chain of events flowing from the flood, provided the originating event which proximately caused the losses was in fact a flood and the damaged items are not expressly excluded from coverage in the SFIP.

Several examples of mis-communicated coverage regarding Direct Physical Loss are as follows:

The SFIP pays for the outside HVAC equipment if destroyed, but not the related indoor equipment if such equipment is not contacted by flood waters. This is incorrect.

When the outdoor HVAC equipment is torn from the building leaving refrigerant lines open to contaminates, the indoor unit, even if not contacted by flood waters, is a covered item. Likewise, if the outdoor unit is inundated it is possible for electrical problems to arise as a result of improper signals on the wiring between the indoor and outdoor units. Such problems can destroy indoor equipment. In such a case the indoor equipment is covered.

The SFIP only pays for the portion of an electrical circuit that has been flooded. This is incorrect.

When electrical wiring becomes flooded at any point, in a crawl space junction box for example, the cost to remove and replace the circuit, from the point of water contact to the point inside the structure where it connects to another undamaged circuit is covered.

The SFIP does not pay for moisture damage. This is incorrect.

In many instances the flood waters and their contaminates condense on the underside of subfloors, walls, ceilings and other surfaces causing considerable damage. Where the proximate cause of the condensation was the flood, the damage caused by the moisture is covered.

House Financial Services Committee
Claims Guidance Memorandum - Detail

Depreciation Taken on RCV Losses
Flood victims report: *adjusters are taking depreciation on RCV losses and stating that the withheld depreciation will be released upon the completion of the repairs.* This is incorrect.

RCV losses are not subject to depreciation.

Refusal to Compensate for "Like for Like"
Flood victims report: *adjusters are refusing to compensate them for "Like for Like" on covered items.* This is incorrect.

Several examples of mis-communicated coverage regarding failure to compensate on a "like-for-like" basis are as follows:

The SFIP does not pay to replace Anderson Windows. It is unlike other insurance and will only pay for an economy grade window. This is incorrect.

In many cases the damaged property is not "economy" grade, but rather consists of name brand or high-end materials. The policyholder is entitled to the same materials as were originally in place prior to the flood.

The SFIP does not pay to replace a building component that is no longer manufactured, such as a brass door handle with a specific offset that is no longer available. It's not our problem that the only lockset currently manufactured will not fit into the existing penetration leaving a gaping hole in your door next to your door knob. Your door would cost $900 to replace, and it can be sanded and refinished. You are not entitled to a door. This is incorrect.

The policyholder is entitled to RCV, ACV or Special Loss assessment as specified in the policy. Regardless of the applicable method of loss settlement, policyholders are entitled to the restoration of their flood loss. In the event that an item is no longer available, such as brass lever handle and lockset with a non-standard offset, then a similar handle with a standard offset would be covered. In addition, the replacement doors that matched the new lockset would also be covered such that damage was fully remedied.

The SFIP does not pay to replace a building component that cannot easily be obtained, especially when an alternative component could be used. This is incorrect.

The policyholder is entitled to RCV, ACV or Special Loss assessment as specified in the policy. For example, in some cases the structure may have structural members, such as 2 X 4s that measure two inches by four inches, not 1 ½ x 3 ½ as is currently the norm. Regardless, the policyholder is entitled to be compensated for the same materials that were damaged, in this example custom milled materials of the same species as was damaged.

House Financial Services Committee
Claims Guidance Memorandum - Detail

Price Guidelines and New Construction Pricing
Flood victims report: *adjusters are stating that the prices they are permitted to submit for claims settlement are controlled by the federal government and they cannot be exceeded.* This is incorrect.

Several examples of mis-communicated coverage regarding Price Guidelines and New Construction Pricing are as follows:

The SFIP may set the prices they allow for damaged items wherever they wish. Flood insurance is unlike other insurance and is merely a form of assistance. This is incorrect.

The policyholder is entitled to RCV, ACV or Special Loss assessment as specified in the policy. In each case, the cost to repair the damages is based upon the estimated costs of labor and materials at the time of the repair and/or the amount of the contractors' detailed estimates, proposals or receipts.

The NFIP adjusters are free to use whatever pricelist or construction estimator they choose, regardless of the age or source of the list. They are not required to deviate from their database. This is incorrect.

The NFIP does not maintain a database of prices. Adjusters are free to begin with any adjusting database they choose, but they must adjust upward or downward in accordance with the actual cost of repairs such that the covered damage shall be fully restored.

Sales Tax
Flood victims report: *adjusters are stating the SFIP does not cover sales tax on covered items.* This is incorrect.

Example:
The Federal Government does not pay sales tax and the flood policy does not reimburse victims for sales taxes. This is incorrect.

Sales taxes associated with all covered items are covered by the SFIP.

Mold Cleanup
Flood victims report: *adjusters are refusing to compensate them for cleanup of mold that has appeared after a flood, regardless of mitigation attempts.* This is incorrect.

Several examples of mis-communicated coverage regarding mold clean-up are as follows:

The SFIP does not pay to clean-up or to remediate mold contamination and it never has. This is incorrect

House Financial Services Committee
Claims Guidance Memorandum - Detail

The SFIP does cover mold cleanup expenses, provided, the contamination is not as a result of the policyholder failing to mitigate. A common example of failure to mitigate is where the policyholder does not return to the property, although such return was not prevented by floodwaters or other flood related access issues such as a bridge being washed away, and in the interim mold has grown that otherwise would not have grown.

The SFIP only pays to clean-up mold with soap and water or chlorine bleach solution. This is incorrect.

The SFIP covers mold clean-up costs necessary to restore the contaminated property to its condition prior to the loss. Such costs may include, but are not limited to; protective devices and other equipment contractors are required to use in order to comply with OSHA regulations. In many cases porous building materials will be damaged by chlorine and other liquids. There are no exclusions for the types of remediation protocols that may be employed. Such protocols include, but are not limited to, dry ice blasting, abrading, sealing, borax based products such as Boracare and related negative air systems.

The SFIP only pays to remediate mold in areas that are readily accessible. This is incorrect. If the mold was not preexisting prior to the loss, and the insured did not fail to mitigate, the SFIP pays for the costs associated with remediation.

The SFIP limits the amount of coverage for mold clean-up. This is incorrect.

Some areas of contamination require extensive effort and substantial costs to properly clean-up. The contaminated sheathing behind brick veneer and/or siding will require the siding and/or brick veneer to be removed and replaced. In addition, intersections and joints of building materials, such as where bottom plates meet subfloors and joists intersect with other framing are examples where contamination may not be able to be properly remediate without removing and replacing the contaminated materials.

Settlement
Flood victims report: *adjusters are stating that the SFIP does not pay for settlement regardless of the cause.* This is incorrect.

In the event that erosion occurs as a result of the flood, thereby undermining the foundation and the foundation settles as a result of the erosion, the settlement damage is covered.

Pre-FIRM vs. Post FIRM Denials of Coverage
Flood victims report: *adjusters are stating that once a building has been improved it is deemed a post-FIRM structure, regardless of the age of the building and the value of the improvements.* This is incorrect.

A pre-FIRM structure remains as such unless and until substantial improvement occurs. Substantial improvement is defined as not less than fifty percent of the market value of the

building before the "start of construction" of the improvement. Substantial improvement includes buildings that have incurred "substantial damage," regardless of the actual repair work performed. The term does not, however, include either any project for improvement of a building to correct existing state or local code violations or any alteration to a "historic building," provided that the alteration will not preclude the building's continued designation as a "historic building."

Several examples of mis-communicated coverage regarding pre-FIRM vs. post FIRM issues are as follows:

The unfinished basement of a pre-FIRM structure was totally finished in 1990 at a cost of forty thousand dollars. The value of the structure at the time of the improvements was two-hundred thousand dollars. That is a substantial amount of money; therefore the building is now deemed a post-FIRM building and is subject to post-FIRM exclusions. This is incorrect.

In order for a pre-FIRM status to change to post-FIRM status, the improvements must have exceeded fifty percent of the value of the structure at the time the improvements were made.

The SFIP only pays for very limited coverage in basements or other areas below the lowest elevated floor, regardless of when the structure was built. This is incorrect.

Only Post-FIRM basements are subject to limited coverage, i.e. the exclusions found in Section III, paragraph 8.

Fuel Oil Contamination

Flood victims report: *adjusters are stating that fuel oil contamination is not a covered peril, and/or it can be remediate with chlorine bleach or absorbents with deodorizers.* This is incorrect.

The SFIP does not have a fuel oil contamination exclusion. Fuel oil is a known toxin, irritant and suspected carcinogen. At the present time there is no way to wholly remediate fuel oil contamination. The only proper course of action is to remove and replace the contaminated materials.

Several examples of mis-communicated coverage regarding fuel oil contamination issues are follows:

Although there was obvious fuel oil contamination in the home in the form of an oil slick on the floor and oil at the high water mark, now that the damaged sheetrock and flooring has been removed, there is no longer a strong odor of fuel oil in the premises. Without obvious signs of contamination, the SFIP will not pay for clean-up. This is incorrect.

The hydrostatic pressure of the floodwaters has the effect of pressure treating. Oil molecules are pushed deep into porous materials. Although the odor will subside, and prolonged exposure lessens people's ability to detect an odor, the dangerous chemicals are nevertheless

left behind. Interior foundation walls, slabs, framing and other building materials cannot be wholly remediate at this time. The only safe course of action is to remove and replace all contaminated building materials.

The SFIP has a limit of ten thousand dollars for remediating damage caused by pollutants. This is incorrect.

The General Property Form has a ten thousand dollar limitation on pollutant clean-up. The Dwelling Form has no such exclusion.

Pairs and Sets
Flood victims report: *adjusters are stating that the "Pairs and Sets" clause applies to building materials such as kitchen cabinets.* This is incorrect.

The pairs and sets language specifically refers to damaged "articles" as opposed to damaged "items". Building materials are referred to throughout the SFIP as items; personal property on the other hand is referred to as articles.

Garage Coverage
Flood victims report: *adjusters are stating that in order for a garage to be covered it must have doors of a particular size.* This is incorrect.

The SFIP includes coverage for a garage provided it is not used as a Dwelling or for a business or farming purpose. There is no requirement pertaining to the size, style or configuration of the building's doors.

Limitation of Coverage
Flood victims report: *adjusters are attempting to limit coverage because the cost of repairs are just "too costly".* This is incorrect.

Several examples of mis-communicated coverage regarding cost of repairs are as follows:

The SFIP does not pay to make you whole. The cost to remediate the mold in your crawlspace is very high based upon its extremely limited clearance. The SFIP will only allow a fixed price per square foot of floor space. It will not pay for all of the joist surfaces – that would just be too much. This is incorrect.

The SFIP compensates victims for their covered loss based upon the costs in affect at the time of the adjustment.

House Financial Services Committee
Claims Guidance Memorandum - Detail

Increased Cost of Compliance Payments
Flood victims report: *adjusters and/or carriers are stating that the second portion of the ICC payment will not be released until the policyholder obtains a final occupancy permit.* This is incorrect.

The policyholder is entitled to receive the second half of the ICC payment upon submission to the WYO of a county or local municipality elevation certificate.

An example of a mis-communicated regulation regarding ICC payments is as follows: *All ICC payments are on hold due to the large number of claims from the recent storms in Florida.* This is incorrect.

Minimizing Damages
Flood victims report: *adjusters are attempting to limit coverage by minimizing the significance of damage, such as "there was only one inch of water on the floor".* This is incorrect.

Significant damage can occur to surfaces above the flood waters, for example when subfloors expand from moisture damage. The depth of the water above a flooded surface shall not be used as basis for denying coverage.

Substantially Damaged Structures
Flood victims report: *they are having significant difficulties when a local municipality deems their structure substantially damaged.*

Several examples of mis-communicated coverage regarding substantially damaged structures are as follows:

Flood victims report: *Adjusters refuse architect, engineer, and contractors' proposals that indicate the cost of repairs will exceed the cost of new construction.* This is incorrect.

In the event that a municipality deems a structure substantially damaged, and a licensed architect attests under the penalty of perjury that he or she believes the cost of repairs will exceed the cost of new construction, then the architect's statement shall be accepted as evidence of a policy limits claim. In the event the NFIP has conflicting advice from an architect of its choosing, then the victim shall choose a second architect to act as a referee and split the tie. In the event the victim's claim is upheld by the referee, the NFIP shall bear all architects fees paid by both the NFIP and the victim and shall not be charged against the victim's claim. In the event the victim's claim is not upheld by the referee, the victim will be required to submit a detailed proof of its proposed reconstruction costs.

House Financial Services Committee
Claims Guidance Memorandum - Detail

Depreciation Schedules
Flood victims report: *adjusters are depreciating items and articles at widely varying rates for the identical materials. For example, neighboring homes, of the same age and condition may have differences in depreciation rates for their foundation of zero to 25 percent.* This is incorrect.

The SFIP includes the industry standard ACV term. This means that depreciation must be calculated fairly based upon age and condition.

Failure to Address Damage to Entire Portions of Structures
Flood victims report: *adjusters have failed to adjust the flood loss on entire portions of homes, e.g., didn't include the kitchen and laundry.* This is incorrect.

Unless expressly excluded under the SFIP, loss to every portion of the home must be adjusted.

Partial (Advance) Payments
Flood victims report: *adjusters and/or carriers are stating that advance payments are limited to small fractions of the damage or otherwise not available.* This is incorrect.

The NFIP publishes the following statement regarding partial (advance) payments:
Partial (Advance) Payments. The adjuster must advise the insured of the availability of a partial (advance) payment. If the insured requests a partial payment, the adjuster must prepare documentation necessary to support the amount of payment requested, including a Proof of Loss (shown on page A-29). The partial payment should not be for more than 50 percent of the anticipated total claim and preferably should be made against the contents claim.

Several examples of a mis-communicated mis-communicated information regarding partial (advance) payments are as follows:

The SFIP policy no longer has any provision for an advance payment. This is incorrect.

The SFIP limits the amount of an advance payment to $5,000. This is incorrect.

The policyholder is entitled to receive an advance payment and should not be dissuaded from requesting one in any amount. Depending on the circumstances, the entire amount of the claim may be approved in advance of completed repairs.

Your insurance carrier really wants to settle your claim. I don't believe they have any interest in processing an advance payment request. You really must sign the proof of loss form in order to receive any insurance proceeds. This is incorrect.

House Financial Services Committee
Claims Guidance Memorandum - Detail

The policyholder is entitled to receive an advance payment prior to completion of a proof of loss form. In no event is a policyholder to be given an ultimatum of signing a proof of loss form as a prerequisite to receiving a partial (advance) payment.

Basement Coverage
Flood victims report: *adjusters have failed to compensate for the flood loss on Basements of buildings which meet pre-FIRM requirements.* Adjusters in many cases are applying exclusions to basements, regardless of their pre-FIRM status. This is incorrect.

Section III Section 8 of the SFIP makes a distinction between pre-FIRM and post-FIRM exclusions. Structures meeting pre-FIRM requirements are not subject to any exclusion under this section. Unless expressly excluded under the SFIP, loss to every portion of the home must be adjusted.

Profit and Overhead
Flood victims report: *adjusters are refusing to compensate for profit and overhead for contractors and sub-contractors.* This is incorrect.

Several examples of mis-communicated coverage regarding profit and overhead are as follows:

Flood victims report: *Adjusters refuse to cover an electrician's overhead and profit saying it is included in the general contractor's overhead and profit.* This is incorrect.

The costs associated with restoring the flood damaged covered property to its pre-loss condition are covered under the SFIP. This includes profit and overhead associated with the various trades, contractors and subcontractors involved with the repairs.

Consumer Federation of America

November 18, 2004

Mr. Steven J. Kanstoroom
[redacted]

Re: Flood Insurance Claims Practices

Dear Mr. Kanstoroom:

Thank you for your recent letter.

I served in the Federal Insurance Administration from 1971 to 1980. I held several jobs, including being Chief Actuary, Deputy Administrator and Federal Insurance Administrator under Presidents Ford and Carter I also served as the Texas Insurance Commissioner during 1993 and 1994.

Low-Ball Claims

History seems to be repeating itself. Similar to your findings, in the early 1970s I found private insurance carriers refusing to pay legitimate claims out of concern for setting precedent related to similar language in their homeowners insurance policies. In fact, they told me so point blank. At the time the private carriers were members of the National Flood Insurers Association ("NFIA"). NFIA members were refusing to pay claims related to evacuations. I asked the General Counsel of HUD (the agency in which the FIA was located prior to being sent into FEMA) to review the matter to determine if our interpretation of coverage was correct. He agreed and issued orders for NFIA to pay the claims. NFIA refused and we began a process to have them kicked out of the program, which was accomplished in the late 1970s. Upon receipt of bids from contractors NFIP's costs dropped by about fifty percent and the Chair of our oversight committee, the Senate Banking Committee, Senator Proxmire, the creator of the "Golden Fleece Award" awarded me with the one and only (as far as I recall) "Golden Taxpayer Savings Award."

Congressional Intent

During my tenure the NFIP operated according to the Golden Rule. Our claims adjusters were told to treat the insureds as they would want to be treated had they had a claim and were not insurance experts. Our role was to help the insured in any way we could. We believed inasmuch as the NFIP policy was drafted by FEMA we had to rely upon the usual legal approach when there is a contract of adhesion situation. Accordingly, any ambiguity in the agreement was ruled in favor of the party that did not participate in

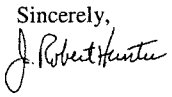
drafting the policy – the insured. Under my tenure the policyholders were always restored to their pre-flood condition, less their deductible. We had very little litigation.

Training Disparity

I understand Senators Mikulski, Sarbanes and Dole have recently called for a DOJ investigation. If the training disparity exists as your information indicates, I believe fraud may have occurred on a large scale. I agree with you if such practices are occurring the FTC should also be made aware inasmuch as the private carriers are advertising insurance replacement coverage they later indicate never existed.

I commend your efforts to fight this battle on behalf what may be many wronged Americans who trust their government to run this insurance program in an exemplary way. You and Beth Midgitt have made a real difference for thousands of victims. Please let me know if I can help you in any way.

Sincerely,



J. Robert Hunter
Director of Insurance

cc: Beth Midgett

Testimony of
David I. Maurstad
Acting Director and Federal Insurance Administrator
Mitigation Division
Federal Emergency Management Agency
Emergency Preparedness and Response Directorate
Department of Homeland Security
before
The U.S. House of Representatives
Financial Services Committee
Subcommittee on Housing and Community Opportunity
April 14, 2005

Good morning Chairman Ney, Ranking Member Waters, and Members of the Subcommittee. I am David I. Maurstad, Acting Director and Federal Insurance Administrator of the Mitigation Division of the Emergency Preparedness and Response Directorate of the Department of Homeland Security, which includes the Federal Emergency Management Agency (FEMA). I appreciate this opportunity to appear today before the Subcommittee on Housing and Community Opportunity.

First, let me thank this Subcommittee for the work it accomplished last year by reauthorizing the National Flood Insurance Program (NFIP or the Program) through Fiscal Year (FY) 2008. I appreciate the confidence that the Congress and the President demonstrated through the reauthorization and the stability gained through a multi-year reauthorization.

The Flood Insurance Reform Act of 2004 enhanced the existing Flood Mitigation Assistance programs and authorized a pilot and individual grant program for reducing severe repetitive flood loss properties. The President's

FY 2006 Budget Request includes an additional $8 million for the enhanced Flood Mitigation Assistance program and we are working on options that may allow us to implement the pilot program.

When I accepted the position of Acting Director of Mitigation in June 2004, the NFIP became one of my most important responsibilities and top priorities. I have 20 years of experience in the insurance industry, and I look forward to using that experience to help build on the Program's past success.

I have found that the NFIP has been successful throughout its 37 year history in part because the Program has integrated 95 of the country's property insurance companies into its operation. These insurance providers, known as Write Your Own (WYO) companies, sell and service approximately 95 percent of the 4.7 million policies in force. Under our arrangement with them, it is the responsibility of the WYO companies to sell and service the flood insurance policies that the Federal Government underwrites, and it is FEMA's responsibility, through the NFIP, to ensure their performance. To that end, FEMA conducts regular audits to assure that each company is meeting its performance objectives and adhering to Program policies. During my tenure, I have met with the leading WYO companies to strengthen relationships and reinforce their commitment to the Program.

The NFIP has also been successful in encouraging communities to manage their risks. This year the NFIP achieved a significant milestone and now has over 20,000 communities that participate in the Program by adopting and enforcing floodplain management regulations to reduce future flood damages.

It is estimated that approximately three million buildings have been built throughout the Nation in accordance with these floodplain management regulations and that over $1.1 billion in flood damages are prevented annually. By working with these communities in partnership with the States, the NFIP has mitigated 10,000 repetitive loss structures. Structures built to NFIP criteria experience 80 percent less damage through reduced frequency and severity of losses.

Another successful component of the Program is the Community Rating System (CRS). The CRS was implemented in 1990 to recognize and encourage community floodplain management activities that exceed the minimum NFIP standards. Currently, there are over 1,000 communities receiving flood insurance premium discounts based on their implementation of local mitigation, outreach, and educational activities that go well beyond minimum NFIP requirements. Although premium discounts are one of the benefits of participation in the CRS, the main benefit to the NFIP is that these communities have taken the initiative to go beyond the Program minimimum standards and are carrying out floodplain management activities that save lives and reduce property damage. These communities represent a significant portion of the Nation's flood risk as evidenced by the fact that they account for over 66 percent of the NFIP's policy base.

One of my goals is to ensure that flood insurance claims are handled fairly, equitably, and expeditiously. Based on my experience, I have found that the NFIP meets or exceeds industry standards in terms of claims handling. But I

want this Subcommittee to know that I am always interested in challenging myself, my staff, and our partners to do even better.

Last year, the NFIP experienced a catastrophic loss year, due primarily to a historic hurricane season. The NFIP received approximately 59,000 flood insurance claims last year and we anticipate paying $ 1.6 billion to resolve these claims. This level of claim activity represents a significant loss year for the NFIP and, as a result, the Program has exercised its borrowing authority in the amount of $200 million to date. This is the fourth time since 1990 that the Program has been in a position of borrowing. As with the previous times, we anticipate repaying,with interest, the current Treasury debt .

The claims adjustment process associated with flood loss has not been without its critics. For example, after Hurricane Isabel, in September 2003, there were a number of concerns raised. These concerns received a significant level of attention from policyholders, local and State officials, and Congress. As a means of addressing these concerns, FEMA created a Task Force that undertook an unprecedented review of the Hurricane Isabel claims for every policyholder who requested it. To ensure that policyholders were aware of this review option, FEMA implemented an outreach strategy that consisted of a targeted series of community meetings, newspaper ads, press releases, and a toll-free number to field policyholder questions as well as initiate a request for review. FEMA mailed approximately 24,000 letters, received over 4,300 calls, and held over 40 outreach sessions in three States. As a result of this effort, nearly 2,250 policyholders have requested and received an additional review of their claim, of which 1,101 received an

additional payment. The amount paid for these additional payments represents less than two percent of the $453 million paid in claims for Hurricane Isabel.

It is my assessment that there is a fundamental misunderstanding of the intent of the NFIP. For example, some policyholders believed that if they paid premiums for a $250,000 limit of coverage on their dwelling, they were entitled to a $250,000 claims payment regardless of the actual flood damages sustained. Another common misconception is that the original intent was to restore homes or property to what has been referred to as "pre-flood condition". My review of the legislative history, Committee Reports, the statute, the Standard Flood Insurance Policy, and how the Program has been administered since its inception clearly indicates that the NFIP was never intended to restore policyholders to pre-flood conditions – it was designed to help them recover.

There is a high risk associated with flood losses. Prior to the establishment of the NFIP, a flood insurance policy was expensive and generally unavailable. In response to the high risk associated with mounting flood losses, Congress created the NFIP in 1968. The design of the Program, as cited in Section 1302 of the National Flood Insurance Act of 1968, was to provide "a reasonable method of sharing the risk of flood loss ...". The 1968 Act created a flood insurance mechanism but tied the availability of this insurance to a community's management of its flood risk. As stated previously, the NFIP's standards for new construction are now saving an estimated $1.1 billion annually in flood damages avoided. Additionally, it should be recognized that since 1968 the NFIP paid out, from policyholder

funding, about $14 billion in insurance claims, which otherwise would have greatly increased taxpayer-funded disaster relief.

The Standard Flood Insurance Policy has specific limitations in coverage for high risk areas such as basements and areas below an elevated building. The Standard Flood Insurance Policy also does not provide for additional living expenses (unlike a typical homeowners policy) and only allows replacement cost coverage in certain circumstances. There is a statutory limit on building coverage of $250,000 for residential buildings and $500,000 for commercial buildings. More significantly, FEMA regulations specify that communities require flood prone properties be brought into compliance when a structure is substantially damaged. However, the Program only provides partial funding for the cost of complying with that requirment. These provisions are indicative of the Program's intent to share the risk associated with floods and to keep the cost of flood insurance affordable.

The NFIP provides flood insurance training opportunities for insurance agents via live seminars across the Nation and online training modules are available to agents at any time. Both beginning and advanced flood insurance training topics are provided to interested agents. Since the States have the responsbility for licensing and continuing education requirements, we are working with them to develop training standards. In most States, agents earn continuing education credit for attending the NFIP training seminars.

We continue to have ongoing communication with the State Insurance Commissioners through the National Association of Insurance Commissioners. I addressed the Commissioners Roundtable on March 15, 2005, and discussed our plans to work jointly with them to implement the requirements for agent training and education outlined in Section 207 of the Flood Insurance Reform Act of 2004.

I want to again thank the Subcommittee for its work in reauthorizing the NFIP last year, and its constructive criticism and support of the Program over the years. I would be happy to answer any questions that you may have.

MARYLAND

2005 REPORT OF THE MARYLAND INSURANCE ADMINISTRATION ON THE EXPERIENCE OF MARYLAND CITIZENS WITH THE NATIONAL FLOOD INSURANCE PROGRAM IN THE AFTERMATH OF HURRICANE ISABEL

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Robert L. Ehrlich, Jr., Governor *Michael S. Steele, Lt. Governor*

Alfred W. Redmer, Jr., Commissioner
James V. McMahan, III, Deputy Commissioner

Testimony Before:
Subcommittee on Housing and Community Opportunity,
Committee on Financial Services,
U.S. House of Representatives

MARYLAND'S EXPERIENCE WITH THE NATIONAL FLOOD INSURANCE PROGRAM

APRIL 14, 2005

STATEMENT OF ALFRED W. REDMER, JR.
MARYLAND INSURANCE COMMISSIONER

Thank you Chairman Ney and other Sub-Committee members for the opportunity to testify before you today on behalf of the citizens of the State of Maryland with respect to their experiences with the National Flood Insurance Program, also known as the NFIP, following Hurricane Isabel.

On September 18 and 19, 2003 Hurricane Isabel impacted numerous states along the East Coast, including Maryland. The devastating effect Isabel had on property along the Chesapeake Bay was unprecedented. The Maryland Insurance Administration spent the weeks and months following the hurricane assisting storm victims all over the State informing them of their rights and coverages under their insurance policies and answering their claims questions. I think it is important to first point out that 18 months after Isabel we still have a number of Marylanders displaced and living in FEMA trailers who are not satisfied with the settlements they have received from the National Flood Insurance Program.

Through its outreach efforts, the Administration had the unique opportunity to hear first hand the frustration of those consumers whose attempts to rebuild were made even more difficult by the challenges of dealing with their insurance companies and the National Flood Insurance Program. The Administration attempted to assist Marylanders to understand their flood policies and tried to facilitate discussion between the consumers and the NFIP.

Under the direction of Governor Robert L. Ehrlich, Jr., the Administration worked with other state agencies to pool resources together to serve the citizens of Maryland. As a result, as of April 5, 2005 the Administration had processed 1,418 intake files and 508 formal complaints relating to Isabel. Of that total, 636 intakes and 137 complaints were directly related to the National Flood Insurance Program. In those 137 complaints, the individuals were able to obtain almost one million dollars in additional payment for their claims. While I do not have an actual dollar amount, I can tell you that additional payments totaling hundreds of thousands, if not millions, were made on many of the 636 intakes in which we assisted.

In an attempt to address many of the concerns that consumers had with the flood program, a number of federal, state and local officials, including myself, brought those concerns to the attention of the Federal Insurance Administrator. As a result, the NFIP agreed to reevaluate the flood claims to determine whether additional payments should be made. While the reevaluations did assist some citizens, its implementation was problematic and some insureds still have not recovered what they believe they are entitled to under the policy. A number of Marylanders had no choice other than to seek legal recourse to attempt to obtain the coverage they believe they are entitled to under their flood policy.

In response to continued widespread complaints of low or insufficient claim settlements, the Administration conducted an additional review into the process by which claims submitted to the NFIP were handled. Although the Administration does not have jurisdiction over the Federal Government's flood program, it decided,

nevertheless, to conduct a review of the program to determine if there were areas where the program could be improved for the consumers who utilize it. During this review, the Administration interviewed various Write Your Own ("WYO") carriers, contractors, flood program claims adjusters and software companies that provide flood claims adjusting software.

