Document

After Katrina, pundits criticized New Orleans, claiming too many residents had no flood insurance. In fact, few communities were better covered.

Times - Picayune - New Orleans, La.
Author: Jeffrey Meitrodt and Rebecca Mowbray Staff writers
Date: Mar 19, 2006
Start Page: 01
Section: NATIONAL
Document Types: News
Text Word Count: 3838

Document Text

In the immediate aftermath of Hurricane Katrina, public officials and insurance experts predicted that the vast majority of property losses from the most costly flood in U.S. history would be uninsured.

Members of Congress rose up in righteous indignation to scold residents of New Orleans, one of the most vulnerable cities in America, for failing to buy federal flood insurance and then coming hat in hand and asking to be bailed out with federal money.

The irony, now revealed in data painstakingly worked up by aides to Donald Powell, the Bush administration's liaison to the disaster zone, is that Louisiana was a more enthusiastic participant in the National Flood Insurance Program than any other state in the nation.

Worth the effort

Until Katrina swamped it in 6 feet of water, the Lakeview bungalow that Marie Callihan shared with her 94-year-old mother had never flooded. Not during Betsy. Not during Camille.

Some of her neighbors thought the neighborhood would never flood, even though it lies below sea level in one of the most flood-prone parts of the United States.

But Callihan knew better. She figured that when The Big One came, it wasn't going to spare her house. So the part-time treasurer at Sacred Heart Federal Credit Union scrimped and saved enough to cover the $1,000 annual premium for flood insurance, even though her mortgage had been paid off for decades, freeing her from any such obligation.

Callihan was in the majority. Two out of three New Orleanians carried flood insurance -- 67 percent -- compared with a national rate of about 5 percent.

"If I could have bought more insurance, I would have," said Callihan, 74, who also paid two car notes and other bills on her $30,000 salary. "But I only had my income, and that wasn't much."

Callihan's fears came true in August. By the time a helicopter arrived to rescue her ailing mother, who was floating near the ceiling on an air mattress, Callihan had watched the floodwaters destroy nearly everything she owned.

Less than a month after an adjuster visited the property in October, Callihan received $197,000 from the National Flood Insurance Program, enough to cover most of her rebuilding and refurnishing costs.

"If I didn't have flood insurance, this whole house would have to be leveled -- and my life would go with it," Callihan said.

Money pours in

Callihan's settlement is part of a river of money that has flowed into the region in the past six months. By Feb. 22, Louisiana residents had received $12 billion in flood insurance payments for claims related to Katrina, nearly as much as all the flood claims before Katrina paid by the government since the National Flood Insurance Program was created in 1968.

The largest chunk of that money landed in Callihan's Lakeview neighborhood, where property owners in a single ZIP code, 70124, received checks totaling more than $1 billion by the end of the year. The average payment: $143,023.

The huge payouts caught many people by surprise, after all the bellyaching in Congress and elsewhere about Louisiana's profligate ways. House Speaker Dennis Hastert, R-Ill., had questioned whether the federal government should spend money to restore sections of the city below sea level, and members of conservative think tanks urged Congress not to put any money into rebuilding properties that lacked flood insurance.

"Although flood insurance is heavily subsidized, many -- even most -- property owners in New Orleans do not buy this insurance, expecting the federal government to bail them out whether or not they are insured," said Cato Institute Chairman William Niskanen in testimony to Congress about the disaster in September.

Niskanen was wrong about New Orleans. And like New Orleans, the rest of state also participates heavily in the flood insurance program.

Of the 113,053 single-family homes in Louisiana that sustained hurricane-related flood damage in 2005, at least 72,787 -- 64.4 percent -- were covered by flood insurance, according to Powell's data.

By comparison, just 30 percent of the 28,800 flooded homes in Mississippi had flood insurance.

Not enough money

To pay Katrina claims, the Federal Emergency Management Agency, which oversees the flood insurance program, has had to borrow $18.5 billion from the U.S. Treasury because the agency hasn't collected enough in premiums. In the past 12 years, the agency has borrowed $1.4 billion to recoup after other disasters.

