March 7, 2014

TO: **Members of the Planning and Development Committee**

FROM: **Connecticut Bankers Association**

Contacts: Tom Mongellow, Fritz Conway

S.B. No. 265, AN ACT CONCERNING LIMITS ON FLOOD INSURANCE POLICIES.

Position: OPPOSE

The CBA is the collective voice of the banking industry throughout the State and those institutions, with their 15,000 employees and 110 billion dollars of assets provide the majority of deposit and lending services for the citizens of Connecticut.

The CBA and the 68 banks it represents, strongly opposes Senate Bill 265, as it would reverse a long held, important and nationwide public policy edict that flood insurance be allowed to be required by lenders for up to the full replacement cost of a residential property.

Flood insurance is not in place just for lenders, it's in place to protect the homeowners and communities from unforeseen damage or loss, and to maintain the condition of housing stock throughout the state by keeping those properties from becoming abandoned or blighted after a catastrophe. Protecting homeowners, their properties and neighborhoods is sound public policy that should not be diminished, as this bill will do.

Surprisingly, the bill still allows fire insurance to be allowed up to the full replacement cost of a property – however, those properties that are located in flood zones are just as, if not more likely to experience major or total damage during a catastrophic event, such as the recent hurricane Sandy.

Fannie Mae and Freddie Mac purchase over 70 percent of the mortgages originated in the State. By purchasing Connecticut mortgages, they ensure that a steady stream of capital is available to finance those mortgages. Their rules require up to the full replacement cost of flood insurance on a property. If the bill's provisions were to pass, it's unclear whether Fannie and Freddie would continue to buy Connecticut mortgages.

In addition, the National Flood Act mandates that if a home is in a flood zone, all lenders must require flood insurance as a condition of approving the mortgage. And importantly, if the homeowner refuses to purchase the required flood insurance, a lender is mandated by the NFA, to buy ("force place") that insurance and bill the borrower for that cost. If SB 265 were to pass, lenders will be put in an untenable situation of deciding which law to violate – state or federal.

The largest asset a person typically owns is their house. How many properties would be rebuilt when the insurance claim proceeds only repaid the mortgage (which could be almost paid off), and did not cover the rebuilding of the property? We have seen numerous disasters where properties are abandoned by property owners versus rebuilding (Katrina). If another significant flooding event were to occur, this legislation may unintentionally cause that same result. If that happened, it's highly likely that a constituency of remaining property owners would be advocating for the state and federal government to cure the problem of abandoned and damaged properties in flood zones.

We understand the concerns of homeowners about the recent and significant increases in flood insurance premiums caused by the 2012 Biggerts Waters Act in congress. Congress has listened to and is addressing those concerns and the unintended consequences of the Act, by passing Senate Resolution 1926 in January and House Resolution 3370 just last Tuesday, March 4th. Both these bills will not only reverse many of the negative pricing consequences of the Act, but require FEMA to provide retroactive refunds to homeowners who had to overpay premiums. All public reports concerning the House and Senate bills indicate a bipartisan agreement between the chambers is in the works, and we urge the Committee to communicate to our Congressional delegation to support those initiatives.

We would look forward to providing the Committee additional information on this important issue and for all the above reasons and concerns, we strongly urge the committee to take no action on Senate Bill 265.