In addition, I have met with Steve Kanstoroom, who has been an advocate for consumers not only in Maryland but across the country. Mr. Kanstoroom has been investigating FEMA related issues for the past year. He has spent a great deal of time meeting with consumers and others gathering data and compiling information related to the problems which individuals have had in settling their flood claims. Mr. Kanstoroom's experience in pattern recognition and fraud detection has allowed him to review this material with a degree of expertise, which has been extremely helpful in determining what problems exist with the flood program.

The Administration's investigation found a number of areas within the Flood Program that need review. These are specifically detailed in the *2005 Report of the Maryland Insurance Administration on the Experience of Maryland Citizens with the National Flood Insurance Program in the Aftermath of Hurricane Isabel.*

In the invitation to testify before this Committee, you asked me to address four key areas of concern. Given the limited time available today, it is difficult to fully address those issues; however, the Administration's 2005 Report, of which you have been provided copies, does address each of these concerns in great detail. I will just take a few minutes to give you a brief overview of the problems that we found to be most prevalent and of primary concern. I will conclude my testimony with my recommendations for changes to the Program.

PROBLEMS

1. Delay in assistance and lack of trained agents and adjusters that could provide accurate information.

The first problem consumers encountered occurred when they attempted to report their loss. Although they were told to first report the loss to their agent or insurer, many individuals found that their agents were unfamiliar with the flood program and were unable to advise them how to process their claim. Also, although the NFIP manual states that critical losses were to be inspected within 48 hours of receiving notice of the loss and others within one week, many individuals reported that weeks passed without receiving any contact from an adjuster. While the size of this disaster to some degree contributed to this problem, it appears that there is a shortage of experienced adjusters able to handle the claims.

The lack of an official claims process and manner to appeal the amount of payment was also apparent. Neighbors who had different adjusters were provided conflicting information, which was even more problematic due to the lack of any

written claim procedures. Many individuals felt that their adjusters were making it up as they went along. The inconsistencies became more apparent once the re-review process started.

In many instances, consumers, for the first time, learned what was actually covered in their policy. Many had not been offered contents coverage and a large number found that their policies had been improperly rated and would not be entitled to receive payment for their claim until additional premium was paid. It became clear that the agents not only were unprepared for the role they were to play in facilitating the payment of the claims, but also had contributed to the delays and misfortune experienced by their clients. To combat this problem, the Maryland General Assembly, at the request of the Administration, enacted legislation requiring specific flood insurance continuing education for all agents who sell flood insurance every license renewal cycle. The Administration has worked collaboratively with producer groups to make certain that these courses were offered to agents on a regular basis.

2. Lack of uniformity in claims estimates and confusion over the use of pricing guidelines.

The Administration also discovered that some claims adjusters did not fully understand what the standard flood insurance policy covered, how to use the Pricing Guide provided by the NFIP vendor and how to process claims in a timely manner. There were questions raised in the immediate aftermath of the storm regarding whether the policy provided coverage for oil tanks located on the outside of the dwellings, the removal of contaminated soil under the dwellings, and mold and mildew remediation, to name just a few concerns. In certain instances, the NFIP itself reversed its position on coverage, and often, information on those coverage reversals was slow to reach the adjusters. This caused confusion among the insureds, some of whom received the new and correct information from their adjusters, while others were provided the prior, mistaken coverage decisions.

In a similar fashion, some adjusters, armed with the NFIP Pricing Guide, insisted that the only amounts payable for a sheet of plywood, drywall or other construction materials were those contained in the Guide. When demand for those materials rose, and the supplies on hand in local stores were depleted, the laws of economics set in, causing prices to increase. Adherence to the Pricing Guide by adjusters caused shortfalls in the settlements to the insureds, even after evidence of the cost increases and the unavailability of materials at the estimated prices was repeatedly furnished. Finally, on May 7, 2004, nearly eight months after the storm, FEMA issued a Bulletin which indicated that the "Pricing Guide" was to be used with "discretion and flexibility"; however, by this time, many of the re-reviews had already taken place, and as a result, it was too late to avoid the frustration, confusion and anger of the claimants.

We have also heard allegations that victims were told: a) their replacement cost (RCV) policies are subject to depreciation; b) they are not entitled to sales tax; c) the policy only pays for items directly contacted by flood waters, and d) the NFIP is free to use new construction prices in lieu of more costly repair and renovation prices. As a result, Maryland has been left with many families unable to rebuild their homes and lives after receiving pennies on the dollar for their flood claims.

3. Due to lender requirements consumers are insured for amounts that they will never be able to obtain under the flood policies.

This issue may be the most problematic for many flood insurance policyholders. Prior to the settlement on the property, many insureds were advised by their lenders of the dollar amount of coverage, or limit, that must be purchased to secure financing and proceed to closing. As is often the case with waterfront properties, there is a great deal of value in the land itself, which is not covered under the flood insurance policy. When a loan is secured by both the land and the dwelling, the loan amount can, and very well may, be in excess of the replacement cost of the dwelling.

Most lenders advise that the limit of insurance must equal the amount of the loan; however, this will result in over insurance, especially if the value of the dwelling is not high. When a flooding event occurs, and the property is considered to be damaged beyond repair, the policy provides for the replacement cost of the dwelling. Unreasonable expectations follow; especially if the 1,000 square foot home was insured for $200,000, and the settlement offered equals $100,000. In accordance with the provisions of the policy, $100,000 is the amount deemed necessary to replace the dwelling to its pre-loss condition. Many claimants found themselves in just this situation: paying a premium for coverage that they could never obtain, yet frustrated and angry because the amount being offered was deemed insufficient to rebuild, based upon the factors I previously highlighted. Inconsistent language, rules and guidelines in the NFIP/FEMA manuals and publications contribute to the over insurance problem and must be addressed.

4. Failure of the NFIP to implement the Program as Congress intended.

Although FEMA apparently disputes the legislative intent of the NFIP to restore claimants to their pre-flood condition, according to Senate Report 90-549 and House Report 90-786, "NFIP is a federal insurance program that provides flood insurance to over 4.4 million property owners across the United States. This program was established in 1968 to 'provide the necessary funds promptly to assure rehabilitation or restoration of damaged property to pre-flood status or to permit comparable investment elsewhere'." Over the last eighteen months, the Maryland Insurance Administration has assisted hundreds of Marylanders who filed complaints stating that they received insufficient funds or inappropriate settlements in accordance with the terms of their flood insurance policies. In many cases, these

allegations have been substantiated through the re-review process as additional sums have been paid to consumers. It appears that with respect to Hurricane Isabel claims, the intent of Congress was not met.

Conclusions and Recommendations

Many factors caused these problems with the Program: inadequate consumer education, inconsistencies in pricing guidelines and claims estimates, a shortage of trained adjusters, and a confusing and complicated bureaucracy that is difficult for the average consumer to navigate. The result is that consumers have been offered insufficient settlement amounts from the NFIP. For those Maryland citizens who are still displaced, the NFIP must take steps to review the claims again in an effort to ensure consistency and fair value in accordance with our recommendations. For future natural disasters, Congress should take the appropriate legislative action necessary to reform the NFIP by considering and implementing the recommendations contained in the Administration's 2005 Report, including those set forth below:

1. Concerns about the Administration of the NFIP, including understanding by consumers and agents.

   - Assure that there is full disclosure of the difference between contents and structural coverage by requiring the signature of the insured on the application or other documents that explain and waive contents coverage.

   - Provide to policyholders at time of sale, a Frequently Asked Questions ("FAQ") booklet or another easy to understand document that explains what is and what is not covered by the flood policy and how claims will be handled and paid under the policy. There should be a place on the document the purchaser signs where there is also a sign-off that the FAQ materials were given.

   - Explain that a 30-day underwriting waiting period exists before the coverage becomes effective, unless the property is newly purchased and the policy must be procured in accordance with federal lending requirements.

   - Assure that policyholders understand how the depreciation system works, i.e. that full replacement cost will not be paid until repair or rebuilding work is completed. This could cause a cash flow problem for the policyholder if damage is incurred.

2. Problems with the appeals process and adequacy of payment.

   - Conduct a review of the policy provision that allows the insurance company to delay the settlement of a claim relating to the loss of contents pending the resolution of a claim relating to damage to the insured structure.

- Consider amending the portion of the policy which states that repair or rebuilding of damaged or lost property will be made with material of "like kind and quality or its functional equivalent" by deleting the "functional equivalent" statement. An example is a kitchen with granite countertops, which is valued by the appraiser for the value of Formica countertops. Both are functional equivalents, but while they may be "like kind," they are certainly not "like quality."

- Establish a time deadline for inspection of damage and for the settlement of claims.

- Require that, when a claim is made, companies immediately provide the claimant with a document that explains in clear and simple language the claims adjustment process, including how the claimant can challenge the decision of the original adjuster.

- Create a formal appeals process for policyholders. Tell policyholders *in all printed materials* that they are entitled to ask for a General Adjuster to review the insurance company's adjuster's decision. Currently there is NO formal appeals process for policyholders who do not agree with the decision of the insurance company adjuster. In fact, the NFIP policy itself has neither a telephone number to call nor address to write directly to NFIP for inquiries. Require contact information, including a telephone number and email address that policyholders can use if they have questions concerning coverage or the appeals process.

- Require that claim denial letters give clear and specific explanations of the basis for the denial and include instructions for contesting the denial.

- Eliminate the use of the Pricing Guidelines or alternatively the FCPRP must be clarified to indicate that the Pricing Guidelines are not used for auditing purposes. This change will allow adjusters more liberty to adjust the costs of materials to reflect increased prices that almost always occur after a flood event.

- Require that people be told that even after they sign the proof of loss statement, they can reopen their claim if material and building costs increase. Policyholders can ask for a variance (with receipts for proof), even after construction has been completed, but many do not know this.

- Require specific instructions that explain what a policyholder's appeals rights are, including what legal action can and cannot be taken against the WYO, FEMA, or NFIP. While FEMA may believe the National Flood Insurance Act made clear that Congress intended lawsuits only on a disallowance of a claim and that by creating the WYO program they did not intend to expand

the areas in which policyholders could bring suit, insureds do not understand the narrow interpretation of sovereign immunity in these cases.

- Additionally, FEMA should consider allowing states to have more regulatory oversight of the flood program with respect to the claim process.

3. Lack of coordination between private insurers, NFIP and FEMA.

- Develop a clear process or procedure for amending the terms of a policy if it is determined that the property is over insured.

- Conduct an exhaustive review of the terms and conditions of the policy in light of the types of properties located in the flood zones, (i.e. those with oil tanks located on the outside of the dwelling) and the value of the properties and the coverage provided (i.e. no coverage for contents in basement or lowest level). The review should include an analysis of the items that are currently covered and excluded.

- Correct the Lenders Manual and The Flood Insurance Manual to remove any inconsistencies in how to calculate replacement cost.

- Develop a replacement cost estimator specifically designed for the coverage provided by the NFIP in conjunction with a company such as Marshall & Swift/Boeckh.

- Require Write Your Own (WYO) companies to audit policies at the time they are purchased to make certain appropriate rating and classification criteria (such as flood zone designation) have been applied and appropriate premium has been charged.

- Reassess the requirement that in order to get a Small Business Administration (SBA) loan, an NFIP policyholder who did not previously have contents coverage may be required to purchase a contents policy even if the structure is not currently inhabitable and there are no contents to insure at that point.

- Re-evaluate the training, certification and pay scale and methodology for flood adjusters. Consideration should be given to the role of adjusting firms and the costs associated therewith.

- Communication between NFIP and its contractor, CSC, needs to be improved to ensure that policy decisions regarding coverage are consistently implemented and adopted by CSC.

- Establish a uniform estimate/"proof of loss" format. Each software company indicated that incorporating a standard format, as prescribed by FEMA, could be easily accomplished. The format should include:

  - Uniform use of terms;

  - Indication of which prices were manually adjusted or overridden by the adjuster;

  - Override explanation: when a price is overridden, the software needs to provide a field for an explanation and it must be mandatory that the field be completed by the adjuster; and

  - Notation as to which pricing database was used at the time the claim was adjusted.

4. Adequacy of Agent Training

- Require that consumer education be provided by the producer at the inception of the policy, and Question and Answer documents, newsletters, etc. should be sent at renewal to the consumer. Flood damage mitigation and prevention tips should also be provided.

- All agents that sell flood insurance should be required, as they now are in Maryland, to take continuing education courses when they renew their license to sell insurance.

Congress should also consider any recommendations offered as a result of the pending GAO audit, and seek input from other insurance regulators and the Catastrophe Insurance Working Group of the National Association of Insurance Commissioners. Thank you for the opportunity to appear before you today and offer you my recommendations, which I firmly believe are necessary for the flood program to provide the type of assistance to citizens that Congress intended when the Program was created.

MARYLAND

2005 REPORT OF THE MARYLAND INSURANCE ADMINISTRATION ON THE EXPERIENCE OF MARYLAND CITIZENS WITH THE NATIONAL FLOOD INSURANCE PROGRAM IN THE AFTERMATH OF HURRICANE ISABEL

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EXECUTIVE SUMMARY

Hurricane Isabel resulted in unprecedented damage to property along the waters of the Chesapeake Bay. Through its outreach efforts, the Maryland Insurance Administration (the "Administration") had the unique opportunity to hear first hand the frustration of those consumers whose attempts to rebuild were made even more difficult by the challenges of dealing with their insurance companies and the National Flood Insurance Program ("NFIP").

Maryland Insurance Commissioner, Alfred W. Redmer, Jr., distributed preliminary findings of the Administration to the Maryland Congressional Delegation on March 4, 2004 (the "Delegation Report"). The Delegation Report may be found on the Administration's website at www.mdinsurance.state.md.us. On June 30, 2004, President George W. Bush signed legislation that requires the Comptroller General of the United States to perform or conduct a comprehensive review of various aspects of the NFIP. Concurrently, the Administration continued its efforts and conducted an additional review of the complaints filed with the Administration and of the methodology used to process flood claims.

The Administration's investigation addressed the operations of several major Write Your Own ("WYO") carriers and their employees, as well as third party adjusters and a detailed evaluation of the complaint information received from Maryland consumers. WYO carriers offer flood insurance to eligible persons under an arrangement with the Federal Emergency Management Agency ("FEMA"). Additionally, the Administration interviewed representatives from various software companies who provide the adjusting software commonly used to adjust flood claims. Based on the review findings, the Administration reached the following conclusions:

- Because of differences between homeowners and flood policies, many consumers are surprised to learn that certain items and repairs are not covered under their flood policy;
- There is no clear process or procedure for amending the terms of a policy if it is determined that the property is over insured;
- Multiple layers of bureaucracy provide numerous opportunities for claims to be delayed;
- There is confusion among flood adjusters as to the appropriate use and role of the NFIP pricing guidelines;
- Many pricing anomalies are a result of adjusters' errors including, but not limited to, improper use of the adjusting software, hesitation to deviate from the NFIP published pricing guidelines and inadequate training or understanding of the flood program;

- Consumers often receive inaccurate or conflicting information from adjusters, producers, WYO carriers and FEMA representatives regarding the flood program;
- Claim estimates are not uniform and vary in their terms and format, resulting in inconsistency and consumer confusion.

INTRODUCTION

On September 18 and 19, 2003, Hurricane Isabel impacted numerous states along the East Coast, including Maryland. The devastating effect Isabel had on property along the Chesapeake Bay was unprecedented.[1] The Administration spent the weeks and months following the hurricane staffing the 15 Disaster Recovery Centers which were established expressly to assist storm victims.[2] In addition, the Administration assisted in the coordination of community meetings throughout the affected areas of the state. These meetings were held in conjunction with briefings with local government officials to facilitate communication between victims, local governments and the federal government. The Administration's role in the case of an emergency that involves insurance is to help citizens by informing them of their rights and coverage under their insurance policies and to assist them when they have problems with their claims. Also, the Administration created a special intake system to handle storm-related questions, concerns and complaints of Maryland consumers. A detailed outline of the Administration's actions to assist Maryland victims of Hurricane Isabel from the days just prior to the storm through September 2004 is found as Exhibit 1.

In addition to providing direct assistance to Maryland consumers, Insurance Commissioner Redmer also met with the Federal Insurance Administrator and the Maryland Congressional Delegation to discuss his findings and recommendations. A copy of the report provided to the Maryland Congressional Delegation is attached as Exhibit 2.

On March 23, 2004, Commissioner Redmer and representatives of the Federal Insurance and Mitigation Administration held a focus group meeting which allowed the officials to hear first hand the problems the citizens had encountered getting their flood insurance claims paid. The Administration also provided copies of intakes and complaints to the NFIP so that they could be reviewed to determine what changes in the procedures and policy were appropriate. Due to the ongoing

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[1] For a detailed description of the impact Hurricane Isabel had on Maryland, see *Lessons Learned from Tropical Storm Isabel, Improving Disaster Management in Maryland* available on the Maryland Department of Planning's web site at www.mdp.state.md.us.

[2] Historically, the Administration's efforts following a flood have been limited to manning disaster recovery centers. In the past, the Administration has received complaints regarding the Federal Flood Program, however, those complainants were advised that the Administration did not have jurisdiction over the Federal Flood Program and the complaints were forwarded to the NFIP for handling.

complaints and concerns regarding the flood insurance settlements, the Commissioner requested the NFIP to reevaluate the claims of Isabel flood victims. After this meeting and as a result of the concerns expressed by federal and state government officials, including the Commissioner, the NFIP announced that it would reevaluate all flood claims from Hurricane Isabel to determine whether additional payments should be made.

In response to continued widespread complaints of low or insufficient claim settlements, the Administration conducted an additional review into the process by which claims submitted to the NFIP were being handled. Although the Administration does not have jurisdiction over the Federal Government's flood program, it decided nevertheless to conduct a review of the program to determine if there were areas where the program could be improved for the consumers who utilize it. During this review, the Administration interviewed various WYO carriers, contractors, flood program claims adjusters and software companies that provide flood claims adjusting software.[3]

As of April 5, 2005 the Administration had processed 1,418 intake files and 508 formal complaints relating to Isabel. Of that total, 636 intakes and 137 complaints were directly related to the NFIP. On a national level, the NFIP has paid out $441,676,488 on 19,344 losses as a result of Hurricane Isabel.[4] That makes Isabel the third most costly flood event between 1978 and October 30, 2004 based on losses paid by the NFIP. Only Tropical Storm Allison in 2001 ($1,094,461,572 in paid losses) and the Louisiana Flood of 1995 ($584,140,014) were more costly.[5]

BACKGROUND

History

The NFIP was initially created by Congress in 1968 to provide insurance coverage for residential and commercial properties for flood damage because coverage was generally not offered by the private insurance industry as it was not profitable. Congress enacted the National Flood Insurance Act of 1968 in response to increasing costs of taxpayer funded disaster relief for flood victims and the increasing amount of damage caused by floods.

The 1968 Act made federally subsidized flood insurance available to owners of improved real estate or mobile homes located in a floodplain if their community

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[3] It should be noted that various adjusters refused to be interviewed by the Administration. Therefore, the findings contained in this report are drawn from those individuals and organizations that agreed to be interviewed.

[4] *Significant Flood Events, 1978 – October 31, 2004*, last updated Tuesday, 07-Dec-2004. FEMA Website.

[5] Id.

participated in the NFIP. From 1968 until the adoption of the Flood Disaster Protection Act of 1973, the purchase of flood insurance was voluntary.

The 1968 Act was significantly amended by the 1973 Act by adding mandatory purchase requirements for properties in flood prone areas where the purchaser sought either a mortgage from a federally regulated lending institution or federal assistance. The 1973 Act mandated flood insurance coverage for many properties in flood prone areas that were not covered under the voluntary program. For the first time, regulated lending institutions could not make, increase, extend, or renew any loan secured by improved real estate located in a Special Flood Hazard Area ("SFHA") in a participating community unless the building and any personal property securing the loan had flood coverage for the term of the loan.

The 1973 revisions were necessary because, after major flooding disasters, it became evident that relatively few individuals in eligible communities who sustained flood damage had purchased flood insurance. Flooding in the Midwest in the summer of 1993 resulting in multi-billion dollar flood losses prompted further amendments because only an estimated 20% of households in those flood zones had coverage.

In 1994 the Congress enacted the Riegle Community Development and Regulatory Improvement Act which revised the NFIP by putting new obligations on federally regulated lenders, their servicers and secondary market purchasers. The 1994 provisions included mandatory escrow requirements for flood insurance and provisions for forced-placement of flood insurance if the policy lapsed or was cancelled.

Federal Preemption

Federal law expressly preempts state law when a statute or regulation contains explicit language that federal law governs the matter. With regard to claim payments, the application of state law to federal flood insurance claims is expressly preempted by federal regulation. With regard to the handling of claims, express preemption also exists as to all policies issued after December 31, 2000. This is the date that a new FEMA regulation took effect that amended the Standard Flood Insurance Policy to add the provision: "all disputes arising from the handling of any claim under the policy are governed exclusively by the flood insurance regulation issued by FEMA, the National Flood Insurance Act of 1968, as amended (42 U.S.C. §4001, et seq.) and Federal common law" For policies issued before January 1, 2001, preemption of state law exists because, as the overwhelming majority of courts considering the issue have held, state regulation of claims handling in this area would frustrate and obstruct the objectives of the federal program and, thus, conflict with federal law.

In the case of C.E.R. 1988, Inc. v. The Aetna Casualty and Surety Company (2004), the United States Court of Appeals for the Third Circuit reviewed the relevant case law and statutes on the issue of federal preemption of state law when a flood insurance policy holder files a tort claim for the mishandling of the flood loss claim. 386 F.3d 263 (3rd Cir. 2004). In its 2004 opinion, The Court held that state law is preempted based on conflict preemption stating: "we conclude that the application of state tort law would impede Congress's objectives. Indisputably a central purpose of the Program is to reduce fiscal pressure on federal flood relief efforts . . . State tort suits against WYO companies, which are usually expensive, undermine this goal." 386 F.3d at 270.

Insurance companies are authorized to write insurance in Maryland by issuance of a certificate of authority by the Insurance Commissioner. The Maryland laws found in the Insurance Article regulate these insurers and the insurance policies issued by them. The flood insurance policies issued by a Maryland authorized insurer that is also a WYO company are a clear exception to the authority of the Insurance Commissioner over insurers, the policies they issue and their handling of claims and other matters.

The Insurance Article imposes a variety of obligations on insurers that do business in the State. Those obligations include laws that direct the manner in which claims made under policies issued by those insurers must be processed and paid. See Ins. Art. §§27-303 and 27-304. An insurer that fails to comply with those legislative directives may be ordered to pay the claim and is subject to administrative action ranging from the revocation of its certificate of authority to the imposition of a monetary penalty, not to exceed $125,000 per incident.

Lenders

When the National Flood Insurance Act of 1968 was amended in 1973 by the Flood Disaster Protection Act of 1973, Congress added the mandatory purchase requirements for properties in flood prone areas. Under these provisions the purchaser who sought either a mortgage from a federally regulated lending institution or received federal assistance was subject to the regulations. The mandatory purchase laws require the federal agencies regulating federal lending institutions and Government Sponsored Enterprises (GSEs), Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac), to adopt regulations requiring lenders to require borrowers to purchase flood insurance if the subject property is in a flood zone.

In 1994, Congress enacted the Riegle Community Development and Regulatory Improvement Act which revised the NFIP by putting new obligations on federally regulated lenders, their servicers and GSEs.. The federal agencies that regulate lenders were charged with implementing the stricter mandatory flood

insurance purchase requirements. The 1994 Act newly imposed flood insurance escrow requirements and requirements for forced placement of flood insurance. Also, it is a prerequisite that a designated loan have flood insurance as a condition of closing. If a borrower will not voluntarily obtain coverage and a lender is unable to force place coverage, the lender must deny the loan or exercise the sanction provisions of the loan document if the loan has already been made. Additionally, flood insurance is required to be maintained during the term of the loan.

The 1994 Act requires Federal agency lender regulators to develop regulations to direct their federally regulated lenders not to make, increase, extend, or renew any loan on applicable property unless flood insurance is purchased. The proposed regulations were jointly issued by the federal agencies in October 18, 1995. It is significant to note that the 1994 Act's directives and prohibitions are applicable to federally regulated primary lenders and to secondary market entities involved in mortgage loan transactions. The flood insurance requirements do not apply to lenders or servicers that are not federally regulated and that do not sell loans to Fannie Mae and Freddie Mac or other GSEs.

FEMA's primary means of communicating the flood insurance requirements to lenders, the federal agencies regulating lenders and GSEs is through a publication entitled, "Mandatory Purchase of Flood Insurance Guidelines". Following the enactment of the 1994 Act, the Guidelines were revised and reformatted and republished in September 1999. Apart from the Guidelines, FEMA provides education on the requirements through workshops or articles in trade publications.

The Guidelines advise lenders that they should use the same general business practice used for calculating hazard insurance when calculating flood insurance coverage, and that the lender should take into account "the extent of recovery allowed under the NFIP policy forms."

Under the Federal laws, the key requirement for flood insurance covering improvements to property in flood areas is the lesser of "an amount at least equal to the outstanding principal balance of the loan" or $250,000, the maximum amount currently available under federal law. This formula represents a floor and it is not reflected in the actual coverage provided by FEMA through the Standard Flood Insurance Policy Dwelling Form for residential property. The Loss Settlement provisions of the Standard Policy favor insureds who have purchased flood insurance that is at least 80% of the full replacement cost immediately before the loss. The secondary mortgage market has incorporated the 80% of replacement cost into their requirements and use that amount of insurance as a minimum.

RECENT LEGISLATION

The NFIP required congressional reauthorization before June 30, 2004, when the program was scheduled to expire and flood insurance would no longer be available to new homeowners. On June 30, 2004, President George W. Bush signed into law the Flood Insurance Reform Act of 2004 (FIRA). The main purposes of the FIRA are: 1) to reauthorize the National Flood Insurance Program through September 30, 2008; 2) to establish a pilot program aimed at mitigating the damage and costs associated with repairing properties with severe repetitive flood losses; and 3) to improve consumer understanding and rights of NFIP policyholders.

Subsequent to the Administration's investigation, but prior to the issuance of this report, the United States Congress passed legislation that will require, among other things, the Comptroller General of the United States to conduct a study to review:

- the adequacy of payment to flood victims;
- the adequacy of the scope of coverage provided under flood policies;
- the practices of FEMA and insurance adjusters in adjusting losses incurred as a result of a flood; and
- how such practices affect the adequacy of payment to flood victims.

The Comptroller General is required to submit a report to Congress regarding the results of this study within one (1) year after the effective date of the legislation. The Comptroller General's report will no doubt be an in-depth review of the NFIP and the Administration looks forward to reviewing it. President George W. Bush signed the bill into law on June 30, 2004. Many of the areas recommended for review in the federal legislation were also addressed in the Commissioner's March 4, 2004 report to the Maryland Congressional Delegation (attached as Exhibit 2).

In addition, during the 2004 legislative session, the Maryland General Assembly passed legislation requiring that agents who sell flood insurance take continuing education courses on flood insurance (Exhibit 3). Although not insurance related, HB3 of the Acts of 2004, provided a means for Maryland residents who sustained damage due to the hurricane to obtain low interest loans to rebuild their homes.

In the interim, it is hoped the Administration's observations of how the NFIP worked in Maryland in the aftermath of Hurricane Isabel can serve as a starting point for a discussion about the adequacy of the claims procedures of the NFIP. These observations warrant recognition now while the memory of the disaster is still fresh and, unfortunately, while some people have yet to be fully compensated for their losses.

WRITE YOUR OWN PROGRAM

The NFIP initially made flood coverage available only through insurance agents who dealt directly with the Federal Insurance Administration ("FIA"). The coverage was serviced by private insurers for the first 10 years of the program. In 1978, the policy and claims operations were turned over to a private contractor supervised by the FIA. In 1979, the FIA was placed under the Federal FEMA, and within a few years the "direct" policy program was supplemented with the WYO program.

Under the WYO program, a pool of private insurance companies issue a policy that must mirror the terms and conditions of the Standard Flood Insurance Policy. In addition, the WYO companies adjust flood claims as well as settle, pay and defend all claims arising from the flood policies. The premium charged by the private insurer is the same as that charged by the Federal Government through the direct program. Nearly all of the flood policies issued today are written by WYO companies.

A private insurer becomes a WYO company by entering into a contract, the "Financial Assistance/Subsidy Arrangement" (the "Arrangement"), with the Federal Insurance Administration. Under the Arrangement, private insurers agree to issue flood policies in their own name and take certain responsibilities, such as marketing, claim processing, and general policy administration. The federal law authorizes WYO companies to issue the Standard Policy in the name of the company issuing the policy, and to substitute the company's name where the terms "FEMA" or "FIA" appear in the Standard Policy.

For the private insurers, the WYO program carries little or no risk. The companies collect the flood insurance premiums and retain about 30% as an administrative fee. From this premium the company must pay administrative expenses associated with issuing the policy (such as agent commissions) and state premium taxes. The actual amount of premium retained is determined by a formula contained in the Arrangement. The premium collected that is not retained by the WYO company is deposited in the National Flood Insurance Fund in the United States Treasury.

The WYO company is reimbursed by the federal government for loss adjustment expenses (the direct and indirect expenses associated with settling claims). These reimbursements are in addition to the premium retained. The company is allowed to keep an amount equal to 3.3% of losses paid, and is reimbursed for the services provided by claims adjusters according to a fee schedule.

