WRITTEN TESTIMONY OF WALTER LEGER, MEMBER OF THE BOARD

OF THE

LOUISIANA RECOVERY AUTHORITY,

BEFORE THE

U.S. HOUSE OF REPRESENTATIVES FINANCIAL SERVICES COMMITTEE

FEBRUARY 6, 2007

Chairman Frank, Congressman Bachus and Members of the Committee, my name is Walter Leger and I am a long-time resident of St. Bernard Parish, Louisiana. Thank you for inviting me to speak to you today on behalf of the Louisiana Recovery Authority about the federal housing response and reconstruction efforts to recover from Hurricane Katrina – the most catastrophic and costly disaster in American history.

The Louisiana Recovery Authority, more commonly known as the "LRA," was created by Governor Kathleen Blanco to coordinate recovery efforts and special funding related to Hurricanes Katrina and Rita. I myself am a volunteer and serve as Chair of the Board's Housing Task Force.

The LRA works in tandem with the state's Division of Administration's Office of Community Development (OCD), which is running the Road Home housing programs and is administering the delivery of the special Community Development Block Grant appropriations provided by Congress for Katrina and Rita recovery, and with the Louisiana Housing Finance Agency, which is administering our Low Income Housing Tax Credit program which Congress dramatically expanded in the GO Zone legislation.

Together, our offices have worked closely with the US Department of Housing and Urban Development (HUD), Chairman Powell's office, the US Small Business Administration (SBA), state agencies, local government leaders and others in an effort to facilitate the recovery of south Louisiana. The opportunity to assist the citizens of the State of Louisiana in this massive recovery effort has been an honor for me, and a challenge that I will never forget.

As I mentioned earlier, Hurricane Katrina was by far the single most expensive disaster in American history. What you might not know is that the storm that hit Louisiana three weeks later—Hurricane Rita—ranks third on the all-time list. Together, the storms caused an estimated $100 billion dollars in damages to homes, property, businesses and infrastructure in Louisiana alone.

Now, about $40 billion dollars of these losses are covered by private hazard and flood insurance, and we also recognize and are sincerely thankful for the estimated $26 billion that is flowing to the State to help us rebuild our homes and physical infrastructure.

But that still leaves a gap of $34 billion dollars… or put another way, that's about $20,000 in unrecovered losses for every household in the state. This funding gap does not include the 127,000 jobs and 4,000 businesses in Southeast Louisiana that haven't come back, which shrunk Louisiana's economy by $11.5 billion last year. This does not count all of the emergency and social services requirements incurred.

So while federal aid and private donations have been unprecedented, Louisiana still has unprecedented needs and we will need the Congress's continued strong support going forward.

But you have called today's hearing to focus on how we are investing the generous appropriations from Congress for housing, so let me address that now. Like many others on the LRA board, I lost my own house in the storm. Words cannot describe the heartache that comes from seeing 14 feet of water envelop your home and all of your personal belongings inside – your clothes, your photo albums, your children's things – gone. All the things that made my house – the physical structure – a "home" were lost forever.

Sadly, more than 200,000 homeowners and renters in South Louisiana suffered the same devastating loss. On August 29, 2005, our lives changed forever. As a result of Katrina, and another blow from Hurricane Rita three weeks later, more than 1.3 million people were evacuated from the area. To date, an estimated quarter of a million people are still unable to return to their homes due to disaster damages.

We had some parishes, including my home parish of St. Bernard, which experienced devastation over 100% of the footprint of the community. It's reported there that we lost every house but three – I have yet to find those three. Fortunately, I have been able to put my personal experience with the storm to use in helping to develop our housing programs for homeowners, renters and small landlords.

ROAD HOME PROGRAM:

The LRA developed the broad policies for and the state's Office of Community Development is implementing *The Road Home*, the largest single housing program ever created. Through our program, eligible homeowners who suffered damage from Hurricane Rita or Katrina may receive up to $150,000 in compensation for their losses to help them get back in their home. As mandated by the federal law, we must deduct insurance benefits and FEMA assistance from their grant. For homeowners to qualify for assistance through The Road Home program:

- They must have owned and occupied the home as their main residence at the time of Hurricane Katrina or Rita
- The home must be a single- or double-unit structure (this includes duplexes where the owner resides in one of the units)
- The property must have sustained at least $5200 in damage from hurricanes Katrina or Rita
- Homeowners who were uninsured but should have carried insurance (for example, those who lived in a flood plain but did not have flood insurance) are eligible for the program, but they will incur a 30 % penalty.