The problem lies in the flood insurance program itself -- a rigged actuarial system that doesn't even try to balance its books or calibrate premiums in ways that would encourage safer housing practices in areas that flood repeatedly.

"It's kind of ironic -- we've had to borrow so much money that we won't be able to pay it back, and that has been cited as a weakness of the program," said Ed Pasterick, a senior adviser to FEMA. "But in a way, you can cite it as a sign of the program's success. So many people were protected by flood insurance that we had to replenish the fund."

In fact, as Katrina has made clear, Louisiana is a standout success in a nation where the vast majority of people living in high- risk areas don't buy flood insurance.

Consider Jefferson Parish, where Metairie became the first community in the nation to join the flood insurance program in 1969. Of the top 100 flood insurance markets, Jefferson Parish has the highest market-penetration rate in the country, with 84 percent of all single-family homes covered by the program, according to an analysis of flood insurance and census data by The Times-Picayune.

Also in the top 10, in terms of market penetration: St. Bernard Parish, ranking eighth with a 68.4 percent rate, and Orleans Parish, 10th with 66.7 percent. Altogether, six Louisiana parishes have market penetration rates that rank in the nation's top 25.

At the other end of the spectrum is Harris County, home to Houston. Though Harris County has generated the third-highest number of repetitive flood claims in the nation -- after Jefferson and Orleans parishes -- its penetration rate for federal flood insurance is 25 percent.

On average, just 5.4 percent of single-family homes in the nation's top 100 flood insurance markets have coverage, the newspaper's analysis shows.

Much as Louisiana nursed the hope that the big one would go somewhere else, there was an awareness that the region was a hurricane target, Pasterick said. "Because of that fear and vulnerability, I think there was a sense that, 'We better protect ourselves here.' And thankfully, you did," he said.

Coverage falls short

Local officials who are trying to persuade Congress to spend billions of dollars rebuilding the state cite the insurance data as evidence that residents did their part in protecting against a catastrophic event like Katrina.

The big problem, they say, is that people didn't have enough insurance. Under federal law, lenders have to require only enough flood insurance to cover the outstanding mortgage balance, not the cost to rebuild a home, as is typical on a homeowners policy.

In Louisiana, that often means that someone facing a $150,000 rebuilding project has about $80,000 worth of flood insurance, said Walter Leger, chairman of the Louisiana Recovery Authority's housing task force.

State officials say there is still a $10 billion gap between property damage caused by Katrina and losses that will be covered by insurance.

"Given the risk, our investment in flood insurance was reasonable, but it wasn't sufficient to deal with a storm of this magnitude," said real estate expert Wade Ragas, a consultant to the Louisiana Recovery Authority. "I don't think there's anyplace on the planet where people write insurance based on the idea that large areas are going to be hit with a 35-foot tsunami."

Typically, when a major flood strikes, only 10 percent to 20 percent of the damaged properties are covered by flood insurance, according to Robert Hunter, who ran the National Flood Insurance Program for six years and serves as director of insurance at the Consumer Federation of America.

The problem, according to critics, is that the agency doesn't operate like a real insurance company. The rates it charges for coverage are far too low, the risks are not spread out over a large enough population, and properties that repeatedly generate flood claims are allowed to remain in the program indefinitely without any major adjustment in premiums.

In the past 25 years, the government has shelled out $800 million to settle claims on 10,000 properties that had two to four major losses, an average of $80,000 per property. Buying those properties and turning them into green space through the government's mitigation program, FEMA said, would have cost the government just $450 million.

"Allstate could never run its business like that -- no way," Allstate Insurance Co. spokesman Mike Trevino said. "We'd be out of business."

An identity crisis

The most obvious solution, critics say, is for flood insurance to grow its way out of trouble. But unlike other insurance products, which are advertised aggressively by the industry, flood insurance is virtually invisible in the marketplace.

In 2005, for instance, private insurers spent $2.7 billion to advertise their products on television and other media, while the government spent just $8.3 million to promote flood insurance, according to TNS Media Intelligence, which tracks advertising spending.