Federal regulations require that all claims are processed in accordance with, on the one hand, all the WYO carriers' insurance procedures and, on the other hand, with the Financial Control Plan prepared by the NFIP.[6] The purpose of the Financial Control Plan is to "account for and ensure appropriate spending of any taxpayer funds." This accounting occurs by way of audits that occur biennially or "for cause." The audit reviews, among other factors, whether the carrier used unit prices that were within the established NFIP guidelines for the event.

FLOOD INSURANCE CLAIMS

If a policyholder has suffered damage due to flooding, the loss should be reported to the agent or insurer who provided the coverage, or to the NFIP if the policy was purchased directly through the NFIP. The adjuster assigned to the loss is required by the NFIP to "inspect the property within 48 hours of receiving the loss assignment for these losses of a critical nature and to inspect other losses as soon as possible within one week of receiving the loss assignment" (Claims manual, p II-4).

Once the risk has been inspected, the adjuster completes a Preliminary Damage Assessment form for all risks with substantial damage, which is then faxed to the NFIP's Bureau and Statistical Agent's Claims Department. Next, the adjuster prepares a preliminary scope of damage report, which along with the worksheets and the proof of loss, becomes the basis for the figures contained in his final report of loss. The insured must complete a proof of loss, containing the valuation of the claimed damages, which the adjuster may have furnished to assist in the settlement of the claim. The adjuster also must provide an itemized estimate of the scope of damage along with his or her worksheets. The adjuster is expected to be familiar with Standard Flood Insurance Policy ("SFIP") provisions, including coverage interpretations issued by FEMA, and to adjust the losses in accordance with those provisions. The insured is then required to sign the proof of loss, have it witnessed, and submit it within 60 days of the date of loss.

If the insured and adjuster agree with the figures contained on the proof of loss, the insured signs the proof of loss and returns it to the adjuster. The adjuster will complete a final report of the loss and any other required forms (narrative report, elevation certificate, etc.) and forward all documentation to the WYO carrier or NFIP's Bureau & Statistical Agent (if directly written) for payment to the insured.

If the insured's property has been substantially damaged, the insured must obtain proof of this loss in writing from the local government officials. Once the certification is received by the insured and forwarded to the adjuster, a proof of loss for the increased cost of compliance ("ICC") coverage must be prepared and signed by the insured. The insured has 60 days from the date of loss to proffer this proof

[6] *See* 44 CFR §62.24

of loss, as well. Thus, unless FEMA waives the 60 day reporting requirement, all flood insurance claims should be adjusted and submitted for payment within 60 days of the date of the loss. Then, in accordance with the provisions of the policy, the loss will be payable within 60 days after the WYO carrier or NFIP, if written directly, receives the proof of loss, or within 90 days after the adjuster files an adjuster's report signed and sworn to by the insured (in lieu of a proof of loss) and the WYO carrier, or NFIP, has reached an agreement with the insured.

If the insured disagrees with the scope of loss or the amounts offered as compensation for certain items, the cause for disagreement should first be addressed with the flood adjuster. Any pertinent documentation the insured has acquired, such as estimates from contractors, also should be provided to the adjuster for consideration and review.

If the insured is still not satisfied with the adjuster's settlement offer after reconsideration, the insured may request that a General Adjuster from the NFIP re-inspect and re-evaluate the loss and the initial adjuster's determination.

If a General Adjuster is asked to re-inspect the loss, and supplemental payments are authorized, a new proof of loss must be signed and sworn to by the insured. If the insured is still not satisfied, an appraisal can be requested, but only if there is a dispute as to the amounts being offered and not the scope of damage. The specifics of the appraisal process are detailed in the flood policy and are as follows:

> "If you and we fail to agree on the actual cash value or, if applicable, replacement cost of your damaged property to settle upon the amount of loss, then either may demand an appraisal of the loss. In this event, you and we will each choose a competent and impartial appraiser within 20 days after receiving a written request from the other. The two appraisers will choose an umpire. If they cannot agree upon an umpire within 15 days, you or we may request that the choice be made by a judge of a court of record in the State where the covered property is located. The appraisers will separately state the actual cash value, the replacement cost, and the amount of loss to each item. If the appraisers submit a written report of agreement to us, the amount agreed upon will be the amount of loss. If they fail to agree, they will submit their differences to the umpire. A decision agreed to by any two will set the amount of actual cash value and loss, or if it applies, the replacement cost and loss."

Based on the complaints and intakes received by the Administration, it appears that very few individuals requested an appraisal. The Administration believes that is due to the fact that most disputes revolved around scope of

coverage and value of loss. As noted above, scope of loss is not subject to the appraisal process. In light of the fact that the policy holders are not satisfied with the amount offered, bearing the cost of an appraisal during this difficult time may prove too great a burden for the insured.

During its review, the Administration found inconsistencies between adjusters and WYO carriers in the speed and manner in which claims were processed. The recently enacted Federal Legislation requires the Director of FEMA to develop a flood insurance handbook which contains:

- a description of the procedures to be followed to file a claim under the flood program;
- a description of how to file supplementary claims, proof of loss and any other information relating to the filing of a claim under the flood program; and
- detailed information regarding the appeals process.

The Administration anticipates that the new handbook will promote greater consistency among WYO carriers and the claims handling which will, hopefully, reduce confusion and complaints for any future events.

STANDARD FLOOD INSURANCE POLICY V. HOMEOWNERS INSURANCE POLICIES

In most cases, WYO carriers also write homeowner's coverage in the state of Maryland. In reviewing Isabel complaints filed with the Administration, the examiners found that some of the trends associated with flood complaints did not correspond to complaint trends for traditional homeowner's coverage. Since many policy provisions are unique to the SFIP, victims making a claim against their flood policies for the first time may be surprised to find that they would not be made whole, even if building and personal property coverage had been purchased and the amounts offered conformed with industry standards, due to the provisions in the policy.

There are many differences between a Standard Flood Insurance Policy and an Insurance Services Office HO-3 Homeowners Policy ("HOP").[7] First, an SFIP covers one peril, flood, while an HOP covers all causes of direct physical loss unless otherwise excluded. When purchasing an SFIP, an insured must specifically request coverage for contents, whereas the HOP automatically includes contents coverage for specifically named perils. Under a SFIP, two separate deductibles would be

[7] A comparison between the two types of policies can be difficult as there are many different homeowner policy forms depending on carrier and type of coverage while there is only one SFIP Dwelling Form. The HO-3 is the most commonly used form and is therefore used for comparison purposes in this report.

applied for the flood damage to the building and for the flood damage to the contents, while only one deductible would be applied under the HOP if both the dwelling and the contents were damaged by a covered peril.

Under the SFIP, a basement is any area of a building, including any sunken room or sunken portion of a room, having its floor below ground level (subgrade) on all sides. It is important to understand this because the SFIP limits coverage for basements and the contents contained therein, unlike a HOP, which does not make any such distinctions.

The following language from the SFIP explains exactly what is covered in a basement under the building property coverage:

8. Items of property in a **building** enclosure below the lowest elevated floor of an **elevated post-FIRM building** located in Zones A1-A30, AE, AH, AR, AR/A, AR/AE, AR/AH, AR/A1-A3C, V1-V30, or VE, or in a **basement,** regardless of the zone. Coverage is limited to the following:

    a. Any of the following items, if installed in their functioning locations and, if necessary for operation, connected to a power source:

        (1) Central air conditioners;
        (2) Cisterns and the water in them;
        (3) Drywall for walls and ceilings in a **basement** and the cost of labor to nail it, unfinished and unfloated and not taped, to the framing;
        (4) Electrical junction and circuit breaker boxes;
        (5) Electrical outlets and switches;
        (6) Elevators, dumbwaiters, and related equipment, except for related equipment installed below the **base flood** elevation after September 30, 1987;
        (7) Fuel tanks and the fuel in them;
        (8) Furnaces and hot water heaters;
        (9) Heat pumps;
        (10) Nonflammable insulation in a **basement**;
        (11) Pumps and tanks used in solar energy systems;
        (12) Stairways and staircases attached to the **building**, not separated from it by elevated walkways;
        (13) Sump pumps;
        (14) Water softeners and the chemicals in them, water filters, and faucets installed as an integral part of the plumbing system;
        (15) Well water tanks and pumps;
        (16) Required utility connections for any item in this list; and
        (17) Footings, foundations, posts, pilings, piers or other foundation walls and anchorage systems required to support a **building**.

b. Clean-up.

Additionally, if an insured purchased contents coverage under the SFIP, the following policy language sets out what personal property is covered in a basement:

3. Coverage for items of property in a **building** enclosure below the lowest elevated floor of an **elevated post-FIRM building** located in Zones A1-A30, AE, AH, AR, AR/A, AR/AE, AR/AH, AR/A1-A3C, V1-V30, or VE, or in a **basement,** regardless of the zone is limited to the following items, if installed in their functioning locations and, if necessary for operation, connected to a power source:

   a. Air conditioning units, portable or window type;
   b. Clothes washers and dryers; and
   c. Food freezers, other than walk-in, and food in any freezer.

Under a HOP, any damage caused by a covered peril to the building or contents would be covered, and would be reimbursed at replacement cost. All covered personal property damaged by flooding is reimbursed at actual cash value, which is computed as replacement cost less depreciation. So, there is minimal coverage for personal property items contained in the basement pursuant to a SFIP. A summary of some of the major coverage differences between an SFIP and HOP have been highlighted in the chart on page 14.

Coverage Comparison Between a Homeowners Policy and a Standard Flood Insurance Dwelling Policy

ITEM	SFIP DWELLING FORM	HOMEOWNERS
1. Additional Living Expenses	NO	YES; limit of at least 20% of Coverage A limit
2. Appurtenant Structures	YES; 10% of limit of liability can be applied to detached garage at described location	YES; additional limit of at least 10% of Coverage A
3. Awnings	ACV, if attached to building	YES, RCV
4. Building Fixtures	Listed	YES, RCV
5. Carpeting	ACV; no overhead and profit	YES, RCV
6. Construction Before Walled & Roofed	YES; two times the deductible	YES, RCV
7. Debris Removal	YES	YES
8. Decks	NO; limit of 16 sq. feet	YES, RCV
9. Deductible	Applied separately to building and contents	Applied only once, if cause of loss damages both building and contents
10. Emergency Mitigation	Limited coverage, $1,000	N/A
11. Exterior Paint	YES	YES
12. Fences	NO	YES, RCV
13. Hot Tubs & Spas	YES, only if they are bathroom fixtures	YES, RCV no matter where they are located
14. Ordinance or Law	YES, subject to Exclusion A.6.	YES, unlimited coverage if law and ordinance endorsement is purchased
15. Pollutants	YES	NO
16. Replacement Cost, Building	YES, if insured to 80% of RC and insured lived at risk 80% of previous 365 days	YES; if insured to value and replacement cost is purchased, Coverage A limit of liability is increased
17. Replacement Cost, Personal Property	NO	YES; for contents located anywhere in the world
18. Screened Porches	YES, unless below elevated floor (Post-FIRM)	YES, RCV
19. Storage Sheds	NO	YES, RCV up to 10% of Coverage A limit of liability
20. Stove & Refrigerator	Building ACV, if tenant's contents	YES, RCV
21. Swimming Pools/Hot Tubs	NO	YES, RCV
22. Temporary Repairs	NO	YES; actual amount spent
23. Trees	NO	Yes; up to coverage limit stated in policy
24. Venetian Blinds	Building ACV	YES, RCV

Complaint Analysis

The Administration conducted a detailed analysis of the complaints it had received and the information contained in those complaints. This information included the location of loss, the original proof of loss and in some instances the amended proof of loss or estimate after a re-review by NFIP.

The charts below reflect the following information compiled by the Administration:

- Federal Flood Intakes by county;
- Federal Flood Complaints and the amount of additional recoveries associated with those complaints by county;
- Federal Flood Complaints and the amount of additional recoveries associated with those complaints by carrier, including NFIP.

Federal Flood Intakes by County

County	No. of Intakes
Anne Arundel	119
Baltimore City	6
Baltimore County	219
Calvert	18
Cecil	8
Charles	2
Dorchester	144
Harford	2
Kent	26
Montgomery/Prince George's	1
Queen Anne's	54
Somerset	5
St. Mary's	19
Talbot	12
Wicomico	1
TOTAL	**636**

Federal Flood Complaints and the Amount of Additional Recoveries Associated With Those Complaints by County

County	No. of Complaints	Recovery Amount
Anne Arundel	27	$310,511.87
Baltimore City	1	0.00
Baltimore County	58	298,040.71
Calvert	1	0.00
Cecil	1	0.00
Charles	1	0.00
Dorchester	14	44,537.72
Harford	4	42,112.00
Howard	1	0.00
Kent	6	10,335.51
Montgomery	1	0.00
Queen Anne's	7	9,967.13
St. Mary's	7	0.00
Talbot	8	251,909.22
TOTAL	**137**	**$967,414.16**

Federal Flood Complaints and the Amount of Additional Recoveries Associated With Those Complaints by Carrier, Including NFIP

Insurance Company	No. of Complaints	Recovery Amount
Allstate Ins. Co.	28	$187,647.10
Brethren Mutual Ins. Co.	1	0.00
Farmers New Century Ins. Co.	1	0.00
Fidelity and Guaranty Ins. Co.	1	0.00
Fidelity National Ins. Co.	1	0.00
First Community Ins. Co.	1	0.00
Harleysville Mutual Ins. Co.	7	157,189.58
Hartford Fire Ins. Co.	7	27,608.59
Hartford Underwriters Ins. Co.	3	0.00
Liberty Mutual Ins. Co.	1	0.00
National Flood Insurance Program	16	52,694.98
National Grange Mutual Ins. Co.	1	0.00
Nationwide Mutual Fire Ins. Co.	15	67,000.00
Nationwide Mutual Ins. Co.	1	0.00
Omaha Property and Casualty Ins. Co.	5	180,793.88
Prudential Property and Casualty Ins. Co.	1	0.00
Selective Ins. Co. of America	20	188,657.77
South Carolina Ins. Co.	2	7,666.67
Standard Fire Ins. Co.	1	0.00
State Farm Fire and Casualty Co.	8	9,158.00
Travelers Property and Casualty Group	6	0.00
United Services Automobile Association	2	0.00
Unknown at time complaint was filed	8	88,997.59
TOTAL	**137**	**$967,414.16**

The Administration conducted a further review of the complaints received, which included information regarding the NFIP re-review. These complaints included the original proof of loss settlement offer and the revised settlement offer/estimate after the re-review process. In conducting the evaluation, the Administration was seeking to identify those areas that may have been overlooked during the initial review or areas where unit prices were substantially increased for materials. Following are examples of the Administration's findings:

- The pricing for plywood was increased on re-evaluation to $2.12/square foot from $1.79/square foot;
- The initial estimate failed to include payment for scaffolding rental, mildicide and removal of fill dirt totaling $9,289.40. Payment was allowed on re-evaluation;
- The removal and replacement of a condenser air-conditioning unit was increased from $1,074.31 to $2,653.80;
- Premium Grade tile flooring was adjusted from $11.38/square foot to $15.83/square foot;
- The initial estimate failed to include payment for removal and replacement of 47 square yards of indoor/outdoor carpeting totaling $922.81. Payment was allowed on re-evaluation.

AREAS OF CONCERN

As a result of the complaint analysis, the Administration also conducted further inquiry into the allegations of slow processing, handling and payment of claims and low offers to settle covered losses. The additional investigation included interviews with adjusters, WYO carriers, contractors, scoring modelers and testing of the most common software applications utilized in adjusting flood losses. The interviews and subsequent investigation identified the following areas of concern:

Adjusters

Adjusters are individuals who assist the WYO carriers and FEMA in reviewing the loss location to determine the scope of damage and the amount of payment the insured is entitled to receive. Adjusters are often hired by independent adjusting firms which are, in turn, hired by the WYO carriers. Certain WYO carriers contract directly with adjusters, while others utilize their employee adjusters rather than hiring outside staff. The NFIP sets forth minimum qualifications for adjusters; however, WYO carriers are free to hire any qualified adjuster they wish. The Administration's observations from interviewing various adjusters and adjusting firms revealed that adjusted losses resulting from Hurricane Isabel focused on three key issues.

First, as a result of Hurricane Isabel, more than 6,323 claims from Maryland were filed with the Federal flood program. As with any natural disaster, losses are not spread out over time. The magnitude of the damage and number of policyholders affected was simply greater than the number of experienced adjusters available to adjust losses. In an attempt to meet the demands of policyholders, adjusters were flown in from across the country to adjust losses. As a result, the knowledge, experience and expertise of each adjuster varied widely.

Second, the pay scale for adjusters has not increased for seven (7) years. Many of the adjusters interviewed indicated that the lack of a pay increase discourages new adjusters from applying. Additionally, independent third party adjusting firms collect between 30 – 40% of the fee, leaving the individual adjuster with approximately 60% of a fee that has not increased in seven (7) years.

Third, confusion occurred over what areas of the property were or were not covered by the NFIP. The NFIP, itself, has reversed its position as to what is properly covered by the Federal flood program. This position resulted in inconsistency and confusion about these claims. Additionally, despite FEMA's statements regarding coverage and expansion of coverage, NFIP's contractor, Consumer Services Corporation ("CSC"), has failed to consistently implement and adopt these changes and has continued to enforce more restrictive interpretations.

Software

Like most tasks, the adjusting of claims has entered the computer era and adjusters are increasingly utilizing various software applications to prepare estimates and "proofs of loss" that are submitted to the WYO carriers. The Administration spoke with virtually all of the major software companies providing flood claims processing applications and learned how the software is used to input, adjust and output data. A number of observations were made from these conversations and the Administration's own experience with the software.

Software is simply a mechanism by which one can access and use pricing data. However, the accuracy of the estimates depends on the skill, knowledge and experience of the adjuster using the software. Adjusters are responsible for knowing the terms and limitations of coverage and entering the correct information in the software for pricing. Therefore, if an adjuster omits a portion of a loss, the software is unable to calculate for that loss.

In general, adjusters are responsible for maintaining the most up-to-date pricing data in the software used for adjusting losses. While this information can often be easily downloaded directly from the Internet, there is no requirement or method of verification to ensure that the most current data is being used when the

claim is adjusted. The Administration, through its review, determined that some adjusters were using older pricing data at the time of the loss.

When the most recent databases were used, the Administration determined that prices among the various software programs were similar. The Administration also verified that each program compensated for additional costs associated with repair and reconstruction and allowed the adjuster the freedom to alter the unit price or time required for each job item on the loss.

One of the differences among the various software applications was that there is no uniformity as to the terms used to adequately describe a loss nor is there a uniform format for the estimate provided with the "proof of loss". These differences promote confusion among policyholders regarding the scope of an estimate and make comparison between two estimates difficult.

Eventually while each software program tested could identify item costs that were manually overridden by an adjuster, this information was generally not reflected on the final estimate provided to the consumer, the WYO carrier or the NFIP. The adjuster has the ability to determine what information will be provided on the final printout, resulting in estimates, that while similar, appear different.

Claims Processing

Because of the amount of paperwork involved, adjusters believe that they have little flexibility to work with the policyholder when adjusting a flood claim. The nature of flood losses, the coordination between WYO carriers and the Federal flood program and certain claim submission requirements does, in fact, result in significantly more paperwork for a flood claim than for a traditional homeowner's insurance claim. Adjusters indicated that, because of the additional paperwork, flood claims take significantly longer to process for less compensation. Most adjusters estimated they could complete three (3) homeowner's claims in the time it takes to complete one (1) flood claim.

Another requirement that causes delays is the mandatory affidavit necessary to receive compensation for overhead and profit associated with repair work. A policyholder must provide an affidavit with the name of the contractor performing the work. Due to the magnitude and remote location of the damage left in the wake of Hurricane Isabel, the amount of repair work needed exceeded the number of available contractors. Therefore, while it was evident that the scope of damage required a contractor in order to facilitate the repairs, many policyholders were unable to promptly secure a contractor for repair; therefore, they could not be compensated for overhead and profit until such time as they could produce an affidavit.

Pricing Guide

On May 7, 2004, FEMA issued a memorandum about Flood Insurance Claims Guidance. In that memorandum, FEMA stated that it expects repair estimates to be based on current local prices and that price guidelines are to be used "with discretion and flexibility." Unfortunately, the Administration found that the guidelines in place after Hurricane Isabel were not necessarily used with "discretion and flexibility."

CSC, the entity contracted with FEMA to administer the Federal flood program, released a Pricing Guide to adjusters and WYO carriers to be used when adjusting flood claims. The Pricing Guide applies to all of Maryland and provides recommended pricing for some of the most common items, such as plywood. Adjusters acknowledged it was common practice for FEMA or its contractor to release a Pricing Guide unique to the specific disaster and location.

CSC states that the Pricing Guide is to be used only as a guide and that estimates should be based on the circumstances surrounding the individual loss. However, the National Flood Insurance Program – Financial Control Plan Requirement and Procedures (the "FCPRP") states that biennial claims audits shall "verify that the unit prices were within the established NFIP guidelines for the event."[8]

FEMA re-inspects approximately 10% of the claims. If FEMA determines there are errors in the estimates, or the prices offered were too high, the costs of any repayment are passed onto the adjuster who priced the claim. Additionally, if an adjuster is found to be consistently high in his/her quotes, he/she may lose future flood business. Certain adjusters acknowledged a hesitancy to stray from the Pricing Guide for fear they would be charged with any overages identified during an audit.

While carriers are required to process claims consistent with their own internal procedures used for homeowner's claims, they also are expected to comply with the FCPRP. Frequently the two procedures differ and the resulting conflict appears to create confusion for those adjusters employed by WYO carriers who also adjust losses other than flood claims.

Also during this period, due to high demand and limited supply, the price of plywood rose faster than expected. Adjusters and carriers acknowledged that the price for plywood contained in the Pricing Guideline was low. In order for the price of plywood to accurately reflect market conditions, it would have been necessary for the adjuster to consistently override the price of all repairs involving plywood.

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[8] National Flood Insurance Program. The Write Your Own Program Financial Control Plan Requirements and Procedures, Fifth Printing – December 1, 1999, p. 1-5.

Over Insurance

As a result of the devastating effects of Isabel, many Maryland citizens found their homes to be a total loss. That is, the structure was damaged beyond repair and total reconstruction of the structure was required. Unfortunately, many insureds found that they purchased higher coverage limits than they were eligible for, even in the event of a total loss. Under the Federal Flood Insurance Policy, policyholders are limited to the replacement cost of their property; the land is not insurable. During its discussions with victims of Isabel, the Administration heard many complaints that the insured was required to purchase a specific amount of coverage by their lenders. During a review of complaints, the Administration concluded that determinations of replacement cost were dictated by the lender requirements, not FEMA procedures.

The Administration also identified a number of inconsistencies within various FEMA manuals that may have contributed to the confusion. For example, the basic agent training tutorial, in reference to completing a Flood Insurance Application, states:

> "Enter the estimated replacement cost value for single family principal residential condominium buildings, and all V zone buildings. Include the cost of the building foundation when determining replacement cost."

The *Policy Forms* section of the same manual states:

> "When determining the full replacement cost of the building insured under the Dwelling Policy Form, exclude the costs for excavations; underground wiring and drains; brick, stone and concrete foundations; piers and other supports which are below the under surface of the lowest **basement** floor or where there is no basement, which are below the surface of the ground inside the foundation walls."

Page APP4 of the Flood Insurance Manual contains the following statement:

> "• Estimated replacement cost
> Using normal company practice, estimate the replacement cost value and enter the value in the space provided. Include the cost of the building foundation when determining the replacement cost value."

Page 23 of the Mandatory Purchase of Flood Insurance Guidelines, which applies to lenders, includes a section devoted to calculating appropriate coverage limits. To summarize, the section states that land is not insurable, and the lender should determine the amount of coverage required in relation to the portion of the loan associated with the improvements on the land and require this amount, or policy limits, whichever is less. This section includes the following quote that appears to address the issue of over insurance:

> "When the lender does not take into account separate valuations of land, which is not insurable under the NFIP, and improvements, which are insurable, the insured may be paying for coverage that exceeds the amount the NFIP will pay in the event of a loss. Lenders should avoid creating such a situation"

However, this statement conflicts with instructions provided on page 25 of the same manual. Page 25 addresses the issue of insuring a low value building on high-valued property. It should be noted that this is what occurred in many areas of Baltimore County affected by Isabel. If the value of the land is more than enough to secure the value of the loan, the lender must still require flood insurance if the property is in a Special Flood Hazard Area ("SFHA"). The section provides:

> "...the insurable value of the building and its improvements will govern the amount that can be required. The amount of required flood insurance coverage is the lesser of the principal balance of the loan(s) or the maximum coverage available under the NFIP. The NFIP policy does not provide coverage for losses in excess of the value of the insurable building."

There is no clear definition of replacement cost or of how to appropriately calculate replacement cost. Additionally, the following information is found in the endorsement section of FEMA's Flood Insurance Manual.

Endorsement Rules

A. Coverage Endorsements

2. Reduction of Insurance

A reduction in the amount of *building* insurance *cannot* be made unless part of the building has been removed, which reduces the building's value to less than the amount of the building insurance. (See Example 6 at the end of this section.)

A reduction in the amount of *contents* insurance *cannot* be made unless some of the contents have been sold or removed, which reduces the contents' value to less than the amount of the contents insurance.

3. Removal of a Coverage

There is no return premium for the removal of building or contents coverage unless the property is no longer at the described location or the property of the policyholder. (See Example 5 at the end of this section.) (emphasis in the original).

Based on this information, there does not appear to be any method to reduce coverage during the term of the policy if it is determined that the property is over insured. It appears that an insured would have to cancel the policy and purchase a new one, or wait until renewal and have the policy re-written. So, while a policy can be reformed to allow for an increase in premium, there is no apparent method for amending or endorsing a policy to allow for a refund if the property is over insured.

The Administration also noted that none of the replacement cost estimators used to calculate coverage are designed for the NFIP. These estimators are designed to calculate coverage under the terms and conditions of a traditional homeowners policy and therefore take into consideration items which may not be covered under a flood policy.

RECOMMENDATIONS

A. Consumer Education

The Administration recommends that steps be taken to educate consumers as to the benefits and limitations of the National Flood Insurance Program. The particular recommendations of the Administration are outlined below, in conjunction with the problem the action is intended to alleviate.

Problem: Because of the differences between homeowners and flood policies, many consumers are surprised to learn that certain items and repairs are not covered under the flood policy.

Recommendation:

1) Consumers must be educated to understand the benefits and limitations of the NFIP. Specifically, the Administration believes the consumers must be educated as to the differences between the NFIP and traditional homeowners insurance. The Administration has drafted an educational packet entitled "*Why You Should Consider Purchasing Flood Insurance*", as an educational tool and has distributed the packet at statewide events such as fairs, conventions and tradeshows where the Administration's Consumer Education and Advocacy Unit customarily distributes literature and answers inquiries.
2) During the 2004 legislative session, the Maryland General Assembly passed legislation proposed by the Insurance Administration requiring that, as a part of their continuing education requirements, producers selling flood insurance take a course on flood insurance during their every two year licensing cycle. This will allow producers to better explain the differences between homeowners insurance and flood insurance.

B. National Flood Insurance Program

The Administration recommends that FEMA, through the NFIP, consider the following recommendations. The particular actions suggested by the Administration are listed below, in conjunction with the problems the action is intended to alleviate.

Problem: Because of the difference between homeowners and flood policies, many consumers find that they have purchased higher coverage limits for flood insurance coverage than they are eligible to receive payment for under the terms of their policy, even in the event of a total loss.

Recommendation:

1) Correct the Lenders Manual and The Flood Insurance Manual to remove any inconsistencies in how to calculate replacement cost.
2) Develop a replacement cost estimator specifically designed for the coverage provided in the Flood Insurance Program in conjunction with a company such as Marshall & Swift/Boeckh.
3) Develop a clear process or procedure for amending the terms of a policy if it is determined that the property is over insured.
4) Include a guideline for auditing coverage amounts to make certain that properties are adequately insured.

Problem: Shortage of experienced certified adjusters

Recommendation:

1) Re-evaluate the training, certification and pay scale and methodology for flood adjusters. Consideration should be given to the role of adjusting firms and the costs associated therewith.
2) Consider increasing the number of certified flood adjusters so there are a sufficient number of trained and qualified adjusters to handle catastrophic losses. Efforts to maintain long term, highly qualified adjusters should be instituted.
3) The Administration recently introduced legislation which was adopted by the General Assembly and signed by the Governor requiring producer education for those producers selling flood insurance. Likewise, NFIP should require minimal training to be a certified adjuster and require certification to be renewed annually or bi-annually with a condition that adjusters satisfy a minimum continuing education course.

Problem: Multiple layers of bureaucracy provide numerous opportunities for claims to be delayed

Recommendation:

1) Consult with adjusters and WYO carriers to identify paperwork that is unique to the flood program. Consideration should be given to eliminate any unnecessary or ineffective paperwork.
2) Review the use of the affidavit for overhead and profit to determine its value when adjusting a catastrophic loss.
3) Communication between NFIP and its contractor, CSC, needs to be improved to ensure that policy decisions regarding coverage are consistently implemented and adopted by CSC.