Through The Road Home, eligible homeowners have three compensation options:

- Stay and repair or rebuild your home
- Sell home to the state and relocate elsewhere in Louisiana
- Sell home to the state and relinquish status as homeowner thereby incurring a 40% award penalty

In Louisiana, recovery was about rebuilding housing stock and bringing people home. For that reason, we included a provision in the Road Home that gave people incentive to return to Louisiana by providing funding eligibility based on full-market value if they came back to the state, but only 60% of market value if they decide to sell their home to the program and move elsewhere. This provision is important to the rebirth of south Louisiana. And all Road Home participants are provided with a choice of all options – including ones that do provide full market value if they return home. In addition, homeowners may receive the full award and still move if they "assign" their rights to the grant to a new purchaser who agrees to comply with all program requirements.

For those pioneers that used their own resources to begin repairs and are already back in their homes, the owner is still eligible to apply, provided the initial eligibility criteria are met. Road Home compensation benefits are determined by calculating the lesser of the uncompensated damage cost or the uncompensated loss of value up to $150,000.

I would add that we took special care to create an agreement with the Louisiana banks and national mortgage lenders regarding how grants would be distributed. We developed a Memorandum of Understanding (MOU) with the lenders to prevent Road Home monies from being used to pay off mortgages or cover arrears payments. Because of this arrangement, it is my understanding that Fannie Mae, Freddie Mac and Chase are not foreclosing on homeowners. Unfortunately, many smaller lenders are moving forward with foreclosure. This is an issue that we cannot afford to ignore.

Homeowners do not receive checks directly. Instead, the financial award is placed in a disbursement account and funds are released as related expenses are incurred. The lenders have agreed to pay interest to the homeowners on these accounts and will manage draws according to standard industry practices as outlined in our MOU. . For instance, homeowners that have not yet begun repairs can access up to 10% of their award upon closing. Following that, lenders will make additional payments to the homeowner as progress is made. This will prevent unscrupulous contractors from taking off with people's awards before completing any actual work.

One of the most difficult challenges we faced in designing the Road Home program – both the homeowner and small rental programs – has been dealing with certain federal regulations that can hamstring recovery programs. Although Congress appropriated the CDBG funds to give us the resources we needed to repair and rebuild the damaged homes of Louisianan's impacted by Katrina and Rita, a repair program like the one we envisioned when we first went to Washington would have been subject to time-consuming, expensive, and cumbersome environmental reviews. These environmental reviews may be appropriate for highway construction and other major construction efforts and may even seem manageable when a state or city is doing a few dozen housing rehabs for low income families. However, they are cumbersome, time consuming, and expense, and therefore inappropriate for repairing and rebuilding 123,000 houses which will occupy the same footprint they did before the storms. They should have been waived by Congress when these programs were funded. Not desiring to subject our citizens to these unnecessary and costly burdens, the Road Home program was reinvented as a “compensation” program, providing compensation grants in disbursement accounts, forgivable compensation loans for low income families, and elevation grants for homeowners who will agree to live in an elevated home (rather than being paid to elevate). This redesign of our program was unfortunately necessary so the program could be implemented as quickly as possible, but this new program design still requires us follow many cumbersome CDBG regulations and has meant that we have had to be creative in order to run a program that meets our goals.

Another area where red tape has limited our efficiency and progress relates to our use of Hazard Mitigation Grant Program (HMGP) funds in support of the Road Home housing program as required by Chairman Powell. The State did not want to use HMGP monies in this way – but we were told the Administration would not support our request for CDBG funding at the level needed, and instructed us to use HMGP to fill our funding gap, even though we were concerned about the red tape associated with it. As of today, FEMA has been unwilling or unable to approve nearly $1.2 billion of funding that is desperately needed for the Road Home program. Much of this bureaucracy would be eliminated if Congress directed FEMA to approve our use of HMGP toward the Road Home program.