And if there is one type of insurance that needs some marketing muscle, it's flood insurance. Most people who need it don't have it, either because they don't know they live in a flood zone or because they figure the government will come to their rescue if disaster strikes, research shows.

Congress is considering a variety of measures to strengthen the program, such as requiring more people to have flood insurance and increasing the amount of insurance available, but Hunter said the time for small fixes is over.

The integrity of the program must be restored, Hunter told a Senate committee last month. "This means bringing the program back to its promise of covering all high-risk homes and businesses, eliminating unwise construction in the nation's flood plains and taking steps to ultimately achieve actuarial soundness," he said. The only alternative, which Hunter said he deplores, would be to shut down the broken program.

Program takes shape

It was another Louisiana disaster -- Hurricane Betsy, in 1965 - - that provided the impetus for creating the flood insurance program. At the time, flood insurance was largely unavailable in the private market. Insurers shied away from the business because it was so unpredictable -- a single catastrophe could wipe out a company's ability to survive.

With no history to build on, the government had to create the business from scratch. One of the first tasks was creating flood maps that would show which areas of the country were at risk of flooding. Communities were split into zones, with an "A" zone reflecting high risk, and other letters -- B, C and X -- designating areas of low to moderate risk.

To make the policies attractive, the government decided to subsidize the program. Instead of charging actuarial rates, which would generate enough in premiums to cover anticipated losses, the government elected to discount those rates 35 percent to 40 percent.

The subsidy means the government is undercharging its customers about $750 million per year, according to a recent report from the Government Accountability Office. If FEMA removed the subsidy, which primarily involves homes in high-risk areas built before 1975, the price of those policies would jump from $585 to $2,000 per year, according to a government study. About 30 percent of all flood insurance policies are subsidized. Policies on newer homes would not be affected.

At first, flood insurance was purely voluntary and hardly anyone bought it. When Hurricane Camille hit the Gulf Coast in 1969, not a single home damaged by the storm was covered. Three years later, when Tropical Storm Agnes swamped the East Coast, there were only 95,000 flood insurance policies nationwide, and just $5 million of the $400 million in losses were covered.

In response, Congress passed the Flood Disaster Protection Act of 1973, which required all homeowners living in a so-called Special Flood Hazard Area to buy flood insurance if they had loans with federally insured lenders. A special flood hazard area, also known as a 100-year flood plain, is an area in which there is a 1 percent chance of being flooded in any given year.

Though the rule spurred the sale of a million flood policies in four years, critics say the government wound up using the wrong standard. In a 1979 report, the GAO noted that there were 127 floods between 1968 and 1978 that met or exceeded the boundaries of a 100- year flood in 62 counties.

Furthermore, FEMA, in its effort to promote flood insurance in low-risk areas, has noted that nearly 25 percent of its claims have been generated in parts of the country that weren't expected to flood.

Robert Hartwig, chief economist at the Insurance Information Institute, said a more appropriate standard would be the 500-year flood, which would greatly expand the area in which flooding would be considered "high risk."

"Most people think that if they live in a 100-year flood plain, that means a major flood won't happen there for 100 years," Hartwig said. "They don't understand the risk. Over the life of a typical 30- year mortgage, your odds of being flooded in the 100-year flood plain are actually 26 percent. That is pretty high."

Concept gains ground

Hartwig isn't the only fan of the 500-year standard. Several members of Congress have touted the idea as well, and there is a big push to increase the pool of properties that would be required to have flood insurance. In New Orleans virtually the entire city falls within the 500-year flood plain.

As it stands, nearly half of the homes in high-risk areas have no flood insurance, which amounts to nearly 2 million properties, according to a recent study by the Rand Corp.

Among homeowners with mortgages, the participation rate is about 75 percent in high-risk areas, but it falls to 18 percent for homeowners who are not subject to the mandatory participation requirement.

"The only time most people deal with flood insurance is when they buy their house," said Leger, chairman of the LRA's housing task force. "And if they don't live in the flood plain, they're told that they don't need it. But this is New Orleans. We all should have flood insurance."

That's a lesson David Hume is learning the hard way. Three years before Katrina struck, Hume refinanced and remodeled his five- bedroom home in Meraux, but he didn't take out flood insurance because his property is in a "B" zone, an area of low or moderate risk that doesn't require such coverage.