Problem: Claims estimates are not uniform and vary in their terms and formats

Recommendation

Establish a uniform estimate/"proof of loss" format. Each software company indicated that incorporating a standard format, as prescribed by FEMA, could be easily accomplished. The format should include:

a) Uniform use of terms;
b) Indication of which prices were manually adjusted or overridden by the adjuster;
c) Override explanation: when a price is overridden, the software needs to provide a field for an explanation and it must be mandatory that the field be completed by the adjuster; and
d) Notation as to which pricing database was used at the time the claim was adjusted.

Problem: Confusion over the use of Pricing Guidelines

Recommendation:

Eliminate the use of the Pricing Guidelines or alternatively the FCPRP must be clarified to indicate that the Pricing Guidelines are not used for auditing purposes. This change will allow adjusters more liberty to adjust the costs of materials to reflect increased prices that almost always occur after a flood event.

Problem: Oversight over the administration of the Federal Flood Program

Recommendation:

FEMA needs to review the findings of the GAO audit and conduct a thorough self-evaluation to determine why so many consumers were dissatisfied with the claims process. Additionally, FEMA should consider allowing states to have more regulatory oversight of the flood program.

CONCLUSION

Over the last eighteen months, the Maryland Insurance Administration has assisted hundreds of Marylanders who filed complaints stating that they received insufficient funds or inappropriate settlements in accordance with the terms of their flood insurance policies. In many cases, these allegations have been substantiated through the re-review process as additional sums have been paid to consumers. However, there are still individuals and families displaced in FEMA trailers, unable to re-build their homes and move forward with their lives.

Many factors caused these conditions to occur: inadequate consumer education, inconsistencies in pricing guidelines and claims estimates, a shortage of trained adjusters, and a confusing and complicated bureaucracy that is difficult for the average consumer to navigate. The result is that consumers have been offered insufficient settlement amounts from the NFIP. For those Maryland citizens who are still displaced, the NFIP should take steps to review the claims again in an effort to ensure consistency and fair value in accordance with our recommendations. For future natural disasters, Congress should take the appropriate legislative action necessary to reform the NFIP by considering and implementing the recommendations contained in the Administration's report, as well as those offered as a result of the pending GAO audit.

EXHIBIT 1

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MARYLAND INSURANCE ADMINISTRATION PREPAREDNESS AND RESPONSE TO HURRICANE ISABEL

- On September 15, 2003, in advance of the Hurricane, the MIA began contacting Property & Casualty insurers licensed in Maryland to ensure that each company had their storm centers and catastrophe teams ready to respond in Maryland.

- From September 16 through September 20, 2003. the MIA provided two staff members at the MEMA headquarters for a combined total of 98.5 hours. The MIA was present in order to facilitate responses to any insurance concerns.

- On September 16, 2003, the MIA created a Hurricane Isabel page on its web site, www.mdinsurance.state.md.us to provide pre-storm information including tips on what people need to know before the storm and what to do if they incurred storm damage. The web site continued to be updated on a regular basis and a news release was distributed statewide telling consumers about the information on the web site.

- On September 19 and 21, 2003, Commissioner Redmer was at MEMA headquarters in Baltimore County for meetings with Governor Ehrlich and other state representatives regarding the ongoing state response to Hurricane Isabel.

- On September 22, 2003, Commissioner Redmer participated in two briefings to discuss plans to address damages resulting from the hurricane. The first briefing was held in Baltimore City with Mayor O'Malley and the second was held in Towson with County Executive Smith, congressional representatives, and various legislators.

- On September 22, 2003, MIA staff reported to the first three Disaster Recovery Centers (DRCs) which were opened in Annapolis, Baltimore City and Baltimore County. MIA employees continued to staff those centers, as well as the other DRCs which were opened throughout the state, seven (7) days a week until each DRC was closed by FEMA.

- On September 23, 2003, Commissioner Redmer gave an interview on WBAL-TV to inform Maryland citizens of their rights as policyholders, including the right to seek assistance from the Maryland Insurance Administration.

- On September 25, 2003, the Commissioner participated in two town hall meetings in the hardest hit communities of Baltimore County; one in Bowley's Quarters (Middle River) attended by more than 200 people and the other in Sparrows Point with more than 500 people in attendance.

- On September 28, 2003, Commissioner Redmer appeared on three (3) local TV stations to announce that he had arranged for two (2) community meetings to be held in Baltimore County to address residents' concerns about their damages and insurance claims. The purpose of the meetings were to provide an opportunity for citizens to meet with insurance company representatives. The first meeting occurred on September 29th at the Bowley's Quarters Fire Hall and the second meeting occurred on September 30th at Sparrows Point High School; both were attended by approximately 200 people who had an opportunity to meet with representatives of their insurance company.

- Commissioner Redmer and the MIA staff received training from the regional manager of the National Flood Insurance Program. This training was designed to inform the Commissioner and his staff on ways to better assist citizens as they file claims under their federal flood policies.

- In early October, Commissioner Redmer sent an email to all members of the Maryland General Assembly expressing his willingness to meet with them and their constituents at any time to help them through storm-related problems.

- On October 2, 2003, the MIA briefed the Senate Budget and Taxation Committee and the Baltimore County Executive at Sollers Point Technical High School regarding the MIA's efforts before, during, and after the storm.

- On October 3, 2003, the MIA staff attended a FEMA/NFIP (National Flood Insurance Plan) briefing on issues raised by the recent flooding.

- On October 6, 2003, the MIA briefed the Anne Arundel County delegation in Annapolis on events and issues relating to the hurricane.

- On October 7, 2003, Commissioner Redmer and members of the MIA staff participated in an evening town hall meeting at the Kent Island Library sponsored by Delegate Dick Sossi. The MIA arranged for representatives from FEMA, SBA, and NFIP to be at the meeting. The purpose of the town hall meeting was to provide citizens with information on the National Flood Insurance Plan and other related issues.

- On October 9, 2003, the MIA staff participated in a town hall meeting sponsored by Anne Arundel County Executive Janet Owens at the Annapolis Middle School. The MIA facilitated the scheduling of representatives from FEMA, SBA, and the NFIP for the

purpose of providing citizens with information on the National Flood Insurance Plan and other hurricane related concerns.

- On October 10, 2003, Commissioner Redmer toured the four Eastern Shore Disaster Recovery Centers in Crisfield in Somerset County, Cambridge in Dorchester County, Easton in Talbot County, and Rock Hall in Kent County.

- On October 14, 2003, Commissioner Redmer and the MIA staff participated in a town hall meeting at Sollers Point Technical High School sponsored by Baltimore County Councilman John Olszweski. The MIA arranged for representatives of FEMA, SBA, and the NFIP to be present for the purpose of providing citizens with information on the National Flood Insurance Plan and other hurricane related concerns.

- On October 15, 2003, the MIA participated in an evening community meeting at Bayside Beach in Anne Arundel County sponsored by Senator Philip Jimeno. The MIA arranged representatives of FEMA, SBA, and the NFIP to attend for the purpose of providing citizens with information on the National Flood Insurance Plan and other hurricane related concerns.

- On October 16, 2003, Commissioner Redmer and the MIA participated in a town hall meeting at Prince George's Community College sponsored by the Prince George's County Executive and the County Emergency Management Office. The MIA arranged for representatives of FEMA, SBA, and the NFIP for the purpose of providing citizens with information on the National Flood Insurance Plan and other hurricane related concerns.

- On October 21, 2003, two press releases were issued by Commissioner Redmer concerning the hurricane. The first provided the upcoming filing deadlines for FEMA, SBA, and the NFIP and the second explained Maryland's homeowner's insurance weather-related claims law.

- On October 25, 2003, the MIA staff participated in a community meeting in Venice on the Bay in Anne Arundel County sponsored by Senator Philip Jimeno. The MIA arranged for representatives of FEMA, SBA, and the NFIP for the purpose of providing citizens with information on the National Flood Insurance Plan and other hurricane related concerns.

- On October 25, 2003, the MIA staff participated in a community meeting south of Cambridge in Dorchester County sponsored by Delegate Addie Eckardt for the purpose of providing citizens with information on the National Flood Insurance Plan and other hurricane related concerns.

- On October 28, 2003, Commissioner Redmer met with MIA staff for the purpose of discussing what actions had been taken by the MIA with respect to Hurricane Isabel and what future actions would be taken by the MIA.

- On November 10, 2003, the 7th District Delegation sponsored a community meeting at Bowley's Quarters Fire Hall in which the MIA participated.

- On November 13, 2003, the MIA participated in a meeting sponsored by the community association in Bowley's Quarters for the purpose of discussing hurricane related concerns.

- On November 14, 2003, the MIA brought in sixteen (16) employees from other state agencies to assist citizens who either did not have insurance or whose insurance coverage was insufficient to pay for damages from Hurricane Isabel. These employees continue to work with citizens to obtain assistance from other governmental agencies or local volunteer organizations to address the citizens' unmet needs.

- On November 18, 2003, Commissioner Redmer and his staff met for three (3) hours with representatives of the Victims of Isabel Citizens Group. The purpose of this meeting was to facilitate discussions with representatives of FEMA and NFIP, who were also in attendance at this meeting.

- On November 24 and 25, 182 Maryland insurance producers participated in training sessions initiated by the MIA and sponsored by the National Flood Insurance Program. The purpose of the training was to educate the agents and brokers who sell the NFIP insurance about the program.

- On December 6 and 7, 2003, the MIA placed approximately seven hundred (700) telephone calls to citizens to remind them of the upcoming deadline for putting FEMA on notice of an intention to make a claim.

- On January 6 and 7, 2004, the MIA participated in all-day community meetings in Bowley's Quarters and Dundalk in Baltimore County sponsored by United States Senator Barbara Mikulski.

- On January 26 and 27, 2004, the MIA participated in all-day community meetings on Hoopers Island in Dorchester County sponsored by United States Senator Barbara Mikulski.

- On January 27, 2004, Commissioner Al Redmer spoke at a community meeting in Crisfield.

- February 5, 2004, MIA staff participated in a community Help Fair in Shady Side in Anne Arundel County sponsored by the County Executive.

- On March 4, 2004, Commissioner Redmer meet with the Maryland Congressional Delegation and separately with Anthony Lowe, Federal Insurance Administrator and director of FEMA's Mitigation Division, to discuss the MIA report outlining observations and suggestions for the National Flood Insurance Program and other Federal programs.

- On March 12, 2004, Commissioner Redmer began providing Anthony Lowe with copies of complaints and intakes filed by Maryland citizens pertaining to problems they have encountered with the settlement of their claims under the National Flood Insurance Program.

- On March 23, 2004, Commissioner Redmer and Anthony Lowe co-sponsored a focus group meeting with 11 victims of Hurricane Isabel at the State House. The purpose of the meeting was to allow FEMA representatives the opportunity to hear first-hand the consumer experiences with the NFIP.

- On March 25 and 26, 2004, Commissioner Redmer and a member of his staff attended the Mid-Atlantic NFIP Summit. The purpose of the Summit was to identify issues consumers had regarding their flood insurance policies and to discuss what, if any, changes are needed in the flood insurance program.

- During the months of March and April, MIA representative, Tom Henry, staffed weekly community opportunities for assistance in Edgemere on Tuesdays and in Essex on Thursdays.

- MIA scheduled community opportunities for assistance in Hooper's Island, Rock Hall, and Leonardtown on March 29, March 30, and April 2, 2004 respectively.

- On April 6, 2004, the MIA sent letters to approximately 1,400 citizens who had come to the MIA for assistance reminding them to discuss the coverage of unoccupied properties with their agents and provided information on housing loans available through HB3.

- On April 7, 2004, Commissioner Redmer participated in a MEMA news conference announcing the reevaluation of flood claims.

- On April 8, 2004, Commissioner Redmer participated in a FEMA news conference announcing the reevaluation of flood claims.

- Starting on April 8, 2004, MIA staff began participating in all the FEMA Open Houses being scheduled around the state.
  - 4-8 Bowley's Quarters (Baltimore County)
  - 4-14 Hughesville (Charles County)
  - 4-20 Hooper Island (Dorchester County)
  - 4-21 Baltimore City
  - 4-27 Rock Hall (Kent County)
  - 4-28 Chester (Queen Anne's County)
  - 4-29 Edgewater (Anne Arundel County)
  - 4-30 Prince Frederick (Calvert County)
  - 5-3 Hollywood (St. Mary's County)
  - 5-4 Easton (Talbot County)
  - 5-5 Turner's Station (Baltimore County)
  - 5-6 Lakes & Straits (Dorchester County)

- On April 19, MIA staff received additional training on the National Flood Insurance Program.

- On April 22, Associate Commissioner Joy Hatchette participated in a panel discussion on the NFIP at the 19th Annual Severe Storm Awareness Conference at the State Emergency Operations Center at Camp Fretterd.

- On April 26, MIA staff participated in a meeting in Bowleys Quarters in Baltimore County sponsored by the Department of Housing and Community Development (DHCD) where DHCD staff explained the various loan programs available through HB 3.

- On May 17, Associate Commissioner Hatchette participated in a panel discussion on the effects of Hurricane Isabel on Baltimore County sponsored by Leadership Baltimore County.

- On June 14, 2004, Commissioner Redmer issued a message urging the importance of understanding flood insurance.

- On June 17, 2004, MIA participated in MEMA conference at Camp Fretterd. The purpose of the conference was to discuss ideas and measures needed to improve response to, and management of, natural disasters such as Hurricane Isabel.

- On August 5, 2004, Commissioner Redmer issued a message urging consumers t o contact their agents or company and ask whether they should consider purchasing flood insurance.

- On August 23, 2004, Commissioner Redmer and members of his staff held a meeting with many of the individuals that attended the March 23, 2004 focus group meeting. The purpose of this meeting was to allow the Commissioner to gather additional information on the review process and the status of the flood claims.

- In September 2004, an article was published in the Daily Record explaining the benefits of purchasing flood insurance.

- As of April 5, 2005
  1418 intakes done by MIA staff
  508 formal complaints filed against insurance companies
  496 closed complaints

****

MIA staff members were present to assist citizens at all 15 of the Disaster Recovery Centers and all of the FEMA Open Houses scheduled throughout the State, during every hour that each location was open. In total, more than 50 MIA employees participated in this response.

EXHIBIT 2

A REPORT TO

THE MARYLAND CONGRESSIONAL DELEGATION

ON HURRICANE ISABEL

MARYLAND INSURANCE ADMINISTRATION

MARCH 4, 2004

Alfred W. Redmer, Jr.
Insurance Commissioner
State of Maryland

Introduction

The devastation Maryland experienced on September 18 and 19, 2003 as a result of Hurricane Isabel included unprecedented damage to property along the waters of the Chesapeake Bay. We have seen first-hand the loss of homes, cars, personal possessions and commercial properties. And, we have heard and shared the frustration of those whose attempts to rebuild their lives have been made even more challenging because of difficulties in dealing with their insurance companies -- and with the National Flood Insurance Program (NFIP).

The Maryland Insurance Administration (MIA)'s role in the case of an emergency that involves insurance is to help citizens by informing them of their rights and coverages under their insurance policies and to assist them when they have problems with their claims.

In the weeks and months following the storm, the MIA's outreach efforts focused on staffing each of the 15 Disaster Recovery Centers (DRC) that opened around the State and coordinating and co-sponsoring nine public meetings within affected communities. In order to speed up the existing formal Complaints process, which can take months to achieve a resolution, an Intake system was created. As a result of that effort, MIA staff opened Intake files on 1,321 storm victims they met face-to-face at the DRCs, at community meetings or when they called into the MIA. Policyholder's insurance company were immediately called by a member of the MIA staff in an effort to resolve the insured's concerns. In some cases, claimants' questions and concerns were satisfied with a couple of telephone calls. In other cases, resolution took longer and was more involved. Out of the total 1,321 Intakes, only 280 became formal Complaints and of those, 195 were closed by February 28.

Closing such a high number of Intakes before they became formal Complaints shows how successful the Intake process was. Putting these numbers into perspective, in 2003 there were 20,000 complaints for other Property and Casualty issues. Each Complaint could take several weeks to several months to investigate. Being able to intercede before the Isabel problems became formal Complaints and being able to deal with those problems so quickly, meant that literally hundreds of people were assisted in a very short time.

While many of the issues raised by citizens in the Intake process centered on homeowners insurance questions, the vast majority of problems concerned the NFIP policies and coverage.

To put Hurricane Isabel into perspective with other Federal flood claims from Maryland in the past 25 years, flood claims usually totaled fewer than 500. There were more than 1,000 claims in only two of those years (1979 with 1,067 claims and in 1996 there were 1,370 claims). Total claims pay-outs topped $1 million in only in eight of those 25 years (1979-$8.9 million, 1984- $2.89 million, 1985- $5.75 million, 1989-$1.45 million, 1992-$4.57 million, 1996-$12 million, 1998-$2.6 million, 1999-$4.6 million). In 2003, a total of 6,323 claims have so far topped $102,258,000 in payments to policyholders. Hurricane Isabel claims account for just about one-half of all claims to the Federal flood program since 1975, (6,323 for Isabel, 13,009 total claims since 1975).

The NFIP and the Jurisdictional Issue

Congress established the National Flood Insurance Program (NFIP) under the National Flood Insurance Act of 1968 in order to make flood insurance available, on reasonable terms and conditions, to those in need of such protection in any part of the United States. As a Federal program, it is under the jurisdiction of Congress and regulations promulgated by the Federal Emergency Management Agency (FEMA).

Both in response to complaints filed in 1999 after Hurricane Floyd and to complaints filed in 2003 after Hurricane Isabel, the MIA has consistently taken the position that it does not have jurisdiction over claims submitted by Maryland policyholders under policies issued under the NFIP's Write Your Own (WYO) program.

First, Federal statutory law and regulation, as well as Federal case law, expressly provides that Federal law governs Federal flood insurance policies. Thus, all actions on such policies must be brought in Federal courts, which apply Federal law to the construction of policy terms and conditions. Second, it is well recognized that Federal law preempts the application of any state law or action against a WYO carrier in connection with the handling or payment of a Federal flood claim. FEMA actually revised its regulations effective December 31, 2000 in order to clarify that any matters "relating to and arising out of claims handling" are "governed exclusively by Federal law."

An exception to the general preemption rule does exist with regard to misrepresentation. The MIA may take regulatory action against insurance producers and insurance carriers with regard to misrepresentations made at the time that the policy was sold. Such cases, however, are very difficult to prove, particularly when the policy was sold many years before and documents may no longer be available or memory may be unclear.

Recognizing that the MIA's knowledge of the Federal program was limited, Commissioner Redmer scheduled a training session for key members of his staff 10 days after the Hurricane. The NFIP Regional III Manager led the training session on a Sunday afternoon to review the program, explaining what it covers and what it does not. The Commissioner was clear from the outset that the MIA would be the entry point for any insurance questions or concerns, whether or not the MIA had authority to regulate the handling and payment of the claims.

In addition, MIA employees from various internal Units voluntarily "transferred" to the Consumer Complaints Unit to help staff the Agency's response growing out of the storm. Some employees worked at the 15 DRCs (sites were open seven days a week for an extended period of time) and some filled positions internally for those who were out in the field. In all, more than 70 people out of a total Agency population of 300 directly participated in the effort to assist Maryland citizens. Everyone who worked at a DRC was trained in the Federal program so they would be able to help citizens sort out their insurance problems.

Although hampered in its ability to step in to help solve NFIP claims issues directly because of Federal preemption, the MIA still went out of its way to develop a relationship with NFIP staff to help facilitate closure of claims for Maryland citizens. This new relationship has meant repeat appraisals for some policyholders and increased insurance pay-outs for others. The MIA is appreciative of the response of the NFIP in these cases.

What Needs to Happen Next

Maryland's recent experience has shown that greater attention by both the State and Federal government needs to be shown to the flood insurance program -- how it is marketed and sold, what training the sellers should have before being able to sell the product, what coverage should be provided by the policy, how the claims process is handled, and what recourse policyholders have if they are dissatisfied with the outcome.

Moreover, the issue of NFIP policy compliance in relation to mortgage loans must be addressed. In as much as Congress has declared that everyone in a floodplain has to have flood insurance, it is not acceptable for there to be even one Isabel-damaged property that should have had flood insurance and did not. Nor should there be a homeowner without an adequate amount of coverage because the mortgage company didn't know what was required. Unfortunately, there were many of both. Greater lender education and involvement is critical to the success of the program and to the insurance security concerns of Marylanders.

In order to also cover property owners who, for one reason or another, have no mortgage, there needs to be a requirement that property owners in a floodplain are notified of the flood insurance requirement. Notification could be handled at the local level through tax assessment notices, but the Federal program should required that this happen.

In addition, when FEMA changes a flood zone, all property owners in affected zones need to be notified by certified letter from FEMA. Currently, the burden falls on the property owner to know if the property is in a flood zone. If at the time of sale of the property the site is not in a flood zone, but subsequently FEMA places it in a flood zone, the owner has no way of knowing. FEMA could notify local jurisdictions who would then be required to send the status change with property tax bills. Also, this information must be readily available at the time of a title search.

The MIA recommends that Federal officials work more closely with the Banking and Mortgage industry concerning the amount of flood insurance required in relation to the amount of the mortgage. Specifically, while mortgage lenders require flood insurance to cover the value of the mortgage, which includes the value of the structure AND the land, the NFIP policy only covers damage to the structure. So, although a policyholder may be required to pay for an insurance policy based on the full value of a mortgage, that policyholder can never recover the full value of the policy because some of it covers the value of land which is not covered under the policy. In the case of Hurricane Isabel, we have discovered that some people were "over insured" and paying for an amount of coverage they could never recover under any circumstances.

The Maryland Insurance Administration has, and will continue, to work with storm victims to help resolve their individual problems with their insurance companies, FEMA, and the NFIP. While the MIA can act as an advocate on behalf of individuals in their specific cases, this experience has revealed that there are broader, systemic problems that must be addressed in order to protect our citizens in the event of future disasters.

Given our current experience with the NFIP, a list of recommendations has been developed.

The Maryland Insurance Administration suggests FEMA, through the NFIP should:

At the time of the sale of the policy,

- Require Write Your Own (WYO) companies to audit policies at the time they are purchased to make certain appropriate rating and classification criteria (such as flood zone designation) have been applied and appropriate premium has been charged. Failure to perform the audit would preclude the company from charging additional premium at the time a claim is made.

- Assure that there is full disclosure of the difference between contents and structural coverage by requiring the signature of the insured on the application or other documents that explain and waive contents coverage.

- Assure that consumers understand how the Increased Cost of Compliance (ICC) coverage works. At the time of sale, there needs to be a written document given to the purchaser that explains what ICC includes (whether it includes stairs, garage doors, flood vents, steel beams, etc.), that the ICC payments will be paid out in increments not all at once if there is a claim, that the ICC coverage is not a flat $30,000 guaranteed payment for compliance costs but could be deemed to be less, etc.

- Provide to policyholders at time of sale, a Frequently Asked Questions ("FAQ") booklet or another easy to understand document that explains what is and what is not covered by the flood policy and how claims will be handled and paid under the policy. There should be a place on the document the purchaser signs where there is also a sign-off that the FAQ and ICC materials were given.

- Explain that a 30-day underwriting waiting period exists before the coverage becomes effective, unless the property is newly purchased and the policy must be procured in accordance with federal lending requirements.

- Assure that policyholders understand how the depreciation system works, i.e. that full replacement cost will not be paid until repair or rebuilding work is completed. This could cause a cash flow problem for the policyholder if damage is incurred.

In addressing the coverage currently provided by the policy,

- Conduct an exhaustive review of the terms and conditions of the policy in light of the types of properties located in the flood zones, (i.e. those with oil tanks located on the outside of the dwelling), the value of the properties and the coverage provided (i.e. no coverage for contents in basement or lowest level). The review should include an analysis of the items that are currently covered and excluded.

- Reassess the requirement that in order to get a Small Business Administration (SBA) loan, an NFIP policyholder who did not previously have contents coverage may be required to purchase a contents policy even if the structure is not currently inhabitable and there is no contents to insure at that point.

- Conduct a review of the policy provision that allows the insurance company to delay the settlement of a claim relating to the loss of contents pending the resolution of a claim relating to damage to the insured structure.

- Add in the cost of the sales tax required to pay for items when determining the total payment. Currently, the policy only pays for the actual cash value of replacement materials. When the policyholder or contractor purchase materials to rebuild, they have to pay the sales tax over and above what payment the policyholder has been given. This is a critical difference for people who are already strapped for cash.

- Consider amending the portion of the policy which states that repair or rebuilding of damaged or lost property will be made with material of "like kind and quality or its functional equivalent" by deleting the "functional equivalent" statement. It is unreasonable to expect that when people make an investment to upgrade their property and are paying added insurance to cover the value of that upgrade (and more of a mortgage), that they will not be compensated accordingly if there is a loss. An example is a kitchen with granite countertops which is valued by the appraiser for the value of Formica countertops. Both are functional equivalents, but while they may be "like kind," they are certainly not "like quality."

In review of the claims process,

- Establish a time deadline for inspection of damage and for the settlement of claims. The MIA received numerous inquiries and complaints because of the time it took adjusters to conduct initial inspections of properties, the time it took for adjusters to return with a proof of loss statement, the time it took for an offer of settlement to be made, and the time it has taken for a final check to be issued.

- Require the Single Adjuster Program to prevent consumers' confusion in dealing with multiple adjusters and to assure consistency in the claims handling process.

- Require that, when a claim is made, companies immediately provide the claimant with a document that explains in clear and simple language the claims adjustment process, including how the claimant can challenge the decision of the original adjuster.

- Create a formal appeals process for policyholders. Tell policyholders *in all printed materials* that they are entitled to ask for a General Adjuster to review the insurance company's adjuster's decision. Currently there is NO formal appeals process for policyholders who do not agree with the decision of the insurance company adjuster. There is no way for citizens to voice their dissatisfaction with the process, no way to see if their claim was received, no way to find out at where in the adjudication process their claim is, or no way to determine when they can expect to get an answer on the claim. In fact, the NFIP policy itself has neither a telephone number to call nor address to write directly to NFIP for inquiries.

- Require that claim denial letters give clear and specific explanations of the basis for the denial and include instructions for contesting the denial.

- Consider changing the depreciation portion of the policy so the policyholder is not caught short because payment for replacement value is a depreciated amount. In most cases, policyholders cannot pay contractors the difference (replacement cost minus depreciation cost) as they wait for their work to be completed and NFIP to pay the depreciation amount that has been held back.

- Consider changing the Proof of Loss timeframes. There also needs to be greater detail given concerning the parameters of the limits and the procedure for getting extensions of those limits.

    - Currently, a victim has 60 days from the time an offer of settlement is made to sign a Proof of Loss statement. Depending on the time of the year, the location of the property, the volume of damaged properties in an area, etc., a policyholder may not be able to get a contractor to come out and give an estimate of the cost of repair or replacement of a structure within 60 days. Given the rural setting of

some of the Hurricane Isabel damaged properties, the 60-day limitation was impossible.

- Currently, a victim has 180 days to get reimbursed by NFIP on "recoverable depreciation" (for work that has been completed). Again, depending on time of year, location, etc., work may not be completed in 180 days. People need to be told up-front that they can get an extension and how to do so.

- Require that people be told that even after they sign the proof of loss statement, they can reopen their claim if material and building costs go up. Policyholders can ask for a variance (with receipts for proof), even after construction has been completed, but many do not know this.

- Require that either the proof of loss statement or additional printed materials tell people to make copies of all paperwork before sending it back to NFIP or the insurance company. While it may seem like common sense to make copies of paperwork, people suffering the effects of a disaster may not be thinking clearly enough to do a seemingly simple thing such as this.

- Require the company to secure, at its own expense, an inspection of the property by a structural engineer when ICC coverage is at issue.

In review of the education requirements for sellers and buyers,

- Require that minimum educational standards be established for producers and adjusters working for all WYO companies participating in the program.

- Require that consumer education be provided by the producer at the inception of the policy, and Question and Answer documents, newsletters, etc. should be sent at renewal to the consumer. Flood damage mitigation and prevention tips should also be provided.

  The MIA acknowledges that subsequent to the Hurricane, at the request of Commissioner Redmer, NFIP staff held five free training sessions for insurance producers at four locations around Maryland. At those training sessions, 182 producers completed the course. Additional sessions will be planned by NFIP and supported by the MIA.

In the body of the policy or on a printed attachment to the policy,

- Require specific instructions that explain what a policyholder's appeals rights are, including what legal action can and cannot be taken against the WYO, FEMA, or NFIP. While FEMA may believe the National Flood Insurance Act made clear that Congress intended lawsuits only on a disallowance of a claim and that by creating the WYO program they did not intend to expand the areas in which policyholders could bring suit, insureds do not understand the narrow interpretation of sovereign immunity in these cases.

- Require contact information, including a telephone number and email address that policyholders can use if they have questions concerning coverage or the appeals process. The lack of any contact information forces the policyholders to turn to their local regulators who don't have jurisdiction or the WYO companies who may or may not know how to answer their questions.

Other FEMA/NFIP/SBA Observations

Because MIA personnel were at every location of the DRCs for every hour they were open, certain observations were made about the FEMA and the Small Business Administration (SBA) response. While we are grateful for the time the FEMA, NFIP, and SBA employees spent in our State trying to help citizens in this most critical time, inconsistencies in their messages only confuse people and may, in the long run, not get the right help to those who need it most.

The following are some of these observations, both positive and negative.