The estimated cost of damage is based on a home evaluation. To determine the estimated cost of damage, a home evaluator will visit the home, assess the damage, work in progress, or completed work to estimate the overall hurricane-related damage inflicted on the home. To determine the pre-storm value, homeowners may provide an “arm’s length” appraisal (i.e., an appraisal ordered by a lender in conjunction with a loan, not an appraisal ordered by the homeowner) that was completed from January 1, 2000, up to the day before one of the hurricanes affected the homeowner (August 28, 2005, or September 23, 2005). These appraisals will be adjusted to reflect the market rate as of the second quarter of 2005, using figures released by Office of Federal Housing Enterprise Oversight.

Homeowners may also provide an appraisal that was performed post-Katrina or post-Rita to determine the pre-storm value of the home. If an arm’s length appraisal is provided, the pre-storm value will be based on the appraisal. If an appraisal is not provided, The Road Home program will determine pre-storm value through alternative data sources.

The compensation grant does not need to be repaid provided the covenant requirements are met including agreeing to:

- Remain in the property for three years (five years if a forgivable compensation loan is received) and use the property as its primary residence.
- Comply with Advisory Base Flood Elevation guidelines (if the residence sustained 51% or more damage according to the local municipality).

- Maintain flood insurance (if in a floodplain) and hazard insurance.
- Ensure that construction complies with building codes.
- A homeowner will sign the covenant at closing. A homeowner may choose to assign the covenant requirements to another homeowner.
- If a homeowner receives a forgivable compensation loan, they are required to maintain owner-occupancy for five years. The homeowner cannot assign the five-year owner-occupancy requirement. If the owner moves out of the home prior to fulfilling that requirement, he or she must pay back the affordable compensation loan on a prorated basis.

We estimate more than 120,000 homeowners are eligible for the program funded by $6.375 billion in Community Development Block Grants and 1.125 billion in Stafford Act Hazard Mitigation Grant Program funds.

For a moment, I should outline the road we traveled to get this program funded in a way that would provide assistance for everyone that needed it to get back in their home – regardless of whether they had insurance or were inside or outside of the flood plain.

In December of 2005, Congress approved $11.5 billion in supplemental appropriations for the Gulf Coast [P.L. 109-148][1]. When this legislation passed, it was approved with a provision capping funding for any one state at no more than 54% of the total appropriated – even though Louisiana received 75-80% of the total damages from Katrina and Rita.

This situation resulted in Louisiana receiving $6.2 billion in assistance, as compared to $5 billion for Mississippi, which experienced a far smaller proportion of total losses. When the State was notified of its $6.2 billion allocation of the supplemental appropriations, we were grateful and appreciative. However, we notified Congress and the White House that that level of funding was insufficient to meet our housing needs in the State of Louisiana, and that additional funding would be needed;

While the White House requested an additional $4.2 billion on February 15th 2006, it took Congress another four months to provide a second supplemental appropriation for the Gulf Coast[2], with hundreds of thousands of Louisiana citizens living in trailers all the while. Once again, however, Congress limited any one state from receiving more than $4.2 billion, once again prohibiting HUD from being able to use its discretion to allocate funds based on the comparative damage levels in each state affected by the storms which would have resulted in Louisiana in receiving an even larger appropriation.

Let me address something we hear about quite often – the comparisons between Mississippi's progress and Louisiana's progress and between Mississippi's program and Louisiana's program. I want to be very clear on this. If we had designed an identical program to theirs, we would have chosen to exclude anyone living in a flood zone. That would have meant some of the most deserving homeowners – those who lost their houses due to the failures of federal levees – in

[1] P.L. 109-148 was signed by President Bush on December 30, 2005, and a notice of award was published by the U.S. Department of Housing and Urban Development (HUD) on January 25, 2006.
[2] P.L. 109-234, which was signed by the President on June 15, 2006, and a notice of award was published by HUD on July 11, 2006.

Gentilly, Lakeview, the Lower Ninth Ward, St. Bernard Parish and Cameron Parish in Southwest Louisiana would have been excluded and left with nothing.

Nor could our low-income families – of which we have a substantial percentage – afford to wait until a second round of homeowner assistance was developed that provided extra assistance to those families with incomes below 80% of the median. Although it added another calculation and verification step to our process, forgivable compensation loans of up to $50,000 for low-income families have been part of our program since its inception.

But as I alluded to earlier, the chief difference between our program and that of our neighbors to the east comes down to one thing. Mississippi's housing program received full funding in December of 2005, while Louisiana waited six more months before our program was fully funded.

