Connecticut Department of
ENERGY &
ENVIRONMENTAL
PROTECTION

STATE OF CONNECTICUT
DEPARTMENT OF ENERGY AND ENVIRONMENTAL PROTECTION

Public Hearing – March 7, 2014
Planning and Development Committee

Testimony Submitted by Interim Commissioner Robert J. Klee
Presented By Deputy Commissioner Macky McCleary

Senate Bill No. 265 (Raised) – AAC 'AN ACT CONCERNING LIMITS ON FLOOD INSURANCE POLICIES'

Thank you for the opportunity to present testimony regarding Raised Senate Bill No. 265 - AN ACT CONCERNING LIMITS ON FLOOD INSURANCE POLICIES. The Department of Energy and Environmental Protection (DEEP) welcomes the opportunity to offer the following testimony.

DEEP has serious concerns about the proposal and welcomes the opportunity to offer the following testimony.

The proposed bill would provide a new regulatory mechanism that may leave property owners under insured. The bill is an attempt to help to lower the National Flood Insurance Program (NFIP) premiums which has significantly increased due to Congress passing the Biggert-Waters Flood Insurance Reform Act of 2012 which sought to phase out or eliminate federal subsidies for certain flood-prone properties in order to address the NFIP program's growing debt. To date, the NFIP program owes $29 billion to the U.S. Treasury for funds it borrowed to pay claims from past disasters, including Hurricanes Katrina, Rita and Sandy. By law, the program may only borrow $31 billion from taxpayers in order to pay claims.

The NFIP is vital to protecting Connecticut homeowners as well as our housing market in general. Homeowners deserve to know their flood risks and the cost associated with them so they can take actions to mitigate those risks and reduce their costs. For too long, the NFIP program failed to provide that kind of information and appropriate incentives. The sudden change in some rates under Biggert-Waters, however, has been too dramatic and surprising for many policyholders, particularly those who were required to begin paying unsubsidized premiums immediately. The uneven implementation of the law by FEMA has exacerbated the effect of these changes.

To address these concerns, Governor Malloy announced the creation of the Shoreline Resiliency Fund. This fund would provide low-interest loans to homeowners and businesses located in coastal flood zones to elevate their homes and businesses, or flood proof businesses where elevation is not feasible.

This will allow residents to stave off the impending rate increases. Governor Malloy requested $25 million in bond authorization this year, and the Department of Housing has put out an RFP to select a non-profit fund manager.

The proposed bill would prohibit a lender from requiring the homeowner to purchase of a flood insurance policy in excess of the amount of the mortgage loan. Although this bill aids in lowering flood insurance premiums, it has the potential to leave property owners under insured.

Under the National Flood Insurance Program (NFIP), the amount of flood insurance required by a lender must be <u>at least</u> equal to the lesser of (1) the outstanding principal balance of the loan, (2) the maximum amount available under the NFIP ($250,000 residential), or (3) the total insurable value of the property. However, lenders reserve the right in their loan documents to require the purchase of flood insurance above the minimum amounts required by law, even as high as the building's full replacement value.

An NFIP flood insurance policy is not a valued policy. A valued policy pays the limit of liability in the event of a total loss. Flood insurance pays the replacement cost or actual cash value of damage up to the policy limit purchased by the policy holder.

An NFIP flood insurance policy is not a guaranteed replacement cost policy. A guaranteed replacement cost policy pays the cost to rebuild your home regardless of the limit of liability. A flood insurance policy does not pay more than the policy limit purchased by the policy holder.

This bill will lower the policy limit to the amount of the mortgage loan, potentially leaving residents under insured. Following Tropical Storm Irene and Super Storm Sandy, DEEP did receive calls from residents expressing this problem. Policy holders mistakenly believed that the flood insurance policy will cover damage up to $250,000. A component of this bill should be adequate notification to property owners that more coverage is available, maybe even them signing a form that they understand the property is under insured.

Mr. Robert Desaulniers, the insurance specialist at the FEMA Region I office in Boston, states that it is his understanding that Fannie Mae and Freddie Mac have requirements that they will not accept mortgages from any bank unless it has either full replacement cost limit or at least the maximum coverage of $250,000. This may create a problem for lenders that need to use these sub-agencies. The Connecticut Banking Commission should be consulted on this issue for their opinion.

In summary, DEEP does not support Raised Senate Bill No. 265 – AAC Limits on Flood Insurance Policies.

Thank you for the opportunity to present testimony on this proposal. If you should require any additional information, please contact Robert LaFrance, DEEP's Director of Governmental Affairs, at 860.424.3401 or Robert.LaFrance@ct.gov (or, Elizabeth McAuliffe, DEEP Legislative Liaison, at 860.424.3458 or Elizabeth.McAuliffe@ct.gov).