- In one DRC, the FEMA manager turned people away who had not yet called the toll-free telephone number to get a FEMA registration number. He would not let anyone use the telephone there. This was particularly difficult for those who had no home to call from and no cell phone to use. In another DRC, the FEMA manager let people use the telephone to call the toll-free telephone number and get registered.

- In one DRC, the FEMA manager held daily meetings at 8:30 a.m. (before the Center opened) for all of the participating staff, so everyone could share information with each other. In that way, each agency or program represented learned what the others were doing and how they would be able to help victims. The MIA staff person at that DRC thought it was very helpful.

- Some FEMA mitigation personnel volunteered information to victims about mold remediation, bringing it up even if the homeowner did not, while others did not seem to go out of their way to stress what help and information was available.

- At one DRC, the SBA representative was not aware of a program available to help people recover lost wages. A paper on the wall at the FEMA manager's desk explained what was available, the deadline, and where to call. The SBA representative said people had asked, but she hadn't known there was a program to tell them about. This was four weeks after the storm, after many victims had already been through the Center, and after many people had asked her for help which she was not able to give.

- There was no full-time NFIP representation at the DRCs. So, NFIP information and guidance was often provided by other FEMA representatives who may not have had any flood insurance training. Given the nature of this event, specific, consistent NFIP information was critical to the victims.

- Several of the NFIP representatives at the DRCs were knowledgeable, but somewhat defensive, in their conversations with victims. They could quote regulations supporting an NFIP decision without explaining why those regulations were in place. In this sort of event, people need to understand why certain decisions are made, not be lectured to about regulations.

- There was a misunderstanding about qualifying for, applying for, and getting ICC funds through NFIP. Victims were told they had to get "substantial damage" certifications from their County governments. Unfortunately, few were told or knew where in County government to go to get what they needed. In this sort of event, FEMA should coordinate information with the local jurisdictions, so the FEMA personnel know where to direct victims.

- Victims have recognized that people who had flood insurance are getting less monetary assistance from FEMA than those people without flood insurance. People without flood insurance are getting up to $5,000 for their lost possessions, while those with flood insurance and no contents coverage are getting nothing.

- Victims have recognized that no one is receiving the full $25,000 amount FEMA representatives told them was available at public meetings and at the DRCs. Most victims in Baltimore County say they are getting no more than $13,000 in assistance.

- SBA subtracts whatever amount a victim has been paid from FEMA. Those early payments went to cover daily living expenses, etc., but are being subtracted from the eventual rebuilding and rehabilitation loans. People need the full amount of the loans to cover their costs.

- The locations and times the DRCs were open were not sufficiently advertised after their initial opening announcements. Weeks after the storm, people were saying they didn't know where to go or that there was even a place to go to get help.

- Sometimes, there was not enough coordination and communication between the Disaster Field Office (DFO) and the DRCs. In one instance, two mini-DRCs opened in lower Dorchester County on a Saturday and the FEMA manager at the main Dorchester DRC didn't know until late that afternoon that they had opened. No other information, including location, was available.

Comments from the Insurance Industry

In addition, the MIA has received the comments listed below which are recommendations from the insurance industry. These comments should be explored with representatives from industry and the NFIP to determine whether these changes would benefit the policyholders.

- NFIP education for claim adjusters and agents needs to be tailored to the different skill levels, abilities and experience of adjusters and agents. Current educational programming is general and does not serve the needs of all agents and adjusters. At a minimum, there should be two levels of claims adjuster training classes: a basic class covering policy fundamentals and an advanced class incorporating complex claim handling, litigation issues, and file examination & exception trends. The materials need to be updated and maintained as changes are made to the Flood Program. Simple job aids should also be created.

- NFIP should expand the Preliminary Report completed by the claims adjuster to capture more of the critical rating factors relevant to the damaged property to ensure consistency in property description (such as dimensions, elevation, number of vents, etc.).

- NFIP should increase its allowance for expenses (such as cost for photographs) to validate property descriptions at the time of initial policy underwriting/issuance.
- To assist insurers in the deployment of claim adjusters for large catastrophic events, NFIP should assemble and distribute actual industry and NFIP data regarding the location and severity of loss at the onset of a large event, rather than relying on computer models.

- Increase initial claims capacity by encouraging and coordinating the development of inside (telephone) claims handling (education of techniques, development of best practices, and establishing clear method of inspection limits).

- The approval process for payment of SALAE (supplemental allocated loss adjustment expense) should be more mechanized and timely.

- NFIP should work with the insurance industry to develop a process for electronic filing and storage of claim files and supporting documentation.

- NFIP response time to WYO company and flood vendor inquiries, whether via e-mail, mail, or phone, should be quicker.

- All flood program requirements, clarifications and expansions must be in writing.

- Flood program changes are often not provided with sufficient advance notice for insurers to comply; new rating information should be sent via a rate file rather than PDF.
- Communications from NFIP should be electronic, rather than regular mail.

- When flood zones change, insurers should be provided with a file identifying all policies for which the zones have changed. This will allow WYO companies to mechanically update policies at the following renewal.

- All flood program Rules/Requirements should be reviewed in their entirety and simplified where the complexity is not warranted.

- It is recommended that NFIP assess whether there is a continuing need for Submit for Rating.

- Agents should be required to be certified to write flood policies.

Conclusion

The MIA has a rather unique perspective on the workings of the DRCs, because it staffed all of the DRCs at all times. It was MIA staff who gathered information at various locations about available programs and services, and then reported back to the MIA Associate Commissioner for Complaints in Baltimore. She then distributed the information, much of it not insurance related, back out to all of the MIA staff in the field. What became very clear early on, was that if the MIA didn't coordinate and distribute these messages to each of its staff members, important information would not have gotten to the people who needed help.

Because the FEMA employees work at one disaster after another around the country, it might be helpful if they received an orientation as a group when they are assigned to a new disaster location to help assure that their messages are uniform and appropriate for that disaster and jurisdiction. One would think the communication by FEMA/NFIP/SBA personnel would be consistent, but it was obvious that the level of training provided to such personnel (and thus the scope and accuracy of the information they could provide) varied greatly.

This report makes several suggestions that are intended to improve the Federal Emergency Management Agency's National Flood Insurance Program and its relationship with policyholders, producers, and the insurance companies that sell the Federal flood insurance product. The Maryland Insurance Administration stands ready to work with FEMA, the NFIP, and the Maryland Congressional Delegation to accomplish these goals. These policyholders and producers are our constituents. If this experience has taught us anything, it is that we must raise the awareness and understanding of flood zone property owners and educate the insurance industry on the policy and claims process.

Respectfully submitted,
Alfred W. Redmer, Jr., Maryland Insurance Commissioner
March 4, 2004

EXHIBIT 3

SENATE BILL 584

Unofficial Copy
C4

2004 Regular Session
4lr2593
CF HB 177

By: **Senators Stone, Dyson, Grosfeld, Harris, Hughes, and Jacobs**
Introduced and read first time: February 6, 2004
Assigned to: Finance

Committee Report: Favorable
Senate action: Adopted
Read second time: March 12, 2004

CHAPTER_____

1 AN ACT concerning

2 **Insurance Producers - Continuing Education Requirements**

3 FOR the purpose of requiring certain insurance producers to receive continuing
4 education on flood insurance under certain circumstances; requiring certain
5 insurance producers to complete the continuing education requirements relating
6 to flood insurance on or before a certain date; and generally relating to
7 continuing education requirements for insurance producers.

8 BY adding to
9 Article - Insurance
10 Section 10-116(a)(4)(iii)
11 Annotated Code of Maryland
12 (2003 Replacement Volume)

13 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF
14 MARYLAND, That the Laws of Maryland read as follows:

15 **Article - Insurance**

16 10-116.

17 (a) (4) (III) EACH INSURANCE PRODUCER WHO POSSESSES A LICENSE TO
18 SELL PROPERTY AND CASUALTY INSURANCE AND WHO SELLS FLOOD INSURANCE
19 SHALL RECEIVE CONTINUING EDUCATION THAT DIRECTLY RELATES TO FLOOD
20 INSURANCE.

1 SECTION 2. AND BE IT FURTHER ENACTED, That each insurance
2 producer subject to this Act shall have completed the continuing education
3 requirements related to flood insurance on or before September 30, 2006.

4 SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take
5 effect October 1, 2004.

WRITTEN TESTIMONY OF

Georgette J. Stelyn

BEFORE THE

HOUSE OF REPRESENATIVES HOUSING AND COMMUNITY OPPORTUNITY SUBCOMMITTEE

"REVIEW AND OVERSIGHT OF THE NATIONAL FLOOD INSURANCE PROGRAM"

APRIL 14, 2005

Thank you Chairman Ney and other Sub-Committee members for the opportunity to testify before you today.

I and many others like me desperately need your help. My goal today is to share with you my unwarranted experience with FEMA's National Flood Insurance Program (NFIP). The ordeal that the NFIP has put me and my family through has caused such tremendous stress, that my four little children now have no father at home. Our marriage could not survive the stress.

What happened to me and my family unfortunately happened to many of my neighbors, and, continuing unabated, will affect your constituents as well. We believed we had insurance. We trusted FEMA to stand behind our policy. Instead when the first time came for us to file a claim, FEMA, its private contractor and our insurance carrier, Travelers, left us out in the cold, with nothing but a run around, and a coordinated effort to deny us our policy rights and benefits.

I have seen information gathered on the flood victim's internet website. I consulted with a former Certified National Flood Insurance Adjuster. It is becoming quite clear to me in light of the evidence collected, that something is dreadfully wrong here, not an accident, but a plan.

Flood victims across the country need you to act. Although it is too late to put my family back together, I have learned in the past few days that others across the country are facing the same problems. FEMA and their partners are at it again.

Please put a stop to these abuses by shining the light on FEMA and its NFIP, and at a minimum institute just the simplest of business checks and balances to ensure the fair and equitable treatment of policyholders who you have required to make a personal investment in their protection

I have provided the details of my own claim experience and mistreatment by the NFIP, CSC (the 175th largest corporation in the country, Travelers (one of the largest insurance behemoths in the country), EDS, The Fountain Group, Simsol, or perhaps all of the above in concert, acting with impunity because they always have, and believe they always can.

Read the details of my claim to learn how the process denied us our rightful benefits, but please don't mistake the specific actions for the intent of the deeds. Our claim was frustrated, stalled and low-balled by design, under circumstances peculiar to us. My neighbors, though their details differed, were treated the same in the end.....denied their benefits as well. Different reasons...same result. You hear me today as but one voice. Please don't hear me as one little voice speaking only on behalf of myself, I come today to be heard as a bigger voice, speaking on behalf of those who have gone before me, suffer now as I did, and those who will continue to follow after me if you don't put a stop to the fraud being perpetrated on us.

July 1999 – We bought a single story ranch house in Seaford, Virginia, directly on the Chesapeake Bay at the mouth of the York River. We previously had our homeowners insurance through an agency in Hampton, but had no need for flood insurance. We were informed that federal law required us to have flood insurance for our new home if we were placing a mortgage.,

We were advised by the agent to purchase insurance separately for our house and our personal property, which we did. Subsequently our insurance coverage was raised each year to cover inflation, and keep us insured to eighty percent of the value of our structure, the amount required to receive Replacement Cost Value (RCV) in the event of a loss.

In the beginning of 2003 we completely remodeled our house and added a two-story attached garage and upstairs bedrooms, with work completed about four months prior to the hurricane. Accordingly we were again advised we had to carry flood insurance for the increased value of our home and mortgage, and we increased the building coverage.

Sept. 18, 2003, Hurricane Isabel came up the Chesapeake Bay. We had been ordered to evacuate, and took our four young children and dog to the interior of Virginia, in the Shenandoah Valley.

Sept. 19, at about 10:00 am we received a call from friends with the fire department, telling us that they had just cut through the trees to our house, and that our house was devastated, with our possessions scattered everywhere.

We called in an insurance claim as we drove back, and arrived back at the house by mid-afternoon.

Sept. 22, Travelers adjuster Chad Newman arrived. He spent about 30 minutes, measuring, taking notes and about 12 photos. He advised me to start compiling a list of all of my damaged and lost personal property, listing the items, and the amount we paid for each item. Finally, he asked if we needed any money, and wrote us an advance check for $5,000.00.

Over the next six weeks, I had numerous telephone conversations with Mr. Newman, attempting to gain an understanding of what was covered and how to put together the details he required from me for the claim, such as an itemized list of all of the items that were damaged or lost.

Eventually Mr. Newman advised me that he had a computer program which would calculate the values of every building and personal property item I would be claiming, and that if I wanted to recover the best value for my lost items I had to provide a receipt for the purchase of each item, or he would be compelled to use the pricing in his computer program. [did he say if he could deviate?]

By November, Mr. Newman tendered his first settlement offer totaling $49,205.87 for our house, less $8,071.67 (16.4%) for depreciation (even though we had finished completely remodeling four months before the hurricane). In addition he offered us $6,905.13 for our entire detached garage, less $1,213.50 in depreciation.

I remember distinctly discussing the value of my carpeting, again only four months old, and telling him that I could not find the receipts for it. He had offered to pay us $19.85 per yard, about 20% less than what we had paid, and less depreciation of 18% of the carpet value, for four months' use. I continued through most every other item he had listed, pointing out that according to contractors with whom I was getting prices, his pricing was far less than what was required to complete the repairs. His reply continued to be that, unless I had receipts showing the breakdown of pricing for each item listed by him, he was obligated to use the pricing in his computer program.

As I went through his settlement offer with him, pointing out pricing errors, and more importantly items that were missing altogether, Mr. Newman advised me that the estimate was just a "rough draft", and now that we had gone over it, he would do a revision.

At the same time I also gave Mr. Newman the list of our personal property, which totaled $193,968.08. Our coverage was only for $52,500.00, and Mr. Newman proceeded to assess depreciation of $138,138.08 (71%), arriving at a total personal property loss value of $55,380.00.

The revision of his rough draft was done the next month, then totaling $124,929.57, with depreciation now increased to 18.4% (for the same four month old construction items). With many items still missing and vastly underpriced, Mr. Newman now advised that he would make no more changes to our settlement offer. Essentially, we could take it or leave it. By then we had already paid out over $40,000.00 toward rebuilding our home, had been given only $5,000.00, plus $10,000.00 from FEMA, which they then demanded we pay back (which we borrowed to do). It seemed that we had better accept his offer, as we were being squeezed economically, and couldn't figure out where else to turn for any help.

The following April (2004) we received a letter from Anthony Lowe, Director, Mitigation Division, informing us that FEMA was implementing a "review process" for Hurricane Isabel flood claims.

We submitted a form outlining our position that our flood claim had been undervalued. Some time thereafter, someone called my husband (who had not worked on our claim at all), asking for some further information. I returned the call to the person, and answered his questions with respect to some basic information about our policy, and some other incidental information. He didn't want to know anything more about what our claim loss was, only what was the policy

coverage we bought, what amounts were we paid, and had we been paid any money under our ICC coverage. I assumed we would hear back from someone, but we never did.

Finally in August of 2005 I called the Review Task Force office, and was connected to another person who advised that the office was being shut down within two weeks due to the hurricanes in Florida, that he had reviewed my file, and determined that we might be entitled to a couple of thousand dollars more, which likely would not be worth our while to pursue, and would probably be lost in a paperwork shuffle anyway.

We never heard any more by telephone or by mail from FEMA or the Review Task Force.

In October, my foundation engineer introduced me to Daniel Montgomery, a professional insurance adjuster and consultant who had been working with Isabel and NFIP victims in our area. Mr. Montgomery came to our home, and reviewed our claim documents, photos and damage at no charge, which I understood he had done for other victims.

Mr. Montgomery subsequently advised me of the following:

1. Our claim had been calculated by a software program published by Simsol Insurance Services, utilizing a pricing database for new construction, not insurance repair and remodeling, which is far more costly on a unit price basis.

2. We had been paid for only a portion of the items required to bring our house back to it's pre-flood condition. Mr. Montgomery estimated that our claim was more likely twice the amounts that had been paid.

3. We had not been paid at all for mold which had begun to grow throughout the walls that were not covered by the adjuster, and had affected our children.

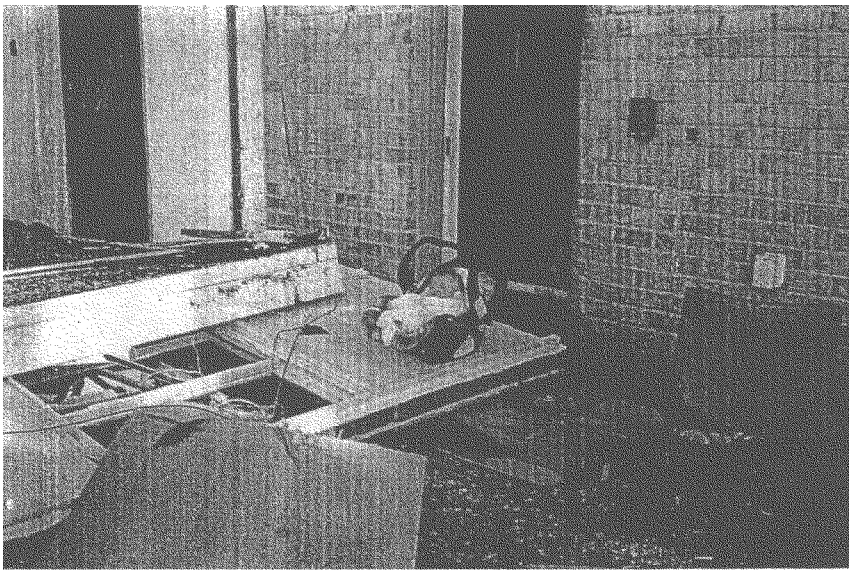
4. We had not been advised by the FEMA Task Force Review Team of either the status or the outcome of the claim review which we had requested.

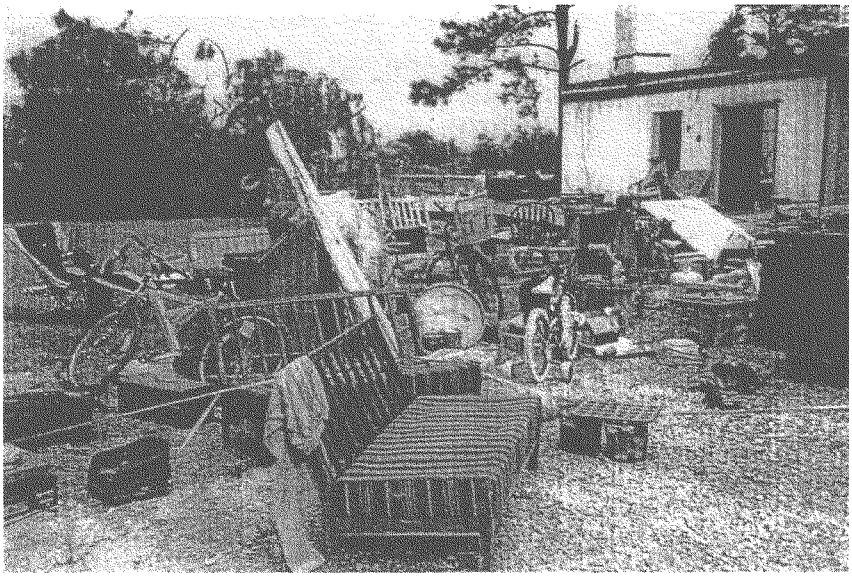
The pictures which follow will hopefully speak for themselves:

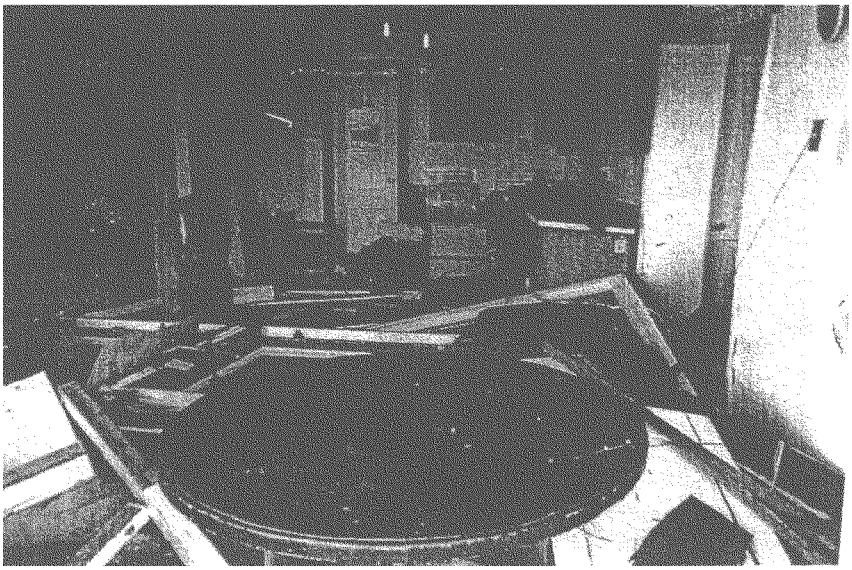
This concludes the detail summary of my testimony. Thank you for permitting me the opportunity to put but one face on those whose trust is being betrayed every day by this out-of-control agency. I sincerely hope we can all trust you to end the charade and fix the problems laid before you.

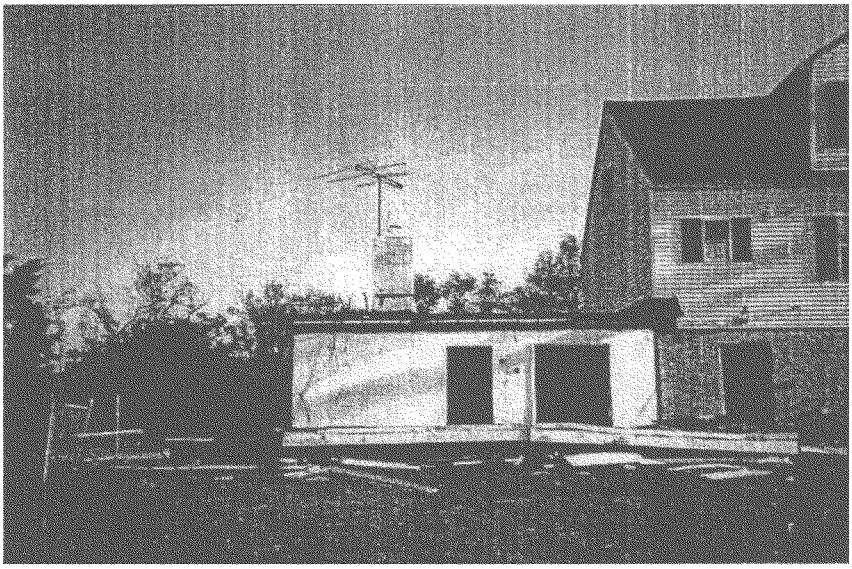
Sincerely,

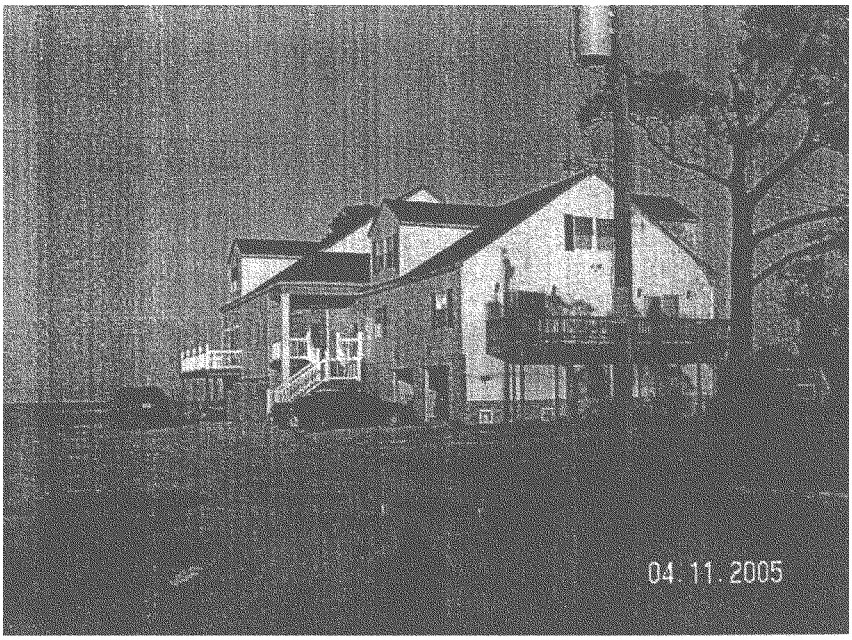
Georgette Stelyn







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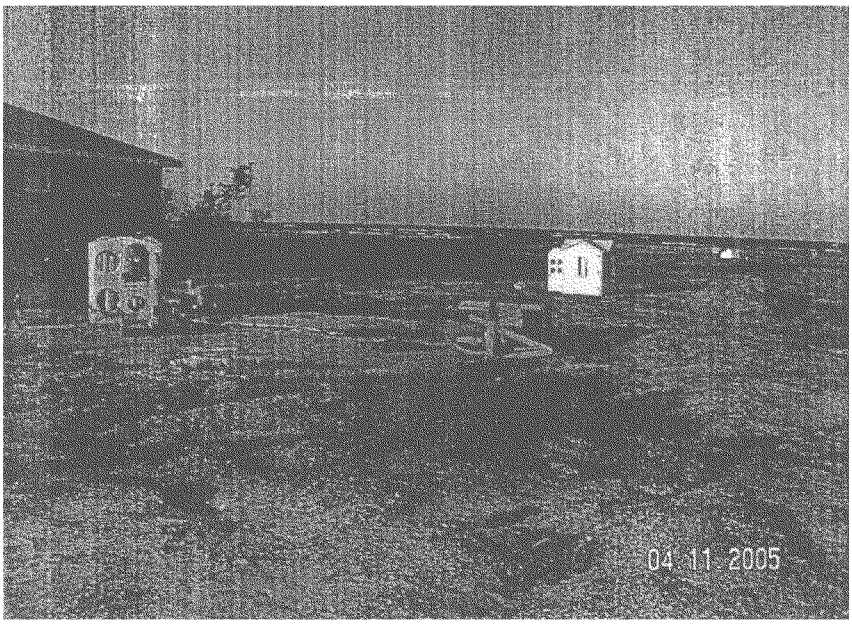
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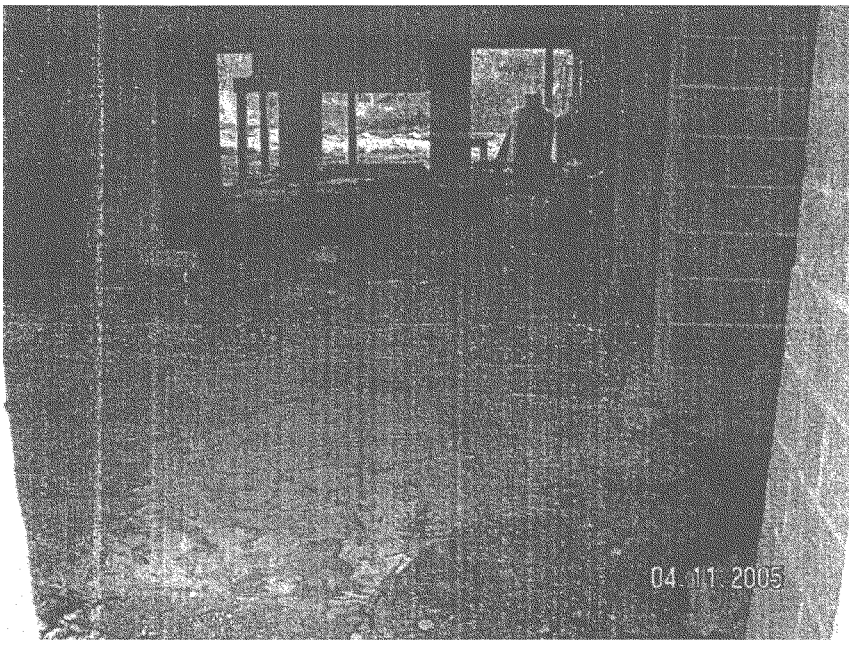
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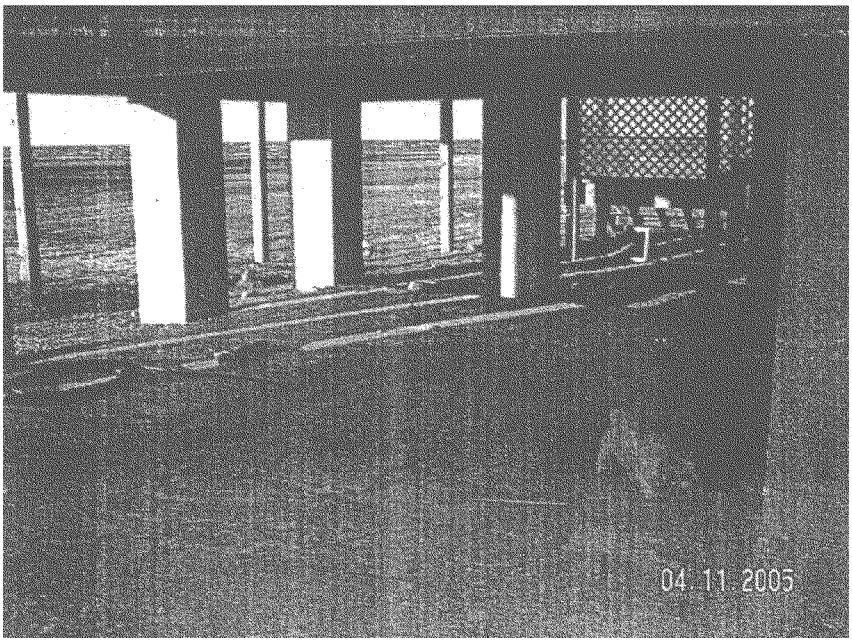
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United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name: Georgette J Stelyn	**2. Organization or organizations you are representing:** self
3. Business Address and telephone number: Home 923 Bay Tree Beach RD Seaford VA. 23696	
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2004 related to the subject on which you have been invited to testify? ☑ Yes ☐ No	**5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2004 related to the subject on which you have been invited to testify?** ☐ Yes ☑ No
6. If you answered "yes" to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets. yes, $14,135. in Rental assistance from fema	
7. Signature: Georgette J. Stelyn	

Please attach a copy of this form to your written testimony.