So here we are, seven and a half months later. Let me outline the action taken since then:

- The same week we received program approval from HUD, the state's Division of Administration signed contractor ICF International to implement to Road Home program.
- The company set up 10 housing centers throughout the State of Louisiana and another in Houston, Texas. In Louisiana they are in Calcasieu, Cameron, East Baton Rouge, Jefferson, Orleans, Plaquemines, St. Bernard, St. Tammany, Terrebonne, and Vermilion parishes.
- More than 105,000 applications have been received and recorded.
- Housing counselors have conducted over 72,000 in-person appointments with applicants.
- Nearly 30,000 homeowners have been notified of their benefit awards totaling $2.49 billion.
- The average award is close to $80,000.

But we would not be here today if this process were free of roadblocks and hard times. The greatest challenge we are facing relates to the most important step of all – the actual award closing. As of this week, just over 500 homeowners have received their awards. I think everyone agrees, this is too slow. We still have 64,000 people calling a trailer home every night and they deserve to be back in their house NOW.

To that end, we are continuing to apply pressure to ICF, insurers and lenders to address roadblocks and expedite the verification and closing process as much as possible, and have spent considerable time and effort to make sure that required data sharing with FEMA and SBA can occur effectively. But as I have learned in my brief career in government, nothing is as simple as it might appear.

We did in fact receive full funding for the program in June of 2006. But those funds came down to us in Louisiana wrapped in red tape with strings leading back here to Washington. I discussed much of this bureaucratic inertia before Senator Lieberman's Committee on Homeland Security and Governmental Affairs during their field hearing in New Orleans last week and received commitments from the Chairman and Senator Obama to explore what options we have for eliminating some of these barriers to our recovery. Senator Landrieu has been leading much of this fight on our behalf for some time now.

One particular area that should be addressed immediately is the SBA's failure to distinguish the difference between a grant and a loan. Although SBA's loans were every bit as slow in coming to our homeowners in the months after the storms as these Road Home grants, many Louisiana families have now received them and are taking advantage of the SBA's lower interest rates on the capital they need to repair and rebuild. As any loan, the borrower signs a binding contract to repay the government this money. However, under regulations of the SBA, if a homeowner receives a grant to rebuild, it must use those funds to repay the SBA, placing a homeowner in a situation again of limiting their resources to rebuild. Since our grant program provides only a portion of the funds

Even the SBA Administrator has admitted that a subsidized-interest-rate loan is not the same thing as a grant, and that a borrower – regardless of the grant – has an obligation to repay the loan note. Nonetheless, SBA has not adjusted their policy. Homeowners going to closing today are having their grant amounts reduced to repay this money back to the federal government immediately, even though they may need it to complete their repairs and have an ongoing responsibility to the federal government (which has already budgeted for these loans) to repay the note with interest.

Another one of the most stringent delays of the program has come from federal requirements that a homeowner's insurance benefits and the Federal Emergency Management Agency's (FEMA) assistance for structural damage must be deducted from our calculation of a homeowner's grant assistance. The deduction of insurance and FEMA funds designed to prevent a "duplication of benefits" are two examples of deductions and corresponding verifications that we have no choice but to include in our program design, but that are taking significant resources and time in order to comply with when attempting to move as quickly as possible to provide assistance to homeowners.

National Flood Insurance Program Overview

Contrary to conventional wisdom, Louisiana's homeowners are some of the most enthusiastic participants in the National Flood Insurance Program (NFIP) compared to any other state in the nation (See Appendix A).

Because most of south Louisiana's Flood Insurance Rate Maps (FIRMs) were from 1985 or earlier, and in light of the data gathered during and after Hurricanes Katrina and Rita, FEMA decided to review/revise the FIRMs for most south Louisiana communities. In the coastal parishes, where storm surge flooding was most severe, FEMA issued Advisory Base Flood Elevations (ABFEs). These ABFEs serve as an interim guidance on safe building for those parishes where the current FIRMs are obviously wrong, but for which new modeling and engineering are necessary before new FIRMs can be produced.