He now faces rebuilding costs of $140,000, but like most local residents he is getting minimal help under his homeowners policy: $30,098 for structural damage. Many insurers are offering nothing at all under homeowners policies, based on the argument that the bulk of damage from Katrina came from rising waters and should be handled through the federal flood program.

To help fill the gap, Hume is taking the $26,200 he got from FEMA for disaster assistance and spending it all on

Sheetrock and other construction materials. He took a five-week leave of absence from his job to do much of the rebuilding work himself, but he's still facing some big bills from his roofers, plumbers, electricians and the air-conditioning contractor.

"I'm running out of money," said Hume, who said he was hospitalized for chest pains a few weeks ago. "I'm going to be stuck with a house that's a quarter done."

Cut because of cost

For other residents, the reason for not getting flood insurance was economic. Some people in New Orleans -- especially elderly residents and those living on fixed incomes -- said they couldn't afford the average $400 annual cost of coverage.

Laurette Williams said she hated the idea of going without flood insurance on her Gentilly home, which is in a high-risk zone. That's why she kept the coverage in place for more than 10 years after she paid off the mortgage, even though she usually had to put the payments on her credit card.

But last year, Williams said, the payments were simply more than she could handle. Now she's trying to figure out what to do with her gutted property, which sustained heavy damage after taking on 5 feet of water.

"If I could get an offer of $80,000 as is, I'd sell it to give me something to start over with," said Williams, a licensed practical nurse who has taken a job at a New Orleans nursing home because she can live on the site.

Some residents said they would prefer not to have a choice about whether to buy flood insurance.

"The flood maps don't point out the real risks," said Ervin Thomas, who didn't have flood insurance on two of the three properties he owns in the New Orleans area. "It's misleading to the people who live here."

Thomas said he carried insurance on his house in Metairie because his lender required it, but his two rental properties in the Lower 9th Ward are uninsured because they're in a B zone and did not meet the mandatory provisions.

"I wish it had been a requirement. It wouldn't have been a financial burden," said Thomas, who spent more than $150,000 to purchase and renovate the 9th Ward properties three years ago. "Then I'd have plenty of money to rebuild."

Lax enforcement

Though lenders are supposed to make sure that customers who live in high-risk zones have flood insurance, they don't always get the job done, research shows. After discovering that just 2 percent of the 1,549 victims of a 1998 flood in Vermont had flood insurance, FEMA took a harder look at the records. It discovered that 45 percent of the people living in high-risk areas had mortgages but failed to obtain flood insurance.

Overall, about 25 percent of the property owners for whom flood insurance is supposed to be mandatory don't have it, according to the Rand study. If a borrower fails to buy a flood policy, the lender is supposed to make the purchase and add the cost to the mortgage payment.

Under 1994 legislation, any regulated lender who fails to require borrowers to obtain flood insurance can be fined as much as $100,000 each year.

But federal officials have not cracked the whip. Though the Federal Deposit Insurance Corp., which regulates most of the nation's banks, found that 475 financial institutions had significant violations relating to flood insurance in 2002, the regulator has handed out just 58 fines since imposing its first civil monetary penalty in 2000, according to a recent FEMA study.

Through the end of 2004, the seven agencies that regulate the nation's financial institutions had imposed fines on a total of 95 lenders, with an average penalty of $6,800, the study showed.

Rather than beefing up enforcement activities, reformers say it would be simpler to take lenders out of the equation and require flood insurance from anybody who lives in a high-risk zone, whether they have a mortgage or not.

"Voluntary purchase of flood insurance is an unmitigated failure," Hartwig said. "Most of the people who could have benefited from flood insurance didn't buy it and won't buy it."

By using the 500-year-flood standard, the government could double the number of homeowners in the program, from about 4 million to 8 million, according Larry Larson, executive director of the Association of State Floodplain Managers.

"If you had a bigger mandatory pool, you'd have a lot more premiums coming in, and that would reduce everybody's rates," Larson said. "You'd also have enough money to pay claims without borrowing money from the treasury."