Georgette J. Stelyn
Witness Information Statement

Name:	Georgette J. Stelyn
Age:	35
Born:	Wilmington, Delaware
Address:	923 Bay Tree Beach Road Seaford, VA 23696
Flood Damaged Residence:	Same
Current Marital Status:	Separated
Dependents:	4 children ages 8, 6, 3 and 23 months (Two severely sickened by mold, and treated with nebalizers)
Occupation:	Homemaker
Education:	High School Graduate, Some college
Related reason for testifying:	Hurricane Isabel and NFIP Victim
Federal Grants:	Received FEMA rental assistance of $14,135.00 from September 2003 to August 2004.

Flood Insurance Offers Peace Of Mind

Release Date: October 16, 2003
Release Number: 1493-30

Washington, DC - If you can't afford to rebuild your home or replace your personal property if it were destroyed in a flood, you might consider a National Flood Insurance Policy. The D.C. Emergency Management Agency (DCEMA) and officials from the U.S. Department of Homeland Security's Federal Emergency Management Agency (FEMA) recommend such coverage. Flood insurance can make you whole again.

When Hurricane Isabel struck the East Coast last month, more than 1,143 District families and businesses had National Flood Insurance Program (NFIP) coverage for flood damages. Anyone can buy flood insurance if their community participates in the NFIP. The District is a participant so anyone in the city can buy National Flood Insurance. You don't have to be in a high-risk area to obtain a policy. In fact, 25 percent of damages occur outside of high-risk areas.

"Year in and year out, flooding is the leading cause of property loss from natural disasters in this country," said Scott Wells, FEMA official in charge of coordinating federal recovery efforts for Hurricane Isabel in the District of Columbia. "But all too often, people learn after the fact that protection against flood loss is not part of their normal homeowners insurance policy. Flood insurance will pay with or without a federal disaster declaration."

Important facts about flooding and the National Flood Insurance Program are:

- Flood damage is not covered by homeowners' insurance policies. You can protect your home, business and belongings with flood insurance. An NFIP policy can be purchased through your local insurance agent.
- Flood insurance pays even when no disaster is declared. Statistically, federal disaster declarations are issued in less than 50 percent of flooding incidents. An NFIP policy will pay for flood damage whether or not there is a federal disaster declaration.
- You can insure your home for up to $250,000 for the building and up to $100,000 for the contents. If you are a business owner, the maximum is $500,000 on the building and another $500,000 on contents.
- You can insure both structure and contents with a single flood insurance policy. However, you must specifically ask for coverage of your personal property when buying that policy. Contents coverage is not included unless you request it. Ask your agent. Renters can insure their personal property, as well.
- Flood insurance is affordable. The average flood insurance policy costs a little more than $300 a year for about $100,000 of coverage. Actual cost will depend on the flood zone location. If your property is not in a Special flood Hazard Area, it may qualify for a lower, preferred-risk premium.
- You can purchase flood coverage at any time. There is a 30-day waiting period after you have applied and paid the premium before the policy becomes effective. However, if you've just purchased a new home and are taking out a mortgage or are refinancing your current residence, there is no waiting period.

For more information on the National Flood Insurance Program, call the toll-free number at 1-800-427-4661. Homeowners, renters and business owners can call for the name of local agents who handle flood insurance.

On March 1, 2003, FEMA became part of the U.S. Department of Homeland Security. FEMA's continuing mission within the new department is to lead the effort to prepare the nation for all hazards and effectively manage federal response and recovery efforts following any national incident. FEMA also initiates proactive mitigation activities, trains first responders, and manages Citizen Corps, the National Flood Insurance Program and the U.S. Fire Administration.

Last Updated: Thursday, 16-Oct-2003 11:24:21

Return to the article

Questions for the Record for the Hearing:
"Review and Oversight of the National Flood Insurance Program"
House Subcommittee on Housing and Community Opportunity
Financial Services Committee
April 14, 2005

Questions submitted by Congresswoman Jo Ann Davis:

Training Disparity – Policy Sales v. Claims Adjusters

1. Are agents trained to lead policyholders to believe they will be restored to their pre-flood condition while adjusters are trained to allow only narrowly defined coverage in limited amounts?

Answer: As this involves a matter currently in litigation, we will not respond. The Complaint, filed on behalf of over 150 plaintiffs by Martin H. Freeman, Esquire, is captioned Thomas L. Moffett, II, et al. v. Computer Science Corp., et al., U.S.D.C. (Md.) Civil Action No. PJM05CV1547.

Low-Ball Pricing

2. Are adjusters basing claims settlements on new construction pricing in lieu of more costly repair and renovation prices?

Answer: As this involves a matter currently in litigation, we will not respond. The Complaint, filed on behalf of over 150 plaintiffs by Martin H. Freeman, Esquire, is captioned Thomas L. Moffett, II, et al. v. Computer Science Corp., et al., U.S.D.C. (Md.) Civil Action No. PJM05CV1547.

High Pressure Tactics

3. Were policyholders told by NFIP adjusters and officials that they were not entitled to advance payments nor told the deadline for filing a proof of loss had been extended?

Answer: As this involves a matter currently in litigation, we will not respond. The Complaint, filed on behalf of over 150 plaintiffs by Martin H. Freeman, Esquire, is captioned Thomas L. Moffett, II, et al. v. Computer Science Corp., et al., U.S.D.C. (Md.) Civil Action No. PJM05CV1547.

Task Force Conflict of Interest

4. Was an independent review of all non-policy limits claims associated with Hurricane and Tropical Storm Isabel conducted?

Answer: As this involves a matter currently in litigation, we will not respond. The Complaint, filed on behalf of over 150 plaintiffs by Martin H. Freeman, Esquire, is captioned Thomas L. Moffett, II, et al. v. Computer Science Corp., et al., U.S.D.C. (Md.) Civil Action No. PJM05CV1547.

Impact to Victims

5. Why are so many families still living in temporary FEMA housing nearly two years after Hurricane Isabel?

Answer: As this involves a matter currently in litigation, we will not respond. The Complaint, filed on behalf of over 150 plaintiffs by Martin H. Freeman, Esquire, is captioned Thomas L. Moffett, II, et al. v. Computer Science Corp., et al., U.S.D.C. (Md.) Civil Action No. PJM05CV1547.

NFIP Policy Interpretation

6. Does FEMA consider the NFIP policies as insurance or as a form of taxpayer funded aid? Please provide the documentation in support of FEMA's position? Please also provide all relevant documents that may appear contradictory to FEMA's position.

Answer: As this involves a matter currently in litigation, we will not respond. The Complaint, filed on behalf of over 150 plaintiffs by Martin H. Freeman, Esquire, is captioned Thomas L. Moffett, II, et al. v. Computer Science Corp., et al., U.S.D.C. (Md.) Civil Action No. PJM05CV1547.

7. What is the NFIP's position on the use of New Construction Pricing for calculating damage claims?

Answer: As this involves a matter currently in litigation, we will not respond. The Complaint, filed on behalf of over 150 plaintiffs by Martin H. Freeman, Esquire, is captioned Thomas L. Moffett, II, et al. v. Computer Science Corp., et al., U.S.D.C. (Md.) Civil Action No. PJM05CV1547.

8. Does the NFIP have any price lists or price guides that adjusters are not permitted to deviate from?

Answer: As this involves a matter currently in litigation, we will not respond. The Complaint, filed on behalf of over 150 plaintiffs by Martin H. Freeman, Esquire, is captioned Thomas L. Moffett, II, et al. v. Computer Science Corp., et al., U.S.D.C. (Md.) Civil Action No. PJM05CV1547.

9. Section VII paragraph V.2. Replacement Cost Settlement states that the NFIP "Will pay to repair or replace the damaged dwelling after the application of the deductible and without the deduction for depreciation…"

a. Why is depreciation withheld from RCV losses?
b. What steps is FEMA taking to halt such adjuster practices?

Answer: As this involves a matter currently in litigation, we will not respond. The Complaint, filed on behalf of over 150 plaintiffs by Martin H. Freeman, Esquire, is captioned Thomas L. Moffett, II, et al. v. Computer Science Corp., et al., U.S.D.C. (Md.) Civil Action No. PJM05CV1547.

10. The May 7, 2004, Claims Guidance Memorandum issued by FEMA states that sales tax is not to be withheld from victims' claims. Complaints of adjusters refusing to pay for sales tax on taxable items nevertheless continue.

a. What steps has FEMA taken to determine how many past claims were wrongfully denied sales tax?
b. What steps is FEMA taking to publicize the May 7, 2004, Claims Guidance Memorandum?

Answer: As this involves a matter currently in litigation, we will not respond. The Complaint, filed on behalf of over 150 plaintiffs by Martin H. Freeman, Esquire, is captioned Thomas L. Moffett, II, et al. v. Computer Science Corp., et al., U.S.D.C. (Md.) Civil Action No. PJM05CV1547.

11. Please cite any current FEMA regulations that contradict the attached proposed Claims Guidance Memorandum.

Answer: As this involves a matter currently in litigation, we will not respond. The Complaint, filed on behalf of over 150 plaintiffs by Martin H. Freeman, Esquire, is captioned Thomas L. Moffett, II, et al. v. Computer Science Corp., et al., U.S.D.C. (Md.) Civil Action No. PJM05CV1547.

12. In some cases policyholders have wall to wall carpeting installed on top of finished hardwood floors, yet the adjusters only allow for one type of floor covering.
a. Please provide the existing FEMA regulation that prevents both floor coverings materials from being legitimately reimbursed.
b. If no such regulation exists, why do complaints continue to be received on this point?

Answer: As this involves a matter currently in litigation, we will not respond. The Complaint, filed on behalf of over 150 plaintiffs by Martin H. Freeman, Esquire, is captioned Thomas L. Moffett, II, et al. v. Computer Science Corp., et al., U.S.D.C. (Md.) Civil Action No. PJM05CV1547.

13. The FEMA website states that "The WYO companies are free to choose whatever adjusters they wish, staff or independent, to adjust their flood losses and are likewise free to establish any related qualifications or requirements for adjusters, including, at their option, the requirement that an adjuster be NFIP certified."
a. How much construction experience does the NFIP require adjusters to have?
b. How much experience regarding water, moisture, and other flood related damage repair and replacement construction techniques are flood adjusters required to have?
c. Please provide a copy of the NFIP adjuster training video used in Tampa, Florida training session in the spring of 2004 held at the USAA Regional Training Center.

Answer: The NFIP does not require construction experience in order to become a certified adjuster. Individual adjusters who request certification through the NFIP Bureau and Statistical Agent are required to have at least 4 consecutive years of full-time property loss adjusting experience. The NFIP requires that the adjusters be capable of preparing an accurate scope of damage and dollar estimate to $50,000 for manufactured homes/travel trailers and to $500,000 for residential and commercial losses.

During the four consecutive years of loss adjustment and requisite preparation of accurate scopes of damage experience, it is expected that the adjuster would be exposed to a wide variety of loss experiences. These experiences would normally include exposure to water and moisture damage. The adjustment of water and moisture damage is similar to the adjustment of fire and wind losses in

that the adjuster will be able to visually recognize moisture damage by looking for signs of discoloration, swelling, and warping of the damaged property.

An alternative method for certifying adjusters was addressed by FEMA in an August 12, 2002, memorandum to the WYO companies which outlined that field training of adjusters is the responsibility of the WYO companies and the Independent Adjusting (IA) Firms. When the field training is complete, those deemed qualified by the WYO and IA firms are recommended to be certified by the NFIP.

A copy of the NFIP adjuster training video from 2004 is enclosed.

14. What steps does FEMA take regarding flood adjuster criminal background checks and verification?

Answer: FEMA does not hire adjusters. The National Flood Insurance Program Servicing Agent and the WYO Companies select the adjusters to handle their claims.

15. What steps does FEMA take regarding general adjuster background checks?

Answer: FEMA does not hire general adjusters. The general adjusters are hired by the NFIP Bureau and Statistical Agent.

16. How many congressional complaints did FEMA receive in regards to Hurricane and Tropical Storm Isabel?

Answer: Hurricane Isabel was declared as a major disaster in September 2003, and resulted in approximately 22,000 flood insurance claims being filed. FEMA received approximately 130 inquires from Members of Congress concerning Hurricane and Tropical Storm Isabel.

Isabel Task Force Review

17. How were the Task Force members selected?

Answer: Examiners were selected from a pool of available NFIP certified adjusters.

18. At what point did FEMA learn that many of the same adjusters and adjusting firms that handled the Isabel claims were part of the Task Force?

Answer: As this involves a matter currently in litigation, we will not respond. The Complaint, filed on behalf of over 150 plaintiffs by Martin H. Freeman, Esquire, is captioned Thomas L. Moffett, II, et al. v. Computer Science Corp., et al., U.S.D.C. (Md.) Civil Action No. PJM05CV1547.

19. What controls did FEMA have in place to verify that all of the notices of review that were to be mailed to victims were sent?

Answer: As this involves a matter currently in litigation, we will not respond. The Complaint, filed on behalf of over 150 plaintiffs by Martin H. Freeman, Esquire, is captioned Thomas L. Moffett, II, et al. v. Computer Science Corp., et al., U.S.D.C. (Md.) Civil Action No. PJM05CV1547.

20. Were all Task Force examiners instructed to follow the May 7, 2004, NFIP Claims Guidance Memorandum, and if not, why not?

Answer: As this involves a matter currently in litigation, we will not respond. The Complaint, filed on behalf of over 150 plaintiffs by Martin H. Freeman, Esquire, is captioned Thomas L. Moffett, II, et al. v. Computer Science Corp., et al., U.S.D.C. (Md.) Civil Action No. PJM05CV1547.

Request for Information and Questions submitted by Congressman Michael Fitzpatrick:
Please provide the following materials:

1. Agreements for services between the FEMA and/or the NFIP and Gerald Neilson *(sic)* or any entity he is associated with, relating to: (a) his representation of FEMA and/or the NFIP, and (b) his participation as an instructor of sales agents, adjusters and/or Inspector General special agents, and any attachments thereto.

Response: There are no service agreements between FEMA or its two insurance contractors, the NFIP Servicing Agent and the NFIP Bureau and Statistical Agent, and Gerald Neilsen. Any service agreement for his representation or participation as an instructor for the Write Your Own (WYO) Companies would be with the individual WYO Company. The Office of Inspector General (OIG) held a conference for its agents in San Diego, California, from April 30, 2002, to May 3, 2002, at which Mr. Neilsen was a speaker. OIG paid transportation, lodging, and per diem costs for Mr. Neilsen.

2. The two most recent contracts for services between FEMA and/or NFIP and National Flood Service, and any attachments thereto.

Response: FEMA and the NFIP do not have and have not had contracts with National Flood Service.

3. The two most recent contracts for NFIP related services between FEMA and/or NFIP and National Con-Serv Inc., and any attachments thereto.

Response: The requested contract is provided.

4. The two most recent contracts for NFIP related services between FEMA and/or NFIP and Computer Sciences Corporation, and any attachments thereto.

Response: The requested contract is provided.

5. The two most recent contracts for NFIP related services between FEMA and/or NFIP and Covansys, and any attachments thereto.

Response: FEMA has had only one contract with Covansys. That contract is provided.

6. The two most recent contracts for NFIP related services between FEMA and/or NFIP and EDS, and any attachments thereto.

Response: FEMA last had a contract with EDS in the early 1980s. A copy of that contract is not available.

7. The list of adjusters that worked on the Hurricane Isabel Task Force Review.

Response: See Attachment # 1 – Taskforce Adjusters.

8. Copies of all audits that have been conducted in the past six months of any contractors affiliated in anyway with the FEMA Call Center.

Response: The OIG has not conducted any audits in the last six months of contractors affiliated with the call center.

9. What are the total amount of flood insurance claims that the NFIP's legal counsel defended against in the past two years and what are the related defense costs?

Answer: FEMA's Office of the General Counsel and the Department of Justice represent the direct side of the NFIP in litigation. Our records do not show the amount of the claim, and the following is based on estimates of the amount of claims. Because defense costs are primarily in house, the costs of defense are estimated as well. Also, the Federal government may be sued in addition to Write Your Own companies, and the claims in litigation may overlap in part with the claims reported for the companies. Also, to the extent possible, the claims amount reported is limited only to contract claims, and excludes extra-contractual, tort, or Bivens claims related to the flood insurance claims.

FY 2004

- 26 litigation matters filed
- Approximately $2.05 million in insurance claims
- Approximately $105,000 in defense costs.

FY 2005

- 9 litigation matters filed
- Approximately $1.55 million in insurance claims
- Approximately $19,000 in defense costs.

Write Your Own Companies by regulation are responsible for the defense of NFIP litigation on policies written by the company. Eligible expenses are reimbursed from the National Flood Insurance Fund and are reported based on date or request for reimbursement, not the date the expenses were incurred. Records show aggregate expense costs per year, and are not broken down by matters filed per year. We do not maintain records showing the amount of claims per litigation, and the following is provided based on estimates:

FY 2004

- 63 litigation matters filed
- Approximately $4.725 million in insurance claims
- Approximately $2,438,000 in defense costs for all cases filed against companies related to NFIP.

FY 2005

- 65 litigation matters filed
- Approximately $4.875 million in insurance claims
- Approximately $2,194,000 in defense costs for all cases filed against companies related to NFIP (through May 2005).

10. What are the total amounts of flood insurance claims that the NFIP has reimbursed WYO carriers for indemnification of flood insurance related claims in the past two years, and what are the related reimbursement costs?

Answer: See Attachment # 2 – NFIP Reimbursement

11. What is the source of the funds used by the NFIP to pay Gerald J. Neilsen *(sic)* and/or the Neilsen *(sic)* Law Firm?

- How many NFIP appraisal cases has Gerald J. Nielsen and/or the Nielsen law firm been involved in within the past two years and what cases, if any, were the appraisal awards not honored and why not?

Answer: We have no record of Mr. Nielsen or anyone from the Nielsen Law Firm having served as an appraiser or umpire in an appraisal case.

12. Does FEMA consider the NFIP policies as insurance or as a form of taxpayer funded aid? Please provide the documentation in support of FEMA's position? Please also provide all relevant documents that may appear contradictory to FEMA's position.

Answer: As this involves a matter currently in litigation, we will not respond. The Complaint, filed on behalf of over 150 plaintiffs by Martin H. Freeman, Esquire, is captioned Thomas L. Moffett, II, et al. v. Computer Science Corp., et al., U.S.D.C. (Md.) Civil Action No. PJM05CV1547.

13. What is the NFIP's position on the use of New Construction Pricing for calculating damage claims?

Answer: As this involves a matter currently in litigation, we will not respond. The Complaint, filed on behalf of over 150 plaintiffs by Martin H. Freeman, Esquire, is captioned Thomas L. Moffett, II, et al. v. Computer Science Corp., et al., U.S.D.C. (Md.) Civil Action No. PJM05CV1547.

14. Does the NFIP have any price lists or price guides that adjusters are not permitted to deviate from?

Answer: As this involves a matter currently in litigation, we will not respond. The Complaint, filed on behalf of over 150 plaintiffs by Martin H. Freeman, Esquire, is captioned Thomas L. Moffett, II, et al. v. Computer Science Corp., et al., U.S.D.C. (Md.) Civil Action No. PJM05CV1547.

15. Section VII paragraph V.2. Replacement Cost Settlement states that the NFIP "Will pay to repair or replace the damaged dwelling after the application of the deductible and without the deduction for depreciation…"

- Why is depreciation withheld from RCV losses?
- What steps is FEMA taking to halt such adjuster practices?

Answer: As this involves a matter currently in litigation, we will not respond. The Complaint, filed on behalf of over 150 plaintiffs by Martin H. Freeman, Esquire, is captioned Thomas L. Moffett, II, et al. v. Computer Science Corp., et al., U.S.D.C. (Md.) Civil Action No. PJM05CV1547.

16. The May 7, 2004 Claims Guidance Memorandum issued by FEMA states that sales tax is not to be withheld from victims' claims. Complaints of adjusters refusing to pay for sales tax on taxable items nevertheless continue.

- What steps has FEMA taken to determine how many past claims were wrongfully denied sales tax?
- What steps is FEMA taking to publicize the May 7, 2004, Claims Guidance Memorandum?

Answer: As this involves a matter currently in litigation, we will not respond. The Complaint, filed on behalf of over 150 plaintiffs by Martin H. Freeman, Esquire, is captioned Thomas L. Moffett, II, et al. v. Computer Science Corp., et al., U.S.D.C. (Md.) Civil Action No. PJM05CV1547.

17. In some cases policyholders have wall to wall carpeting installed on top of finished hardwood floors, yet the adjusters only allow for one type of floor covering.

- Please provide the existing FEMA regulation that prevents both floor coverings materials from being legitimately reimbursed.
- If no such regulation exists, why do complaints continue to be received on this point?

Answer: As this involves a matter currently in litigation, we will not respond. The Complaint, filed on behalf of over 150 plaintiffs by Martin H. Freeman, Esquire, is captioned Thomas L. Moffett, II, et al. v. Computer Science Corp., et al., U.S.D.C. (Md.) Civil Action No. PJM05CV1547.

18. The FEMA website states that "The WYO companies are free to choose whatever adjusters they wish, staff or independent, to adjust their flood losses and are likewise free to establish any related qualifications or requirements for adjusters, including, at their option, the requirement that an adjuster be NFIP certified".

a. How much construction experience does the NFIP require adjusters to have?
b. How much experience regarding water, moisture and other flood related damage repair and replacement construction techniques are flood adjusters required to have?
c. Please provide a copy of the NFIP adjuster training video used in Tampa, Florida training session in the spring of 2004 held at the USAA Regional Training Center.

Answer: The NFIP does not require construction experience in order to become a certified adjuster. Individual adjusters who request certification through the NFIP Bureau and Statistical Agent are required to have at least 4 consecutive years of full-time property loss adjusting experience. The NFIP requires that the adjusters be capable of preparing an accurate scope of damage and dollar estimate to $50,000 for manufactured homes/travel trailers and to $500,000 for residential and commercial losses.

During the four consecutive years of loss adjustment and requisite preparation of accurate scopes of damage experience, it is expected that the adjuster would be exposed to a wide variety of loss experiences. These experiences would normally include exposure to water and moisture damage. The adjustment of water and moisture damage is similar to the adjustment of fire and wind losses in

that the adjuster will be able to visually recognize moisture damage by looking for signs of discoloration, swelling, and warping of the damaged property.

An alternative method for certifying adjusters was addressed by FEMA's August 12, 2002, memorandum to the WYO companies which outlined that field training of adjusters is the responsibility of the WYO companies and the Independent Adjusting (IA) Firms. When the field training is complete, those deemed qualified by the WYOs and IA firms are recommended to be certified by the NFIP.

A copy of the NFIP adjuster training video from 2004 is enclosed.

19. What steps does FEMA take regarding flood adjuster criminal background checks and verification?

Answer: FEMA does not hire adjusters. The NFIPSA and the WYO Companies select the adjusters to handle their claims.

20. What steps does FEMA take regarding general adjuster background checks?

Answer: FEMA does not hire general adjusters. The general adjusters are hired by the NFIP Bureau and Statistical Agent.

21. How many congressional complaints did FEMA receive in regards to Hurricane and Tropical Storm Isabel?

Answer: Hurricane Isabel was declared as a major disaster in September 2003, and resulted in approximately 22,000 flood insurance claims being filed. FEMA received approximately 130 inquires from Members of Congress concerning Hurricane and Tropical Storm Isabel.

Questions submitted by Congressman Dutch Ruppersberger

1. What entities are represented on the WYO Committee?

Answer: The WYO Standards Committee is composed of senior executives from participating WYO companies and senior FEMA officials involved in the administration of the National Flood Insurance Program.

2. Who are the individuals that sit on the WYO Standards Committee?

Answer:

Edward Connor
Director, Industry Relations
FEMA/Mitigation Division
500 C Street, SW, Rm 433
Washington, DC 20472

Roger Hanson
Assistant Vice President
State Farm Fire & Casualty Co.
One State Farm Plaza
Bloomington, IL 61710-0001

Thomas Hayes
Actuary
FEMA/Mitigation Division
500 C Street, SW, Rm 430
Washington, DC 20472

Leonard Kaplan
Delta Lloyds Insurance Co
Executive Vice President
Suite 1000
4828 Loop Central Drive
P.O. Box 2045
Houston, TX 77252-2045

Mickey Nugent
Vice President/Operations
Southern Farm Bureau Casualty
Suite 400
1800 E. County Line Road
P.O. Box 1800
Ridgeland, MS 39158-1800

Edward Pasterick
Industry Relations
FEMA/Mitigation Division
500 C Street N.W., Rm 429
Washington, DC 20472

Charles Plaxico
Director, Claims Underwriting
FEMA/Mitigation Division
500 C Street, SW, Rm 433
Washington, DC 20472

Paul Rowland
GO3E AVP Prop.
USAA
Claims Unit 132
9800 Fredericksburg Road
San Antonio, TX 78288

3. Where are the names of the WYO Standards Committee members published?

Answer: There is no formal publication of the names of the Standards Committee members, but the names are available to anyone who requests them.

4. What reason, if any, does FEMA have to keep the names of the WYO Standards Committee members private?

Answer: While FEMA has not formally publicized the names of Standards Committee members, neither has there been any attempt to keep them private. Very simply, we have treated the Standards Committee like any of the other committees (Marketing, IBHS Flood Committee, and Flood Insurance Producers National Committee) involved in the business of operating the NFIP and publicized their names to anyone who has an interest.

5. How is the WYO Standards Committee funded? What are the WYO Standards Committee's annual funding requirements? What is the origin of those funds?

Answer: The Standards Committee has no funding requirements. The only expenses are travel expenses for the company representatives associated with three meetings a year in Washington, D.C. The companies themselves absorb these expenses (not from NFIP monies). For the government representatives, Standards Committee participation is part of their normal duties.

6. What are the roles of the NFIP Standards Committee? How does the committee make their decisions vis-à-vis the NFIP? Does the committee interpret regulations, policies, or procedures that guide the NFIP, and if so, specifically, what rules, regulations, or policies?

Answer: The Standards Committee was established to monitor, evaluate, and make recommendations on WYO Company performance, which is guided by the WYO Arrangement and the WYO Financial Control Plan. Specifically, the Committee:

- Evaluates the WYO Companies' financial and statistical data and recommends improvements in quality and efficiency;
- Monitors WYO Companies that are not meeting program requirements, as the companies work to bring resolution to the deficient areas;
- Recommends actions to the Federal Insurance Administrator for WYO Companies that fail to reach and maintain acceptable levels of performance.

The committee interprets the provisions of the WYO Arrangement and the WYO Financial Control Plan that have to do with WYO Company performance.

7. What role does the Institute for Business and Home Safety (IBHS) Committee play vis-à-vis the NFIP? What is the IBHS' impact upon the NFIP? What WYO members financially support the IBHS?

Answer: Because the WYO is a unique partnership between the Federal government and the private insurance sector, it was regarded as important at the time of its initiation in 1983 to have an established insurance industry group serve as a resource to collaborate with and provide technical

support in the implementation of the WYO Program. The Federal Insurance Administration, both as part of HUD and FEMA, had worked closely with the National Committee on Property Insurance (NCPI) in the administration of the Riot Reinsurance Program and the oversight of Fair Access to Insurance Requirements Plans. NCPI, therefore, became a natural choice to expand its role to include flood insurance, and formed a Flood Committee. As NCPI gradually increased its focus on hazard mitigation it changed its name to IBHS, but retains the same role in the WYO Program as its predecessor. To the extent that the IBHS Flood Committee is composed of company representatives engaged in the daily operations of the NFIP, their input, advice, and recommendations are important to ensure that the NFIP establishes sound policies and procedures that conform, to the extent possible, to the standards for other lines of property insurance.

Generally speaking, all of the major WYO Companies are members of IBHS. The list of IBHS members is on their website at www.ibhs.org, and the list of WYO companies is attached.

Questions submitted by Congressman Earl Blumenauer

1. In your written testimony you say "we are working on options that may allow us to implement the pilot program." What are these options? What obstacles are you facing in implementing the program?

Answer: FEMA has focused attention on the repetitive loss problem by utilizing funds available within the Flood Mitigation Assistance Program, the Hazard Mitigation Grant Program, and the Pre-disaster Mitigation program to mitigate these properties. Since these programs were implemented, well over 3,000 repetitive loss properties have been mitigated. Use of funds from the National Flood Insurance Fund (NFIF), as contemplated under the Bunning-Bereuter-Blumenauer Flood Insurance Reform Act of 2004 (P.L.108-264), is a primary consideration. FEMA is currently in the rulemaking process, as required under the Administrative Procedure Act, to develop rules and procedures for the implementation of the Severe Repetitive Loss Pilot Program authorized under P.L. 108-264.