Recognizing that the ABFEs provided the best available science with respect to flood hazard for those communities, the LRA began giving incentives to parishes and local communities to adopt the ABFEs in order to access funds from the Hazard Mitigation Grant Program, as well as other sources that were being made available. Almost all of them have now adopted the ABFE's, meaning that future flood risks will be lessened and giving home and business owners access to additional benefits under the National Flood Insurance Program. Because the ABFEs result in changes in the expected 100-year flood plain, the flood risk for many structures changes, allowing home and business owners to access Increased Cost of Compliance (ICC) payments that were not available to them before. For instance, homeowners who were previously in Zone B (outside the 100-year flood plain), but are now in flood Zone A (inside the 100-year floodplain) as a result of the adoption of the ABFEs are now eligible for ICC claims of up to $30,000. These funds can be used to elevate or floodproof their homes, reducing their flood risk. This has been a great benefit to many communities, and is a driving factor in at least one community's efforts to adopt the ABFEs.

ROAD HOME RENTAL PROGRAMS:

Across southern Louisiana, approximately 82,000 rental housing units received major or severe damage from Hurricanes Katrina and Rita. Replacement of the damaged or destroyed rental housing in the hurricane ravaged areas is vital to the return of families and a strong workforce, and is a lynchpin of Louisiana's recovery.

All sectors of the economy have reported a workforce shortage due to a lack of affordable housing. Rental housing stock is also imperative to support the return of the high portion of residents that were renters prior to the storms, particularly in New Orleans, as well as the return of homeowners transitioning into repaired and rebuilt homes over the coming months. The repair of rental housing will also help to stabilize soaring rental rates, and help to stabilize communities through reducing blight.

For these reasons, the LRA in close coordination with OCD designed several programs to support the redevelopment of rental housing in storm-impacted areas. Recognizing that the funds available would only rebuild a portion of the units lost due to the hurricanes, the LRA allocated funds for the Workforce and Affordable Rental Programs by formula to ensure that those parishes with the most damaged or destroyed rental housing stock would have adequate resources to replace significant numbers of affordable rental units. Resources are also allocated in a way to prioritize affordability and mixed-income development goals, and to produce units in all ranges of affordability. The Road Home Workforce and Affordable Rental Housing Programs have four broad goals:

- To ensure that the workforce needed to accommodate full economic recovery has access to affordable rental housing;
- To provide affordable rental housing to low income households who could not otherwise afford to return to their communities;
- To ensure that affordable rental housing is provided in the context of high-quality, sustainable mixed-income communities, and
- To ensure that a portion of affordable rental units will host supportive services for families with special needs or high risks following extended displacement.

To support the programs, the State has set aside a total of $1.5 billion in CDBG funds, which will supplement the estimated $1.7 billion worth of private investments triggered by Congress's expansion of the Low Income Housing Tax Credit (LIHTC) program in the GO Zone legislation.

Through the CDBG and LIHTC investments in rental housing, we hope to create an estimated 35,000 units in a broad mixture of deeply affordable units, mixed income development, and 1 to 4 unit rental properties. Of CDBG programs, the LRA has designated $667 million for the Low Income Tax Credit "Piggyback" Program and $869 million for the Small Rental Property Program.

Low-Income Housing Tax Credit (LIHTC) and LIHTC "Piggyback" Program

Through legislation creating the GO Zone, Congress authorized a special allocation of Low Income Housing Tax Credits (LIHTC) to repair and construct affordable rental housing. The LRA made $667 million in CBDG funds through the Piggyback Program, which will be paired with LIHTC, to make feasible mixed income development, deeply affordable units, and units for the elderly and disabled in permanent supportive housing—characteristics not usually found in LIHTC financed developments.

To date, the Louisiana Housing Finance Agency (LHFA), which is the housing finance agency for the state, in conjunction with the LRA and the Louisiana Division of Administration's OCD have worked to allocate 2006 GO Zone Credits and to forward allocate approximately $186 million in 2007 and 2008 GO Zone tax credits. The total development cost of these transactions is approximately $2.7 billion and is expected to yield 17,000 units of rental housing. The last round was awarded in December 2006, and is required to be placed in service by December 31, 2008.

A portion of these LIHTC credits in the 2007 and 2008 rounds were awarded on December 13 along with $440 million in CDBG funds through the Piggyback to provide gap financing and Project Based Rental Assistance in order to assist 33 projects. These projects will create more than 5,700 new rental units in storm damaged areas.