Another lesson from Katrina, critics say, is that the government isn't letting people buy enough flood insurance. Congress is debating legislation that would increase the limits on residential property from $250,000 to $335,000, and on commercial properties from $500,000 to $670,700.

Some homeowners in the more affluent parts of New Orleans have discovered that the $250,000 limit on structural coverage means they are facing hundreds of thousands of dollars in uninsured losses. Some of the grumbling, however, seems to reflect the mistaken assumption that flood insurance policies should cover the replacement cost of homes when in fact it is meant to cover repairs.

Though some private insurance companies have been willing to cover that gap through so-called excess flood policies, most people in the New Orleans area had no idea before Katrina that the market even existed.

"Agents are not marketing flood insurance to the extent that it can be marketed," Leger said. "I've talked to many people in Old Metairie and Lakeview who were never told it was possible to get excess flood insurance."

Insurers blamed

In general, insurance companies have done a poor job of marketing flood insurance for the federal government, Hunter said.

Though flood insurance is backed by the federal government, a customer can't buy it directly from FEMA. Instead, under a deal that goes back to 1983, private insurers and their agents have an exclusive right to sell flood insurance and handle all claims.

In the past five years, the industry has sold an additional 300,000 policies, or about half the number of new policies sold from 1978 to 1983, when the government was in charge of sales, Hunter said.

"I fault the . . . companies for being very weak at selling this stuff," Hunter said. "The reason we allowed them into the program in the first place is that they promised they would sell a lot of this stuff, and they didn't."

Industry officials said insurers have no profit motive to sell more flood insurance.

"Think about how we run our business," said Allstate's Trevino. "When we spend money on marketing and advertising, we spend it with the expectation that we are going to generate a return on our investment. But there is not a return we can generate here. We don't set the premium. All we can recover are our expenses."

. . . .

Jeffrey Meitrodt can be reached at jmeitrodt@timespicayune.com or (504) 826-3497. Rebecca Mowbray can be reached at rmowbray@timespicayune.com or (504) 826-3417.

[Illustration]
Caption: STAFF PHOTO BY CHRIS GRANGERMarie Callihan of Lakeview pays $1,000 a year for her flood insurance premium, even though her home is paid off. 'If I could have bought more insurance, I would have,' said Callihan, 74, whose home took on 6 feet of water during Hurricane Katrina. [2252747] STAFF PHOTO BY JENNIFER ZDONDavid Hume paints a window sill as his wife, Gina, prepares a flower bed outside their home in Meraux. The Humes were not required to have flood insurance because the home is in a zone of low to moderate risk. Floodwaters caused by Katrina rose to the ceiling; his rebuilding costs are $140,000. 'I'm running out of money,' Hume said. [2251768]

Abstract (Document Summary)

In response, Congress passed the Flood Disaster Protection Act of 1973, which required all homeowners living in a so-called Special Flood Hazard Area to buy flood insurance if they had loans with federally insured lenders. A special flood hazard area, also known as a 100-year flood plain, is an area in which there is a 1 percent chance of being flooded in any given year.

Though lenders are supposed to make sure that customers who live in high-risk zones have flood insurance, they don't always get the job done, research shows. After discovering that just 2 percent of the 1,549 victims of a 1998 flood in Vermont had flood insurance, FEMA took a harder look at the records. It discovered that 45 percent of the people living in high-risk areas had mortgages but failed to obtain flood insurance.

STAFF PHOTO BY CHRIS GRANGERMarie [Marie Callihan] of Lakeview pays $1,000 a year for her flood insurance premium, even though her home is paid off. 'If I could have bought more insurance, I would have,' said Callihan, 74, whose home took on 6 feet of water during Hurricane [Katrina]. [2252747] STAFF PHOTO BY JENNIFER ZDONDavid Hume paints a window sill as his wife, Gina, prepares a flower bed outside their home in Meraux. The Humes were not required to have flood insurance because the home is in a zone of low to moderate risk. Floodwaters caused by Katrina rose to the ceiling; his rebuilding costs are $140,000. 'I'm running out of money,' Hume said. [2251768]