The 2004 hurricanes, in combination with Hurricane Katrina, place a significant stress on the NFIF, and we hope to restore the NFIF soon to a more favorable status. As a result of Hurricane Katrina claims, the borrowing authority for the NFIF has now been extended to $18.5 billion, and P.L. 109-90 has recently authorized FEMA to transfer up to $40 million from the National Flood Insurance Fund to the Pilot Program. Therefore, funding obstacles are no longer at issue for FY 2006 and FEMA is committed to implementing an effective program for mitigating repetitive loss properties.

2. We haven't seen much progress on regulations to implement the provisions of the Flood Insurance Reform Act. What are some of the critical issues highlighted by your consultation with States and communities? When can we expect to see something published?

Answer: FEMA intends to publish an Interim Final Rule addressing implementation of the program in the spring of 2006 prior to allocating funds to States.

On November 17, 2004, FEMA met with officials representing State and local governments, organizations representing emergency management, floodplain management, and the insurance professions, and other interested parties. The participants gave oral presentations regarding the Severe Repetitive Loss Pilot Program authorized by section 1361A of the Bunning-Bereuter-Blumenauer Flood Insurance Reform Act of 2004 (P.L.108-264). The comments presented at the meeting addressed aspects of the Severe Repetitive Loss Pilot Program, including the circumstances of severe repetitive loss property owners, the mitigation offer process, the effects of insurance premium increases on individuals who refuse mitigation offers, and the Appeals Process.

Critical issues raised at the consultation included defining the role of FEMA versus States in identifying to property owners their status as a Severe Repetitive Loss property, defining the role of FEMA versus States in making an offer of mitigation, and ensuring the accuracy of data used to make determinations that properties meet the definition of Severe Repetitive Loss properties.

3. Given FEMA's long-standing and repeated emphasis on the long-term benefits of mitigation of repetitive loss properties, I was surprised that no funding was requested for the pilot program for

FY 2005 or FY 2006. What is the status of this program and do you expect to submit a budget request for it?

Answer: P.L. 109-90, signed by the President on October 19, 2005, authorized FEMA to transfer up to $40 million to the NFIF to implement the program. This is the full amount authorized under the Bunning-Bereuter-Blumenauer Flood. As required by Section 102 of P.L. 108-264, a consultation with State and local officials for the purpose of providing an opportunity for oral presentations, on the record, on data and arguments relating to the procedures for the distribution of funds, was held on November 17, 2004. A report describing the rules procedures and administration for appeals was submitted to Congress on November 1, 2005. The definition of Severe Repetitive Loss as it pertains to Multifamily Properties is currently under internal review. Regulations to implement the reduced community match provisions of Section 103 of P.L. 108-264 are under development. FEMA is currently finalizing the first draft of the changes to current Increased Cost of Compliance (ICC) coverage. Measures to accurately identify severe repetitive loss properties, and those properties no longer subject to the definition, are underway.

4. Recently FEMA has raised concerns about using premium dollars for mitigation funding? Why did FEMA never raise these issues during the numerous hearings that the Committee had over the past few years? Is there clarifying legislation that would help ensure that premium dollars can be used to fund mitigation under the pilot program?

Answer: Because it was important to define our legal authorities to use the NFIF for this activity, we requested an opinion from our Office of General Counsel. The General Counsel has determined that the current legal authorities are sufficient for the use of premium dollars for this fund. No clarifying legislation is required.

5. The Flood Insurance Reform Act of 2004 includes a direction that "Not later than 6 months after the date of the enactment…of [the] act, the Director shall submit a report describing the rules, procedures, and administration for the appeals…" The bill was signed into law by the President on June 30th, 2004. Has the Agency finished this report? If not, when do you plan to have it done?

Answer: The report has been completed and was sent to members of the Senate Committee on Banking, Housing, and Urban Affairs and to members of the House Committee on Financial Services on November 1, 2005.

6. During the hearings on the bill in the Senate, last year, FEMA estimated that, under the proposed pilot program, approximately 7,500 severe repetitive loss properties would benefit from immediate mitigation activities such as increased elevation, relocation, demolition, or flood-proofing.

a. Is this still an accurate number?

Answer: Due to mitigation projects and some refinements of our data, we find that the number of repetitive loss properties is actually closer to 6,200 as of August 31, 2005.

b. How many of those can you mitigate with $8 million?

Answer: P.L. 109-90 recently authorized FEMA to transfer up to $40 million to the NFIF to implement the program. Based on the historical average cost to mitigate properties under FEMA's other mitigation grant programs, FEMA projects mitigating a total of 518 properties with a $40 million appropriation (less 5% administrative expenses).

c. Have you calculated what will be the eventual savings to the Flood Insurance Program of these mitigation actions?

Answer: FEMA calculated the eventual savings to the NFIP for both the Severe Repetitive Loss Pilot and the Individual Claims programs, assuming they are fully funded at the authorized $50 million per year. The properties that will be addressed by these programs are all at high risk of flooding. But even within this group, some face a much higher risk of flooding than others. FEMA assumes that the first round of awards will go to the highest risk of these properties and will continue to work its way down the list in succeeding years. As a result, FEMA expects the greatest payback to be from the properties mitigated in the early years of the programs. That payback will be as short as three years for those properties mitigated in the first round of the projects. Even for those properties mitigated in the fourth and fifth years of these programs, we estimate that they payback to the fund will still be only seven to nine years. For all these properties, the savings from reduced losses will continue to accrue to the program long after the project costs have been recouped.

d. Does FEMA anticipate focusing the additional $8 million in those states with the most severe repetitive loss properties?

Answer: For the Severe Repetitive Loss Pilot program, FEMA is required to allocate funds based upon the percentage of severe repetitive loss properties located within each State, and to prioritize funding for the greatest amount of savings to the National Flood Insurance Fund (P.L. 108-264). FEMA is considering options to mitigate severe repetitive loss properties and allocate funds to meet both of these requirements.

7. The legislation provided that mitigation claims payment (called ICC or Increased Cost of Compliance) could be made as part of a mitigation offer under certain circumstances.

a. Have the necessary steps to facilitate this been taken?

Answer: Yes, we are taking the steps to accomplish this. This requires a change to the language of our policy contract which is contained in the Code of Federal Regulations. We have drafted a change to the NFIP policy that will implement the ICC changes authorized by FIRA 2004. We are in the process of developing an interim rule to implement those changes. In addition, we are incorporating other changes to the NFIP policy that were also mandated by FIRA 2004. These changes include removing the requirement for retroactive payment of premium when a mis-rating is discovered at claim time. This interim rule will be reviewed by DHS and OMB before publication. In addition, following publication additional time will be needed to print the policy contracts and for participating insurance companies to implement the necessary computer program changes.

8. During the development of the bill, there were discussions about the importance of being able to use a mitigation strategy called 'demolish and rebuild'. This was considered important to helping people stay on their own land if at all feasible. There is concern that FEMA has not been

approving such projects – perhaps even withdrawing prior approvals. Is this the case? If so, why has FEMA decided to change their policy on demolish and rebuild?

Answer: FEMA has previously approved demolition rebuild activities on a limited basis under the FMA grant program as a pilot activity. The demolition rebuild concept was proposed to assist communities which discovered that homes were not structurally sound after the FEMA-funded elevation of the homes was underway. FEMA intended to use the pilot to explore the feasibility of this type of mitigation activity when other alternatives are not feasible. We are examining the results of those pilot projects to determine if demolition rebuild is a sound mitigation alternative that meets all of the statutory and regulatory requirements for existing mitigation grant programs.

Independent of FEMA's implementation of the Severe Repetitive Loss Pilot Program, FEMA will need to provide guidance on the allowable use of the demolition rebuild alternative project type in order to ensure mitigation projects that would benefit the fund.

Also, FEMA has not yet determined that the authority for conducting demolition rebuilds under the Severe Repetitive Loss Pilot Program extends to other FEMA mitigation grant programs, including the FMA program. However, if we determine that demolition rebuild is a sound, cost-effective mitigation alternative, we will consider demolition rebuild activities under other FEMA mitigation grant programs.

AMENDMEN'. OF SOLICITATIO... ...ODIFICATION OF CONTRACT

2. AMENDMENT/MODIFICATION NO. M005	3. EFFECTIVE DATE SEE BLOCK 16C	4. REQUISITION/PURCHASE REQ. NO. W361572Y/W318900Y	5. PROJECT NO. (If applicable)
6. ISSUED BY CODE Federal Emergency Management Agency Office of Financial Management Flood, Fire & Mitigation Division 500 C Street, S.W., Washington DC 20472		7. ADMINISTERED BY (If other than Item 6) CODE	

INTRACT ID CODE | PAGE 1 | OF PAGE 3

8. NAME AND ADDRESS OF CONTRACTOR (No., street, county, State and ZIP Code)

National Con-Serv, Inc.

451 Hungerford Drive, Suite 408
Rockville MD 20850

CODE | FACILITY CODE

(X) 9A. AMENDMENT OF SOLICITATION NO.

9B. DATED (SEE ITEM 11)

10A. MODIFICATION OF CONTRACT/ORDER NO. EMW-1999-CO-0512

X 10B. DATED (SEE ITEM 13) 09-30-1999

11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS

☐ The above numbered solicitation is amended as set forth in Item 14. The hour and date specified for receipt of Offers ☐ is extended, ☐ is not extended.
Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods:
(a) By completing Items 8 and 15, and returning _____ copies of the amendment; (b) By acknowledging receipt of this amendment of each copy of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment you desire to change an offer already submitted, such change may be made by telegram or letter, provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.

12. ACCOUNTING AND APPROPRIATION DATA (If required)
SEE CONTINUATION PAGE

13. THIS ITEM APPLIES ONLY TO MODIFICATIONS OF CONTRACTS/ORDERS, IT MODIFIES THE CONTRACT/ORDER NO. AS DESCRIBED IN ITEM 14.

(X) A. THIS CHANGE ORDER IS ISSUED PURSUANT TO: (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A.

B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation date, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103(b).

X C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF: FAR 52.237-3 Continuity of Services (Jan 1991)

D. OTHER (Specify type of modification and authority)

E. IMPORTANT: Contractor ☐ is not, ☒ is required to sign this document and return 3 copies to the issuing office.

14. DESCRIPTION OF AMENDMENT/MODIFICATION (Organized by UCF section headings, including solicitation/contract subject matter where feasible.)

SEE CONTINUATION PAGES ATTACHED

Contract Specialist: Nancy Costello 202-646-4373
Project Officer: Laurie Michie 202-646-2782

xcept as provided herein, all terms and conditions of the document referenced in Item 9A or 10A, as heretofore changed, remains unchanged and in full force and effect.

15A. NAME AND TITLE OF SIGNER (Type or print)		16A. NAME AND TITLE OF CONTRACTING OFFICER (Type or print) Chandra G. Lewis Contracting Officer	
15B. CONTRACTOR/OFFEROR (Signature of person authorized to sign)	15C. DATE SIGNED	16B. UNITED STATES OF AMERICA BY _____ (Signature of Contracting Officer)	16C. DATE SIGNED

STANDARD FORM 30 (REV. 10-83)

AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT

CONTRACT ID CODE | PAGE 1 OF PAGES

2. AMENDMENT/MODIFICATION NO.: M007

3. EFFECTIVE DATE: See Block 16C

4. REQUISITION/PURCHASE REQ. NO.: N/A

5. PROJECT NO. (If applicable)

6. ISSUED BY CODE FM-FM

Federal Emergency Management Agency
Office of Financial Management
Flood, Fire & Mitigation Division
500 C Street, SW, Room 350
Washington, DC 20472

7. ADMINISTERED BY (If other than Item 6) CODE

8. NAME AND ADDRESS OF CONTRACTOR (No., street, county, State and ZIP Code)

National Con-Serv, Inc.

451 Hungerford Drive, Suite 408
Rockville, MD 20850

CODE | FACILITY CODE

(X) 9A. AMENDMENT OF SOLICITATION NO.

9B. DATED (SEE ITEM 11)

10A. MODIFICATION OF CONTRACT/ORDER NO.: Con# EMW-1998-CO-0312

X 10B. DATED (SEE ITEM 13): 07-29-1998

11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS

☐ The above numbered solicitation is amended as set forth in Item 14. The hour and date specified for receipt of Offers ☐ is extended, ☐ is not extended.

Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods:

(a) By completing Items 8 and 15, and returning _____ copies of the amendment; (b) By acknowledging receipt of this amendment of each copy of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment you desire to change an offer already submitted, such change may be made by telegram or letter, provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.

12. ACCOUNTING AND APPROPRIATION DATA (If required): N/A

13. THIS ITEM APPLIES ONLY TO MODIFICATIONS OF CONTRACTS/ORDERS, IT MODIFIES THE CONTRACT/ORDER NO. AS DESCRIBED IN ITEM 14.

(X) A. THIS CHANGE ORDER IS ISSUED PURSUANT TO: (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A.

X B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation date, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103(b).

C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF:

D. OTHER (Specify type of modification and authority)

E. IMPORTANT: Contractor [X] is not, ☐ is required to sign this document and return _____ copies to the issuing office.

14. DESCRIPTION OF AMENDMENT/MODIFICATION (Organized by UCF section headings, including solicitation/contract subject matter where feasible.)

See Continuation Page(s)

Except as provided herein, all terms and conditions of the document referenced in Item 9A or 10A, as heretofore changed, remains unchanged and in full force and effect.

15A. NAME AND TITLE OF SIGNER (Type or print)

16A. NAME AND TITLE OF CONTRACTING OFFICER (Type or print): William M. Roberson, Contracting Officer

15B. CONTRACTOR/OFFEROR (Signature of person authorized to sign)

15C. DATE SIGNED

16B. UNITED STATES OF AMERICA BY William M. Roberson (Signature of Contracting Officer)

16C. DATE SIGNED: 4/24/00

STANDARD FORM 30 (REV. 10-83)

AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT

BPA NO. | 1. CONTRACT ID CODE | PAGE 1 OF P/

2. AMENDMENT/MODIFICATION NO: M004
3. EFFECTIVE DATE: See Block 16C
4. REQUISITION/PURCHASE REQ. NO.: [illegible]
5. PROJECT NO. (If applicable):

6. ISSUED BY — CODE
Federal Emergency Management Agency
Financial & Acquisition Management Div
Flood, Fire & Mitigation Branch
500 C Street, S.W., Room 350
Washington DC 20472

7. ADMINISTERED BY (If other than Item 6) — CODE

8. NAME AND ADDRESS OF CONTRACTOR (No., street, county, State and ZIP Code)
COMPUTER SCIENCES CORP.
3170 Fairview Park Drive
Falls Church VA 22042
CODE | FACILITY CODE

(X) 9A. AMENDMENT OF SOLICITATION NO.
9B. DATED (SEE ITEM 11)
10A. MODIFICATION OF CONTRACT/ORDER NO. EMW-1999-CO-0001
X 10B. DATED (SEE ITEM 13) 10-19-1998

11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS

☐ The above numbered solicitation is amended as set forth in Item 14. The hour and date specified for receipt of Offers ☐ is extended, ☐ is not extended.
Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods:
(a) By completing Items 8 and 15, and returning _____ copies of the amendment; (b) By acknowledging receipt of this amendment of each copy of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment you desire to change an offer already submitted, such change may be made by telegram or letter, provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.

12. ACCOUNTING AND APPROPRIATION DATA (If required)
See Continuation Sheet Page 2

13. THIS ITEM APPLIES ONLY TO MODIFICATIONS OF CONTRACTS/ORDERS, IT MODIFIES THE CONTRACT/ORDER NO. AS DESCRIBED IN ITEM 14.

(X) A. THIS CHANGE ORDER IS ISSUED PURSUANT TO: (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A.

B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation date, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103(b).

X C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF: Mutual Agreement of the Parties

D. OTHER (Specify type of modification and authority)

E. IMPORTANT: Contractor ☐ is not, ☒ is required to sign this document and return 3 copies to the issuing office.

14. DESCRIPTION OF AMENDMENT/MODIFICATION (Organized by UCF section headings, including solicitation/contract subject matter where feasible.)
Closeout Modification

Except as provided herein, all terms and conditions of the document referenced in Item 9A or 10A, as heretofore changed, remains unchanged and in full force and effect.

15. NAME AND TITLE OF SIGNER (Type or print): BOBBY G. STAPLES, DIRECTOR, FINANCE
15B. CONTRACTOR/OFFEROR (Signature of person authorized to sign)
15C. DATE SIGNED: 05/09/05

16A. NAME AND TITLE OF CONTRACTING OFFICER (Type or print): Chandra G. Lewis, Contracting Officer
16B. UNITED STATES OF AMERICA BY (Signature of Contracting Officer)
16C. DATE SIGNED: 5/17/05

STANDARD FORM 30 (REV. 10-83)

NO. 423 P. 2

AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT

BPA NO. | 1. CONTRACT ID CODE | PAGE 1 OF PAGES 4

2. AMENDMENT/MODIFICATION NO.: M013
3. EFFECTIVE DATE: See Blk 16C
4. REQUISITION/PURCHASE REQ. NO.: N3841267
5. PROJECT NO. (If applicable):

6. ISSUED BY (CODE):
Federal Emergency Management Agency
Financial & Acquisition Management Div
Flood, Fire & Mitigation Branch
500 C Street, S.W., Room 350
Washington DC 20472

7. ADMINISTERED BY (If other than Item 6) (CODE):

8. NAME AND ADDRESS OF CONTRACTOR (No., street, county, State and ZIP Code)
COMPUTER SCIENCES CORP.
CIVIL GROUP
[redacted]
7700 RUSSLE DRIVE, ROOM N408
LANHAM MD 20706

2of2

Question #4 2of2

CODE | FACILITY CODE

(X) 9A. AMENDMENT OF SOLICITATION NO.
9B. DATED (SEE ITEM 11)
10A. MODIFICATION OF CONTRACT/ORDER NO.: EMW-1999-CO-0485
X 10B. DATED (SEE ITEM 13): 09-30-1999

11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS

☐ The above numbered solicitation is amended as set forth in Item 14. The hour and date specified for receipt of Offers ☐ is extended, ☐ is not extended.
Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods:
(a) By completing Items 8 and 15, and returning _____ copies of the amendment; (b) By acknowledging receipt of this amendment of each copy of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment you desire to change an offer already submitted, such change may be made by telegram or letter, provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.

12. ACCOUNTING AND APPROPRIATION DATA (If required): See Continuation

13. THIS ITEM APPLIES ONLY TO MODIFICATIONS OF CONTRACTS/ORDERS, IT MODIFIES THE CONTRACT/ORDER NO. AS DESCRIBED IN ITEM 14.

(X) A. THIS CHANGE ORDER IS ISSUED PURSUANT TO: (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A.

B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation data, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103(b).

C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF:

X D. OTHER (Specify type of modification and authority) FEMA 52.237-3 CONTINUITY OF SERVICES -- and Contract Clause I.1 (Incorporated By Reference

E. IMPORTANT: Contractor ☐ is not, ☒ is required to sign this document and return 3 (three) copies to the issuing office.

14. DESCRIPTION OF AMENDMENT/MODIFICATION (Organized by UCF section headings, including solicitation/contract subject matter where feasible.)
See Continuation Sheet

Except as provided herein, all terms and conditions of the document referenced in Item 9A or 10A, as heretofore changed, remains unchanged and is in full force and effect.

15A. NAME AND TITLE OF SIGNER (Type or print): RAYMOND W. GLASS, SR. CONTRACTS ADMINISTRATOR

16A. NAME AND TITLE OF CONTRACTING OFFICER (Type or print): Chandra G. Lewis, Contracting Officer

15B. CONTRACTOR/OFFEROR: Raymond W. Glass (Signature of person authorized to sign) | 15C. DATE SIGNED: 12/21/04

16B. UNITED STATES OF AMERICA: Chandra G. Lewis (Signature of Contracting Officer) | 16C. DATE SIGNED: 12/21/04

STANDARD FORM 30 (REV. 10-83)

AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT

2. AMENDMENT/MODIFICATION NO. M001	3. EFFECTIVE DATE	4. REQUISITION/PURCHASE REQ. NO. W318706Y, W353563Y	5. PROJECT NO. (If applicable)
6. ISSUED BY CODE Federal Emergency Management Agency Financial & Acquisition Management Div Flood, Fire & Mitigation Branch 500 C Street, S.W., Room 350 Washington DC 20472		7. ADMINISTERED BY (If other than Item 6) CODE	

8. NAME AND ADDRESS OF CONTRACTOR (No., street, county, State and ZIP Code)

COVANSYS CORPORATION
32605 West Twelve Mile Road
Farmington Hills MI 48334

Question # 5

CODE FACILITY CODE

(X) 9A. AMENDMENT OF SOLICITATION NO.

9B. DATED (SEE ITEM 11)

10A. MODIFICATION OF CONTRACT/ORDER NO. EMW-2003-CO-0458

X 10B. DATED (SEE ITEM 13)

11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS

☐ The above numbered solicitation is amended as set forth in Item 14. The hour and date specified for receipt of Offers ☐ is extended, ☐ is not extended.
Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods:
(a) By completing Items 8 and 15, and returning _____ copies of the amendment; (b) By acknowledging receipt of this amendment on each copy of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment you desire to change an offer already submitted, such change may be made by telegram or letter, provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.

12. ACCOUNTING AND APPROPRIATION DATA (If required) Not Applicable

13. THIS ITEM APPLIES ONLY TO MODIFICATIONS OF CONTRACTS/ORDERS, IT MODIFIES THE CONTRACT/ORDER NO. AS DESCRIBED IN ITEM 14.

(X) A. THIS CHANGE ORDER IS ISSUED PURSUANT TO: (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A.

B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation data, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103(b).

C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF:

X D. OTHER (Specify type of modification and authority) Agreement of both Parties

E. IMPORTANT: Contractor ☐ is not, ☒ is required to sign this document and return 3 copies to the issuing office.

14. DESCRIPTION OF AMENDMENT/MODIFICATION (Organized by UCF section headings, including solicitation/contract subject matter where feasible.)

The purpose of this modification is to incorporate adjusted rates due to DCAA Audit and Negotiation.

See continuation page for details.

Except as provided herein, all terms and conditions of the document referenced in Item 9A or 10A, as heretofore changed, remains unchanged and in full force and effect.

15A. NAME AND TITLE OF SIGNER (Type or print) Jon Linstead Vice President - Covansys		16A. NAME AND TITLE OF CONTRACTING OFFICER (Type or print) Chandra G. Lewis Contracting Officer	
15B. CONTRACTOR/OFFEROR (Signature of person authorized to sign)	15C. DATE SIGNED 3/24/05	16B. UNITED STATES OF AMERICA BY Chandra G. Lewis (Signature of Contracting Officer)	16C. DATE SIGNED 3/25/05

STANDARD FORM 30 (REV. 10-83)

Hurricane Isabel Taskforce

	Examiner	
1	Lawrence Albertilli	
2	J.J. Altier	
3	Steve Arban	
4	Roy Armstrong	
5	Larry Bain	
6	John Bentz	
7	Doris Blake	
8	Marlowe Brown	
9	Roger Clary	
10	Donald Darraugh	
11	Larry Davis	
12	Paula Davis	
13	Charles Deaton	
14	Nataniel Derrell	
15	Ron Dickerson	
16	Terry Donohue	
17	Dave Ellis	
18	Jeff Gaines	
19	Anthony Giovanniello	
20	Ramsey Gray	
21	Ken Haraughty	
22	Kevin Hallaran	
23	Gary Helton	
24	Darrell Hicks	
25	Ernie Hitte	
26	C. Gary Hodges	
27	Robert Huebner	
28	Justin Hustead	
29	Gary Imboden	
30	Earl Ketchersaid	
31	Don Kerber	
32	Craig Kugler	
33	Roger Lubka	
34	Carol McGuire	
35	Ray Meyer	
36	Michael Maroney	
37	Jerry Moore	
38	Chris Neronski	
39	Anthony Nigro	
40	Mike Owens	
41	J.W. Paul	
42	Daniel Rivas	
43	Harry Robbins	
44	Louis Robinson	
45	Ray Roy	
46	James Sabolick	
47	Robert Spicuzza	
48	Bill Starbuck	
49	Matt Vore	
50	Fred Williams	
51	David Woodard	
52	Debra Woodward	
53	Richard Woodward	

April 14, 2005 Hearing	
WYO Companies	
For the period *April 1, 2003 - March 31, 2005*	
Total $ Paid Building	$ 1,952,124,177.57
Total $ Paid ICC*	$ 31,072,261.37
Total $ Paid Contents	$ 424,617,539.81
Total Claim Reimbursement	$ 2,407,813,978.75
Total related reimbursement cost	$ 487,467,799.19
*Increased Cost of Compliance (ICC) coverage provides for the payment of a claim for the cost to comply with State or community floodplain management laws for ordinances after a direct physical loss by flood. When a building covered by a SFIP under the NFIP sustains a flood loss and the State or community declare the building to be substantially or repetitively damaged, ICC will help pay up to $30,000 for the cost to elevate, floodproof, demolish, or relocate the building.	

2004-2005 SIGNED WYO COMPANIES	
WYO	Company Number
AIG National Insurance Company	36587
Allstate Insurance Company	19232
American Bankers Insurance Company of Florida	10111
American Colonial Insurance Company	31151
American Commerce Ins. Co.	19441
American Family Mutual Insurance Company	19275
American National Property & Casualty Company	28401
American Reliable Insurance Company	19615
American Strategic Insurance Corp	10872
American Summit Insurance Co.	19623
Audubon Insurance Company	19933
Auto Club Group Insurance Company	21210
Auto Club South Insurance Company	41041
Auto - Owners Insurance	18988
Balboa Insurance Company	24813
Baldwin Mutual Insurance Company	31186
California State Automobile Association	15539
Capital City Insurance Company	30589
Century - National Insurance Company	26905
Citizens Insurance Company of America	31534
Colonial American Casualty & Surety Co	34347
Converium Insurance of North America	22730
Cooperativa De Seguros Multiples Pr	18163
Cornerstone National Insurance Co.	10783
Delta Lloyds Insurance Company	15458
Everett Cash Mutual Insurance Company	17043
Farmers Insurance Group of Companies DBA: Fire Insurance Exchange	21660
Federated National Insurance	27980
Fidelity and Deposit Group	08192
Fidelity National Insurance Company	25180
Fidelity National Property & Casualty Ins. Co.	16578
First American Property & Casualty Insurance Co.	37710
First Insurance of Hawaii, LTD.	41742
Florida Family Insurance Company	10688
Florida Select Insurance Company	10663
Franklin Homeowners Assurance Company	10680
Hanover Insurance Company	22292
Harleysville Mutual Insurance Company	14168
Hartford Fire Insurance Company	19682
Hartford Underwriters Insurance Company	30104
High Point Preferred Insurance Company	28959
Holyoke Mutual Insurance Company	14206
Homesite Insurance Co.	17221
Imperial Fire & Casualty	44369
Indemnity Insurance Company of North America	43575
Integrand Assurance Company	26778
Island Insurance Co., LTD.	22845
League of Minnesota Cities Insurance Trust (PEI)	99996
Liberty Mutual Fire Insurance Company	23035
Mapfre PRAICO Insurance Company	43052
Metropolitan Property and Casualty Insurance Company	26298
Middlesex Mutual Assurance Company	14532
Millville Mutual Insurance Company	17450

Mobile USA Insurance Company	32760
National Grange Mutual Insurance Company	14788
National Insurance Company	12076
National Interstate Insurance Company	32620
National Lloyds Insurance Company	15474
Nationwide Mutual Fire Insurance	23779
New Hampshire Insurance Company	23841
New Jersey Re-Insurance Company	35432
New Jersey School Board (PEI)	**99995**
New York Central Mutual Fire Insurance	14834
North Sea Insurance Company	38148
Omega Insurance Company	38644
Pacific Indemnity Insurance Company	18380
Patrons Mutual Insurance Company	14923
Philadelphia Contributionship Company	17914
Pilgrim Insurance Company	21750
Preferred Mutual Insurance Company	15024
Seguros TRIPLE-S, Inc.	40568
Selective Insurance Company of America	12572
Senior Citizens Mutual Insurance Company	44172
Service Insurance Company	36560
Sierra Pacific Insurance Company	35041
Southern Family Insurance Co.	10661
Southern Farm Bureau Casualty Insurance	18325
State Farm Fire & Casualty Company	25143
Sunshine State Insurance Company (New)	10860
St. Paul Travelers Companies Inc., The (formerly Travelers Property Casualty)	25658
Tower Hill Preferred Insurance Company	29050
Union American Insurance Company	10575
Union Mutual Fire Insurance Company	25860
United Ohio Insurance Company	13072
United Property & Casualty	10969
United Surety & Indemnity Company	44423
Universal Insurance Company	31704
USAA General Indemnity Company	20003
U.S. Security Insurance Company	21300
Utica First Insurance Company	15326
Virginia Association of Counties, Inc (PEI)	**99994**
Vesta Fire Insurance Corporation	11762
Westfield Insurance Company	24112
Windsor-Mount Joy Mutual Insurance Company	26166
NOTE: PEI's are Public Entity Insurers	
Last Updated: November 19, 2004	

WRITTEN STATEMENT OF

WILLIAM GRIFFIN, JR.
PRESIDENT, BARTLETT, GRIFFIN AND VERMILYE
INDEPENDANT INSURANCE BROKERAGE

BEFORE THE

HOUSE OF REPRESENTATIVES HOUSING AND COMMUNITY OPPORTUNITY SUBCOMMITTEE

"REVIEW AND OVERSIGHT OF THE NATIONAL FLOOD INSURANCE PROGRAM"

APRIL 14, 2005

Thank you Chairman Ney and other Sub-Committee members for the opportunity to submit my written testimony.