- These include redevelopment of four storm-impacted public housing developments. One of these housing projects will also be producing 244 single family homes for middle income purchasers, bringing the total number of units in these developments to 5,981.
- 26 of these developments will be mixed income projects serving a range of residents including both extremely low income households and market rate tenants.
- In most cases, these mixed income developments will contain at least 60% market rate units and at least 20% deeply targeted units – affordable to households earning less than 40% of the Area Median Income.
- In a few instances, most notably in the redevelopment of Public Housing projects, a second mixed income model was used. In these developments at least 30% of the units were market rate and no more than 33% were deeply targeted units.

The Piggyback Program will also help special-needs populations achieve stable housing and successful lives by providing incentives for developers to create Permanent Supportive Housing (PSH) units. All of the developments in assisted with in the 2007 and 2008 rounds will provide at least 5% of their units for Permanent Supportive Housing (PSH). Many will provide more PSH units than the required set aside. This effort represents the first major development of PSH in the State of Louisiana and the very first PSH units to be provided in mixed income settings.

The program aimed to support an estimated 3,000 units with supportive housing services. Other HUD programs such as the McKinney Vento Act, Project Based Section 8 Vouchers, Section 811, and Section 202 program funds will supplement supportive efforts.

While PSH units will be created through the Small Rental Property Program, the need for vouchers for supportive housing units that can be integrated throughout the community remains. PSH households will require rents affordable for households at 30% AMI down to zero income. Vouchers will be needed to bridge the rent-gap between these affordable units and units that may be underwritten to support rents at the 50% to 80% AMI level.

Small Rental Property Program

Before the disaster, a large portion of low to moderate income working families resided in single-family homes, “doubles” and small, multi-family buildings with four or fewer units that were owned and operated by small-scale landlords, especially in New Orleans where an estimated 70% of rental property was owned by small landlords. In the wake of the storms, it became clear that an unprecedented number of these small, rental properties had been destroyed or severely damaged and were at severe risk of becoming blighted after the storm. For many renters, especially in and around New Orleans, housing was not affordable prior to the storms. According to the 2000 census, over two-thirds of the very low income households, households earning less than 30% AMI, paid over 30% of their incomes for rent, the HUD standard for affordability.

The Small Rental Property Program will provide gap financing in the amount of $869 million, including administrative costs, for the repair of an estimated 18,000 small rental units. In doing so, the program will provide safe and affordable rental housing for working families. The funding will be split among the 13 most impacted parishes according to each parish’s documented damage to rental units.

The gap financing will enable repairs to occur and limit the amount of debt and debt service required for properties, so that the owners will be able to charge affordable rents. The program will also prevent blight by rebuilding damaged properties and will stabilize rents in traditional neighborhoods by increasing the supply of housing.

The first round of the program was launched last week on January 29th, and will accept applications through March 15th for as much as $200 million in funding. Award letters will be released at the beginning of April, and the second round will commence immediately thereafter. As the program does not have enough resources to fund all damaged properties, the program currently anticipates a number of rounds of funding to give small landlords multiple opportunities to apply. Multiple rounds will also allow for the program to change award incentives as the results of each round are assessed.

The program will be limited to property owners who owned the unit before the storm, and will provide priority to owner-occupied properties who are not eligible for the Homeowner Program, namely, owner occupants of 3 and 4 unit buildings. The program is limited to 1 to 4 unit rental properties.

On a competitive basis, the program will provide from $18,000 to $72,000 per rental unit. The size of the incentive is determined by the level of affordability provided and the size of the unit. In exchange for accepting financial incentives, property owners will be required to provide affordable rents for households earning at or below 80% AMI. Rents are affordable if they comprise less than 30% of a household's income. Incentives available will be in three tiers based on the income level of the tenants to be served. The maximum amount of subsidy will go to rental units where rents are affordable for households with incomes at or below 50% AMI. Landlords may also choose to apply to the program and propose to charge rents affordable to households at or below 80% AMI, or at or below 65% AMI. The incentive award is in the form of a no payment, forgivable loan at 0% interest, due only upon resale of the property or failure to comply with the agreed-upon restrictions on rents and household incomes during the specified commitment period.

An exception to the rule of pre-storm ownership will be allowed for non-profit entities. There will be a 5% set-aside for non-profits. While non-profits will be allowed to have purchased units since the hurricane, they will be required to provide an affordable unit for twenty years. In addition, non-profits will be in a position to provide units to house supportive services.

First Time Homebuyer Program

Recognizing that households who were renters before the storm could benefit from home ownership, a first time homebuyers pilot program will be created by the Louisiana Housing Finance Agency to allow low- and moderate-income homebuyers to purchase damaged properties and to carry the home through the repair process. The pilot program will be funded through the budget for the Small Rental Property Program through a $40 million set aside. The program will be available in the early spring.

Bringing Residents Home

Rental Registry:

Because the replacement of rental housing will fall far short of the rental housing lost due to insufficient resources, and many residents displaced by hurricanes Rita and Katrina are far from home and inadequately housed, the State is giving priority placement to hurricane displaced residents for all subsidized rental housing units. A total of $2 million in CDBG funds has been budgeted to provide the following resources to displaced renters to help facilitate their return home.

Louisiana has initiated a Call Center and Homeowner Registry to allow former homeowners to indicate their interest in returning to their neighborhoods and investing in their homes. Eligible renters will be notified by mail, telephone, and the www.LouisianaRebuilds.info web portal to the greatest extent possible of the opportunity to access rental information, rental support and other needs for returning citizens.

From www.LousianaRebuilds.info , renters are referred to a web database, www.LAHousingSearch.org, where affordable rental housing is listed, and where they can access applications for income-assisted housing. www.LAHousingSearch.org is sponsored by the Louisiana Department of Health & Hospitals and the Louisiana Housing Finance Agency and is a free, online, searchable registry of housing in Louisiana. Landlords can list properties and benefit from the statewide marketing campaign. Renters may use the site to identify housing and features, both rental and for-sale. Any property owner will be able to list available properties, but units available through the Small Rental Property Program and all units providing supported services will be automatically listed.

Vouchers:

The storm left thousands of residents displaced not only across the state, but in communities across the country. The GO Zone LIHTC allocations, Piggyback Program, and Small Rental Property Program are creating units that will rebuild housing units and should help bring rents down, but units won't be replaced on a significant scale for another year to well over two years. During the rebuilding period, returning home isn't accessible to the middle and lower income tier families unless they are able to secure a FEMA travel trailer site. Citizens who desire to move back and are able to afford their pre-storm rent levels still have difficulty moving home because of a limited housing supply and high rents. Resources to fund a flexible rent subsidy tied to the areas with most displacement would help to provide a stable housing for displaced citizens and transition people home as housing is replaced.

Even those who have a housing option, a job waiting, and the means to pay rent in Louisiana have no way to return. There are hundreds of available units awaiting former public housing residents who have no means to obtain transportation home. FEMA paid to bus families away after the storm, but has not agreed to fully cover their costs of returning home. The need for transportation assistance would enable these residents to begin their journey home, reestablish their links to their communities, and reestablish their careers.

Extension of Placed in Service Date for GO Zone LIHTC's:

The GO Zone LIHTC and CDBG funding for recovery has given Louisiana the opportunity to replace a portion of its lost rental housing stock. Nevertheless, the hurricanes continue to hinder our ability to rebuild housing nearly two years later. Increased construction costs, labor costs, utility costs, and insurance costs have made tax credit projects underwritten last year unfeasible and threaten their viability. Not only do stalled projects risk not being constructed, but the lack of construction is a real deterrent to other private investment.

Current law requires projects receiving 2007 and 2008 GO Zone tax credits with a 30% increase in qualified basis and located outside of the designated qualified census tract to be placed in service on or before December 31, 2008. Approximately 65% of the units receiving tax credits in the GO Zone, underwritten with the increase in qualified basis, are at risk of losing the very credits required for viability if these deadlines are missed. To insure that the units at risk are successfully developed, the LRA, along with the LHFA and its nonprofit partners, the Louisiana

Association of Nonprofit Organizations (LANO) and the New Orleans Neighborhood Development Collaborative (NONDC), are requesting Congress to extend the December 31, 2007 placed in service deadline to December 31, 2009, and to extend the December 2008 placed in service deadline to December 31, 2010.

Per Capita Tax Credits:

In addition, Louisiana receives approximately $8.6 million of Per Capita tax credits annually to satisfy the housing needs of the state. However, Hurricanes Katrina and Rita displaced tens of thousands of households in the GO Zone and distorted the supply and demand balance for affordable housing throughout the entire state. Because GO Zone credits can only be used in Difficult Development Areas within the GO Zone, there is an immediate need for additional Per Capita tax credits to fund the housing needs of people who fled the GO Zone and are now living and working in other regions of the state. To meet the increased demand for housing in non-GO Zone areas of the state, we are also recommending that Congress increase the state's annual Per Capita allocation of low-income housing tax credits from $8.6 million annually to $17.2 million annually for the next five years.