I am part owner and president of Bartlett, Griffin and Vermilye, Inc. (BG&V) an independent insurance agency in Easton Maryland in operation since 1947. I have been licensed and selling insurance products since 1986.

BG&V is an all lines independent agency representing 25 companies. One of the lines we sell is Flood Insurance. We represent Selective Insurance, Travelers Insurance Company and we represented Omaha Property and Casualty until the spring of 2004. At that time, Omaha sold its flood business to Fidelity. I understand that Fidelity is now the largest flood insurance company in the country.

I have sold and serviced flood insurance for 18 years, and our agency has sold flood insurance since the inception of the NFIP. Prior to Hurricane Isabel our firm had never seen nor experienced any troubles with the NFIP claims adjustment process that approached the magnitude of what we experienced after Hurricane Isabel.

I have watched as many of my clients, primarily those with substantial claims, received small fractions of what they were entitled to, as well as outright wrongful denials of coverage, under the terms of their policies. The resultant havoc wrecked on these people's lives has been nothing less than cataclysmic. In some cases both adults in the household have been forced to take on multiple jobs so they can pay multiple mortgages. In other cases people have remained in campers or otherwise out of their homes for 18 months and counting.

The claims practices I have witnessed first hand being carried out by giants in the industry, employees of Omaha Property and Casualty, and now Fidelity, as well as Computer Sciences Corporation (CSC), runs contrary to my business principles and ethics.

I attended a (NFIP) agent training of approximately fifty agents on June 14, 2004. The training was conducted by NFIP's contractor, CSC, under the direction of the NFIP. The CSC trainer clearly stated that agents are to inform their policyholders they are buying insurance and policyholders will be restored to their pre-flood condition. A very relevant part of the transcript is as follows:

Q. Before we move on, now that we are talking about RCV, can you please explain RCV? I am not asking about a live loss, but rather, what should agents explain to their clients as far as what the policy pays for, in the case of RCV, in the event that a covered peril is affected by the flood? Is it the Program's intention concerning RCV to restore the loss to its pre-loss condition?

A. "The policy pays upon the Proximate Cause ... the Domino Theory of insurance ... The unbroken chain of events. Because the original cause was flooding, as defined, (his slide stated the policy language - 2 or more acres or two adjacent properties) the loss would be covered under the policy."

Q. In other words, is the policy intended to restore the RCV loss to its pre-loss condition?

A. Well, the policy can never do that because the policy always contains a deductible.

Q. But not withstanding the deductible, in regards to covered perils, will the line item be restored to its pre-loss condition?

A. Yes.

This instruction, while consistent with NFIP marketing efforts, is wholly contradictory to what CSC Claims Manager Joe Buzzelli stated to me and my clients on several occasions. Contrary to the sales agent training, Mr. Buzzelli told me that significant coverage was not included under the Standard Flood Insurance Policy (SFIP), such as moisture damage and mold cleanup.

I also received the same incorrect information from Omaha Property and Casualty's Jerry Dubyak. In addition, several months after Isabel struck; I attended a Fidelity sales meeting where Mr. Dubyak was introduced as Fidelity's primary spokesperson regarding flood insurance claims. At the meeting, Mr. Dubyak told the group that the NFIP did not provide insurance, but rather assistance in the form of aid. He continued on to say that coverage only exists in the event that flood waters physically come in contact with the damaged property. I believed that this misstatement was so significant that I brought it to the

attention of Mr. Dubyak's manager, Ms. Deb Price, yet to no avail. I understand Fidelity is now the nation's largest flood insurance carrier.

An example the "Direct Physical Contact" issue is one where the flood severely damages the first floor to the point of partial collapse. Without the first floor support, a portion of the roof collapses. I am aware of cases where the adjuster then uses this "Direct Physical Contact" argument to disallow the roof, stating it is not covered inasmuch as it was never contacted by flood waters. As a result, the policyholder is wrongly disallowed coverage leaving them unable to make repairs.

I watched first hand as one of my clients, Mr. Steven Kanstoroom, worked through the NFIP system. After six months of concentrated efforts, Mr. Kanstoroom received written documentation from the NFIP stating that the very damages Mr. Buzzelli and Mr. Dubyak had disallowed, were in fact covered. Coverage that had been wrongfully denied using the "Direct Physical Contact" argument. The difference between Omaha, and CSC's first offer and NFIP's final assessment of damage was 295% of the original amount offered. The original offer was $85,000 and the ultimate payment was $250,000.

I was with Mr. Kanstoroom when he provided this same information regarding "Direct Physical Contact" to FEMA's Deputy Director Trey Reid. I also understand from Mr. Kanstoroom and a Baltimore Sun article that Mr. Kanstoroom provided the information to CSC's Deputy General Counsel Harvey Bernstein at a meeting attended by Maryland Senator Sharon Grosfeld and Assistant Attorney General Kathleen Birraine, Senator Dole's aide Alexander Robertson and victim advocate Beth Midgett in July of 2004. Regardless, to date my agency has received no bulletins of any kind from CSC or the NFIP in regards to changes in their coverage determinations.

In early September 2004, FEMA's Acting Director, David Maurstad, publicly announced FEMA's new position that the NFIP is intended to provide "some assistance" and he has also taken the position Congress never intended the victims be restored to their pre-flood condition. This position is contrary to the language in S. 2238 and which was signed into law by President Bush on June 30, 2004.

SEC. 208. GAO STUDY AND REPORT.

(a) STUDY- The Comptroller General of the United States shall conduct a study of--

(1) the adequacy of the scope of coverage provided under flood insurance policies in meeting **the intended goal of Congress that flood victims be restored to their pre-flood conditions**, and any recommendations to ensure that goal is being met;

Mr. Maurstad's position contradicts the agent training and has now opened up scores of industry professions to consumer protection actions. The attached email I received that was written by another Omaha Property and Casualty policyholder demonstrates the effect Mr. Maurstad's comments are having on the adjusters, whereby adjusters wrongly tell victims they are not entitled to receive "like for like".

Mr. Maurstad's position describing the NFIP as a program that merely provides "some assistance" has resulted in tremendous suffering of the policyholders who trusted their carriers and FEMA to deliver on their contract benefits. Ironically, FEMA's position in denying these contract benefits, has unfairly burdened taxpayers by forcing policyholders to apply for aid.

I believe it is vitally important for insurance customers to receive the safety net they purchase. Allowing these bait and switch tactics to go unchecked is destroying people's families and lives as they knew them. The fact is, they bought and paid for coverage that has been wrongfully denied from them with devastating consequences.

In addition, these wrongful denials of claims have a damaging effect upon our client relationships and core business. I tried to bring these matters to FEMA's attention to no avail. Despite numerous phone calls, no one seemed to understand the program, nor care about the victims, at FEMA, its third-party processors, or its WYO carriers.

I believe that Congress never intended to set-up a situation whereby policyholders are required by law to purchase insurance, only then to be told in their time of need they will receive fractional cents on their Replacement Cost Value (RCV) losses. All without any remedy to be made whole, and for all intents and purposes, without any remedy due to the current legal landscape.

As it currently stands, the adjusting firms that handled many of my client's claims, and the Write Your Own Carrier that serviced their accounts, are virtually untouchable. The system is set up such that it is lacking any federal regulation over the insurance carriers, including the government's own NFIP. The result is that these entities answer to no one and are left to have their way with the policyholders.

Despite the Senate's directive that FEMA conduct an independent review of Isabel claims, I have first hand knowledge that such review was far from independent. I personally attempted to resolve inadequate settlements on behalf of my clients, yet in each case the same management members at CSC were involved with the process. As a result of the conflicted review process, I still have clients unable to rebuild who remain out of their homes to this day.

I believe that Congress needs to act to implement protections for the policyholders, including regulations, guidelines and oversight mechanisms against abusive claims practices, and devise stiff penalties for those that prey upon the most vulnerable in our society – people who have lost virtually everything they have.

In the interim, Congress needs to direct FEMA to publicize accurate and consistent information regarding coverage, given that the agent and adjuster trainings are so radically disparate. At this time, the only source of such information on a federal program appears on the website run and managed wholly by private citizens, www.femainfo.us . I also believe that Congress should direct FEMA to conduct a fair an independent review of all claims that

have been made and processed in reliance upon the erroneous instructions provided to adjusters in their training classes and materials.

Thank you very much for considering the written testimony. It is also my fervent hope that this hearing will result in a though and proper investigation of these matters. My preference would be to testify in person before the committee and I look forward to that opportunity when the Committee has time to permit me to do so.

Sample email from Omaha Property and Casualty policyholder:

Xueid2@aol.com [mailto:Xueid2@aol.com]
Sent: Thursday, September 16, 2004 11:08 AM
To: sjk@femainfo.us
Cc: betty_deacon@mikulski.senate.gov
Subject: Jennifer Dieux and Eric MacKay

Steve and Betty

Here are the notes I took from the meeting we had today with David Woodward from the Task Force on our Omaha Flood Claim.

1. This policy is not a valued policy

2. This is not insurance, it is designed as help

3. This program has been self sufficient in the past, but is not now.

4. There is some "rumble" that they will be going back to old way of handling it, by way of just giving out loans to help people when they are flooded. Low interest and SBA Loans.

5. There must be direct physical contact with the water for it to be covered.

6. If you have $107,000 worth of coverage, you will NEVER see the full amount of your policy. That is just not how it works. It is not like a homeowners policy.

7. His wife told me about a house mover in Cambridge that just elevated a long house and they did the foundation and everything for $37,000. She said that the name of the company was HOUSEMOVERS and she was going to call me tomorrow with the phone number. She said they still have the file on that one and if she doesn't call me tomorrow with, call David and he will get the number to me.

All of this information from David Woodward makes me feel very concerned and upset.

Please feel free to share this info with anyone you feel may be able to help us receive a fair settlement.

Thanks for all of your help!

Jennifer

Testimony of

Gary Moselle

Publisher and CEO
Craftsman Book Company
6058 Corte Del Cedro
Carlsbad, CA 92009

Regarding

FEMA's National Flood Insurance Program; Calculation of Damages and Adequacy of Payments

before

the House Committee on Financial Services
Housing and Community Opportunity Subcommittee

April 14, 2005

My name is Gary Moselle, and I am the publisher and CEO of Craftsman Book Company. I'd like to thank you, Mr. Chairman, on behalf of my organization, for allowing me to submit testimony concerning the important issues, and significant problems, we believe have been uncovered in regards to the low-balling of claims within the National Flood Insurance Program (NFIP), and the property insurance industry.

Craftsman is recognized as an authority on the cost of both new residential construction and the cost of home improvement, home repair and property loss adjusting. Craftsman cost references have been used by construction estimators and property loss adjusters for over fifty years. Craftsman develops and licenses construction cost estimating data to over a dozen vendors of cost estimating and property loss adjusting programs.

Given that Craftsman data is at the center of a controversy affecting potentially hundreds of thousands of families across the country, I made arrangements to testify before your committee in person, however, recently learned that the committee's time constraints make such oral testimony at this time not possible.

In January 2004, I learned that our new construction pricing data was being used for the purpose of writing insurance estimates. I wrote the attached letter to pattern recognition and fraud detection expert, Mr. Steven Kanstoroom. The letter clearly states such use of our data was never intended by the publisher and, if used as is, would result in pennies on the dollar for insurance claims.

I learned Mr. Kanstoroom provided my letter to the Senate Banking, Housing and Urban affairs Committee. I also understand that, in large part based upon my letter, the Senate directed FEMA to conduct an independent review of all Hurricane and Tropical Storm Isabel Flood claims.

Subsequently, I understand FEMA issued a directive on May 7, 2004. The directive instructed adjusters to consider actual repair costs and estimates in addition to computer generated numbers.

The issue is not one of using computer generated pricing in the calculation of insurance estimates, but rather the use of the correct cost book. The fact is the cost of new construction is far less than the cost of repair and renovation – in some case by a factor of fifty times or more. For example, the time required to remove and replace a new plumbing trap in the event the wrong material was used, brass instead of copper for example, could be several minutes. On the other hand, had the pipe been in place twenty years it may well be impossible to remove the pipe without damaging the several components it is connected to, taking an hour or more and requiring several additional parts.

Several excerpts from my letter that ultimately went to the Senate Banking Committee are:

- Costs in the labor column are for normal conditions: experienced craftsman working on reasonably well-planned and managed new construction

- Add 25% to 50% for work done following a major flood

- Estimates in the National Construction Estimator are costs to the installing contractor and do not include the contractor's overhead and profit. Typical markup on repair projects is 25% to 50%.

- If you are using this book as your sole cost authority for contract bids, you're reading more into these pages than the editors intend.

- Construction costs for repair, remodeling and renovation tasks are widely acknowledged in the industry to be higher than similar work on new construction tasks.

- Renovation and insurance repair work involves access, sequence and matching issues uncommon in new construction.

I understand from a number of articles in the public domain that insurance adjusters routinely take the position that they are not permitted to deviate from the electronic book of numbers. One such report was run on WINK TV in Florida on September 13, 2004. For the reasons outlined above, taking such a position will result in a woefully inadequate reimbursement of damages, easily less than fifty percent of the actual repair cost.

Moreover, leading the consumer to believe that new construction pricing represent a fair and complete valuation of their damages is, in my expert opinion, fraudulent.

Craftsman Book Company does publish cost estimating databases for repair, remodeling and renovation work. However, Simsol Software, the firm named at the center of the pricing controversy, did not at the time of the Hurricane Isabel, nor to this day, license any such data from Craftsman.

Florida Insurance Claims Problems

In September 2004, I received another call from Mr. Kanstoroom regarding the use of our New Construction database, in Florida, for adjusting wind and flood claims.

I immediately wrote a letter to Florida's Chief Financial Officer Tom Gallagher, Governor Jeb Bush, and the Florida Attorney General, Charley Crist. I attempted to alert these officials that, in the wake of such widespread destruction, permitting the use of an artificially low set of numbers for insurance claims adjustments would lead to the same problems for Floridians that Isabel victims had endured for the past year.

I urged the Florida Officials to issue a statement that all losses should be adjusted by starting with repair and renovation cost standards, not the much lower prices for new construction.

I understand from media reports that Mr. Kanstoroom had met with these men as well on this same point.

Nevertheless, apparently no such statement was ever issued and widespread media reports now indicate tremendous suffering is being experienced by Floridians in regards to their insurance claims.

For all of these reasons I respectfully request that you recommend to FEMA, and its insurance partners, that they use the proper price book containing repair and renovation figures as the starting point for writing repair estimates. To allow them to continue to mislead the public into thinking that new construction pricing will result in Replacement Cost Value (RCV) will lead to untold and wholly avoidable suffering by the American public at a time when they are likely to be under stress and, in some cases, shock from their catastrophic loss.

Copies of my letters to Mr. Kanstoroom and to Florida officials are attached.

Thank you for your attention. I am pleased to answer any questions and would be pleased to testify in person on these important issues.

Craftsman Book Company
6058 Corte del Cedro — Carlsbad, CA 92009
Voice 760-438-7828 — Fax 760-438-0398
Creators of the First Construction Estimating Book On Disk

February 6, 2004

Mr. Steven J. Kanstoroom
[redacted]

Via Email and Facsimile

Re: Craftsman Book Product Differences;
Simsol Software Licensed Products

Dear Mr. Kanstoroom:

Per our conversation today, I can confirm that Simsol Software Inc. is licensed to use data from Craftsman's *2004 National Construction Estimator* which includes the following recommendations on pages 4 and 5:

"Costs in the labor column are for [illegible] experienced craftsmen working on reasonably well-planned and managed new construction. . ."

"[illegible]
adjacent surfaces have to be protected and the job site is occupied during construction."

[illegible] or tornado while skilled tradesmen are not readily available. Material costs may also be higher after a major disaster."

"No cost fits all jobs. Good estimates are custom made for a particular project and a single contractor through judgment, analysis and experience. . . .
[illegible]

Craftsman also publishes cost estimating databases for repair, remodeling and renovation work. But Simsol Software does not, at this time, license any such data from Craftsman.

Construction costs for repair, remodeling and renovation tasks are widely acknowledged in the industry to be higher than similar work on new construction tasks. Renovation and insurance repair work involves access, sequence and matching issues uncommon in new construction.

Access is often limited in repair work. It's easy to solvent weld PVC pipe and fittings – unless that pipe is installed in an 18" crawl space under existing floor joists. Work in tight quarters can reduce labor productivity to a tenth of what it might be otherwise.

Protecting Adjacent Surfaces. Repair work nearly always requires demolition – a task not easy to estimate before work begins. Demotion has to be done carefully to avoid doing additional damage. Materials may have to be removed in salvage condition, nearly always more expensive that removing for disposal. Materials removed in salvage condition may have to be repaired before re-installation because similar materials are not readily available.

Sequence of Construction.

I . For example, in new construction, it's common for ductwork to be completed before plumbing waste lines are run. In repair work, the duct may have to be replaced around an existing plumbing system.

The difference between new construction and repair work is like the difference between tightening a new nut and loosening an old nut.

Finally, estimates in the National Construction Estimator are costs to the installing contractor and

Thank you for your interest best wishes.

Sincerely,

Gary Moselle, Publisher
Craftsman Book Company

Craftsman Book Company
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Creators of the First Construction Estimating Book On Disk

April 15, 2004

Mr. Steven J. Kanstoroom
[redacted]

Via Email and Facsimile

Re: Letter to Senate Banking Committee

Dear Mr. Kanstoroom:

As we discussed, Jenniffer Fogel-Bublock called me on March 10th to inquire about a letter I wrote to you on February 6 concerning the Craftsman reference, *National Construction Estimator*.

I assured Jennifer that my letter was authentic and put an essentially similar message in a letter to her, as counsel to the Senate Banking Committee.

A copy of my March 10 letter to Jennifer is attached.

I hope this information is helpful to you

Sincerely,

Gary Moselle, Publisher
Craftsman Book Company

Craftsman Book Company

6058 Corte del Cedro — Carlsbad, CA 92009

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Creators of the First Construction Estimating Book on Disk

March 10, 2004

Jennifer Fogel-Bublick
Counsel, Senate Banking Committee
534 Dirksen Senate Office Building
Washington, DC 20510

Hi Jennifer:

Per our conversation today, I can confirm that *National Construction Estimator* is a reference used by construction professionals to anticipate construction costs. But as with any tool, effective use requires an understanding of limitations. Specifically, the preface includes the following cautions on pages 4 and 5:

- "Costs in the labor column are for normal conditions: experienced craftsmen working on reasonably well-planned and managed new construction. . ." [Emphasis added.]
- "Add 30% to 50% on small jobs where fitting and matching of materials is required, adjacent surfaces have to be protected and the job site is occupied during construction."
- "Add 25% to 50% for work done following a major flood, fire, earthquake, hurricane or tornado while skilled tradesmen are not readily available. Material costs may also be higher after a major disaster."
- "No cost fits all jobs. Good estimates are custom-made for a particular project and a single contractor through judgment, analysis and experience. . . . If you're using this book as your sole cost authority for contract bids, you're reading more into these pages than the editors intend."

Craftsman publishes other cost estimating references intended for use on repair, remodeling and renovation work where costs are higher due to access, sequence and matching issues uncommon in new construction.

Access is often limited in repair work. It's easy to solvent weld PVC pipe and fittings – unless that pipe is installed in an 18" crawl space under existing floor joists. Work in tight quarters or an occupied building can reduce labor productivity significantly.

Sequence of Construction. In new construction, materials are generally installed in a logical order designed for ease of installation. Repair tradesmen seldom enjoy that luxury. For example, in new construction, it's common for ductwork to be completed before plumbing waste lines are run. In repair work, the duct may have to be replaced around an existing plumbing system.

Remove and Replace. Repair work nearly always requires demolition – a task not easy to estimate before work begins. Demolition has to be done carefully to avoid additional damage. Materials may have to be removed in salvage condition, nearly always more expensive than removing for disposal. Materials removed in salvage condition may have to be repaired before re-installation because similar materials are not readily available.

Finally, estimates in the *National Construction Estimator* are costs to the installing contractor and do not include the contractor's overhead and profit. Typical markup on repair projects is 25% to 50%.

Sincerely,

Gary Moselle, Publisher
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Gary@Moselle.net

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Creators of the First Construction Estimating Book On Disk

September 8, 2004

Tom Gallager
Treasure and Insurance Commissioner
200 East Gaines Street
Tallahassee, FL 32399

Via Email and Facsimile

Re: Craftsman Book Product Differences

Dear Commissioner Gallager:

I am writing in response to a letter received today from Hurricane Victims' Advocate Steve Kanstoroom.

I previously provided information to Mr. Kanstoroom regarding the difference between the costs associated with new construction and more costly repairs and renovations. I am aware he provided that and other information to the US Senate Committee on Banking, Housing and Urban Affairs in February 2004. Ultimately the Senate directed all non-policy limits of Isabel flood claims to be reviewed, in large part based upon the information he provided. This was the largest such review in FEMA's history.

Despite Mr. Kanstoroom's efforts, I understand from his call and subsequent email such new construction numbers are once again being used in lieu of more costly repair and renovation pricing, this time in Florida.

This is a problem for which, as the publisher and author of the data, I see no logical explanation.

While it is true such new construction pricing could be adjusted upward to be in line with repair and renovation costs, I see no reason for starting with an artificially low set of numbers.

Many adjusters use repair and renovation costs when estimating repairs costs. Still, the renovation numbers are a starting point from which knowledgeable professionals will use their skills in an effort to attempt to bring their estimate in line with the actual conditions.

I have watched from afar the problems this issue has caused for Hurricane Isabel victims. In the interest of saving countless Floridians from a similar fate, I urge you to immediately issue a statement which clarifies this important issue: in Florida, losses from Charlie and Frances will be adjusted using repair and renovation cost standards, not prices for new construction.

Sincerely,

Gary Moselle, Publisher
Craftsman Book Corporation

Cc Governor Jeb Bush
Attorney General Charlie Crist

TESTIMONY OF THE INDEPENDENT INSURANCE AGENTS & BROKERS OF AMERICA BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE REGARDING THE THE NATIONAL FLOOD INSURANCE PROGRAM

The Independent Insurance Agents & Brokers of America, Inc. (IIABA) present the following testimony to the United States House of Representatives Committee on Financial Services concerning the National Flood Insurance Program (NFIP). IIABA is the nation's oldest and largest national trade association of independent insurance agents, and represents a network of more than 300,000 agents and agency employees nationwide. IIABA members are small businesses that offer customers a choice of policies from a variety of insurance companies. Independent agents offer all lines of insurance – property, casualty, life, health, employee benefit plans and retirement products.

IIABA believes that the NFIP provides a vital service to people and places that have been hit by a natural disaster. The private insurance industry has been, and continues to be, largely unable to underwrite flood insurance because of the catastrophic nature of these disasters. Therefore, the NFIP is virtually the only way for people to protect against the loss of their home or business due to flood loss. Prior to the introduction of the Program in 1968, the Federal Government spent increasing sums of money on disaster assistance to flood victims. Since then, the NFIP has saved disaster assistance money and provided a more reliable system of payments for people whose properties have suffered flood damage. It is also important to note that for almost two decades, no taxpayer money has been used to support the NFIP; rather, the NFIP has been able to support itself using the funds from the premiums it collects ever year. We believe in the effectiveness of the Program and would like to see it continue and offer consumers even greater protections in the years ahead.

IIABA also supports the National Flood Insurance Act of 2004 (NFIA). This important law reauthorized the Program for 5 years and includes a number of important provisions that will ultimately improve this crucial risk management program, including a pilot program that will allow the Federal Emergency Management Agency (FEMA) to target repetitive flood loss properties for mitigation. The law also has several new consumer protection and education provisions. Since these provisions will impact the responsibility of the agent, IIABA continues its dialogue with FEMA during the rulemaking process to ensure that the independent agency system can provide the best possible service to consumers and that any concerns are properly addressed. IIABA appreciates the longstanding professional relationship it has fostered with FEMA throughout the years, and we look forward to continuing this essential public-private partnership.

IIABA also supports H.R. 804, a bill introduced by Subcommittee Chairman Baker. H.R. 804 amends the National Flood Insurance Act of 1968 to declare that assistance provided under a program for flood mitigation activities with respect to a property shall not be considered income or a resource of the owner of the property when determining eligibility for or benefit levels under any income assistance or resource-tested program that is funded in whole or in part by a federal agency or by appropriated federal funds.

However, no Program is perfect. While IIABA is confident that the NFIA will be extremely beneficial once fully implemented, there are certain areas of reform not addressed in the law that we believe would not only enhance consumer protection, but the overall integrity of the NFIP.

The first principle that we believe needs to be addressed is a requirement for mandatory disclosures of flood information. One of the best ways to avoid future problems with the NFIP is to give people information about flood risks. Many people in the country originally bought their properties without knowledge of the risk of flooding. A home is arguably the most important investment a person makes during the course of their life, and IIABA believes that it is incumbent upon FEMA to ensure that the American consumer is given the right tools to protect themselves against any unexpected consequences prior to the purchase. The NFIP should implement mandatory disclosures of the flood history of the property so that buyers can make an informed choice in their purchases and they can properly value the home. To make mandatory disclosure effective, an accessible electronic database of flood losses should be created. Disclosure of flood information will help ensure that when a tragedy strikes in the future, NFIP does not have to pay for an artificially overvalued property. IIABA believes that such a disclosure could bring more people into the Program by giving them the information about their risks and the importance of purchasing coverage.

The second principle that IIABA believes should be addressed is the need for strengthened NFIP building regulations. Building regulations help communities better manage their floodplains in two ways. First, the regulations require communities to ensure that any new construction in floodplains includes safeguards against flood damage such as building new homes above the flood elevation on pilings. Second, the regulations require that any substantial improvements made to existing buildings in the floodplain incorporate safeguards similar to those required for new construction.

Experience with the Program demonstrates that reasonable building regulations work. The majority of flood losses are caused by damage to older homes. In fact, only four percent of repetitive loss properties were built after 1974. In 1999, the Federal Insurance Administration estimated that the Program's construction standards were saving $1 billion per year. Structures that are built to the Program's standards are three and one-half to four times less likely to suffer flood losses. In addition, the damages to structures built to these standards are 40% less per claim than the damages to older structures. IIABA believes that building requirements should be tightened to ensure that properties are built to minimize potential flood damage and to discourage unwise construction in flood plains.

Third, IIABA would like to address an issue that greatly concerns agents who sell and service policies under the Program. FEMA has proposed a rule that would harm the position of insurance agents participating in the Write-Your-Own (WYO) program and, ultimately, be detrimental to the NFIP. The proposed rule, published in the Federal Register on October 14, 2003, would amend the Federal Insurance Administration, Financial Assistance/Subsidy Arrangement. Paragraph 61.5(f) of the FEMA proposed rule would change current standard practice by designating independent property and casualty agents as "agents of insureds," not agents of private WYO insurers, for the purposes of selling and servicing NFIP policies. Currently, the status of an insurance producer as an agent or broker is a contractual issue determined by the producer and insurer.

The regulatory intervention by FEMA into private contractual relationships between insurers and their agents is a drastic departure from the way the NFIP has functioned since 1983 when private insurers were brought into the program. FEMA's proposed rule undermines the agent's ability to establish a contractual relationship and, therefore, alters the rights and responsibilities provided for in such contracts.

It is currently standard practice to include cross-indemnification provisions in agency contracts. Thus, agents are required to indemnify insurers in instances where the carrier is held liable for an agent mistake. Similarly, companies are required to indemnify agents for company mistakes. By restructuring the agent-company relationship, FEMA's proposed rule would effectively do away with agency agreements, including these cross-indemnification provisions. In essence, this change would shield private insurers from liability for their own errors, leaving agents fully responsible for errors which may not be their fault. This will increase the liability exposure of agents and exacerbate the already-difficult task of securing errors and omissions coverage for their businesses. Loss of such coverage could force agents to drop out of the NFIP negatively impacting consumers.

IIABA believes that the FEMA proposed rule would violate the National Flood Insurance Act. It has been clear since Congress passed the Act that all laws and rules promulgated define the relationships between the federal government and the private parties with which the government deals directly under NFIP. To date, however, the Act and rules have not attempted to define the relationships of private parties with each other. The proposed rule is the first time FEMA has attempted to interfere with private parties in this manner. Although we recognize that FEMA can and does define its relationship with agents who sell and service policies for FEMA directly, there is no statutory or regulatory authority for interfering in the relationship between agents and the WYO insurers for whom they are selling flood coverage.

We thank the Committee for giving us the opportunity to express the views of the IIABA on this important Program. We hope very much that our concerns contribute to any additional action taken by the Committee to ensure prosperous growth and stability of the National Flood Insurance Program.

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