Insurance:

Louisiana is also experiencing increases in the cost of insuring single family homes and rental housing developments. We have preliminarily estimated that insurance premiums have increased one-and-one-half to two times the pre-hurricane rate in the wake of Hurricanes Katrina and Rita. These increases have placed a tremendous burden on home buyers, homeowners and rental housing developers, and especially low- to moderate-income residents.

To help reduce the increased cost of homeowner insurance, a portion of the interest on mortgage loans financed with the LHFA's $236 million of single family mortgage bonds issued during 2006 was allocated directly back to low-income borrower's insurance escrow account as an insurance premium increase offset. The Insurance Premium Offset program deposits up to $165.00 per month into a low-income borrower's escrow account to help take the sting out of higher insurance premiums—as well as providing 30-year fixed rate interest rates, prior to the 2% rebate, at 4.5%.

The LHFA, along with the LRA and OCD, is currently working to develop a similar program for rental housing developers. We are most concerned with the ability of rental housing developments with debt service coverage ratios of 1.2 or less to absorb the higher insurance premiums. Approximately 30 to 35 projects fall within this category of the 240 projects in our pipeline. This represents approximately 2,800 to 3,000 of the 17,000 tax credit units approved for development.

Cost Share:

For the record, there are other issues of fairness and common sense that we would ask Congress to consider when reviewing the progress of our recovery. The costs of responding to truly catastrophic disasters such as Katrina and Rita are extraordinary at all levels of government. For the State of Louisiana, the FEMA cost-share alone, even after it was adjusted up to 90% Federal share for FEMA's Public Assistance program, is over $1.5 billion. This match requirement further burdens our recovery, given that Louisiana generates only about $8 billion in annual state tax revenues and has only 4.5 million residents.

This $1.5 billion bill also does not include the many costs absorbed by the State which are ineligible for Federal reimbursement, including paying for the increased demand for social services, support for economic development and recovery; helping our communities plan their futures in the wake of these catastrophic events; paying to bring buildings up to the International Building Code (which will make them safer from future disasters); and paying for facility repairs that are required by law or due to deferred maintenance but not covered by FEMA assistance or insurance.

At the local level, some of our parishes have had their economic hearts torn out through the loss of tax base, residents, and economic vitality. Some of our communities are struggling to survive.

Based on this severe impact, and the fact that much of the damages we experienced were the result of the failure of Federal levees which should have held in the face of a Category 3 event like Katrina, we need the Administration's and Congress' support to adjust the Federal cost-share to 100% for all FEMA programs. After the tragedy of 9/11, Congress provided New York with 100% federal cost share to recover from the disaster. They looked at magnitude of what the city and state were facing and leaned forward to cover 100% of the expense. FEMA also approved significantly 100% federal cost share for numerous disasters including Hurricanes Hugo, Andrew and Iniki, yet the same favorable treatment has not been shown Louisiana even though the projected per capita impact of Hurricanes Katrina and Rita in our state exceeds the costs of those disasters by many multiples (See Appendix B). In fact, Louisiana's per capita impact is projected to be $6,700 for every man, woman and child in the State – more than thirteen times that of any other disaster in U.S. history.

As of this point in time, the State of Louisiana as already paid a significant share of costs for this disaster. In addition to disaster costs unrelated to Federal relief programs, we have also paid approximately $400 million to FEMA already to match costs associated with their "Other Needs Assistance"and "Individual Assistance" programs.

The federal government should waive any further state match costs, as they did for New York following 9/11, by increasing the federal cost share to 100% for all disaster relief programs authorized in the Stafford Act including public assistance and hazard mitigation. In the case of Public Assistance, this would only require a regulatory change, as the Stafford Act provides for a minimum Federal share of 75%, but offers no maximum cost-share. The President has this authority to make this happen today. In the case of Hazard Mitigation and Individual Assistance, this would entail an amendment to the Stafford Act or providing an exception to the cost-share structure found in that legislation.

In the face of such catastrophe – particularly since much of it was the result of the failure of levees for which the Federal government had responsibility -- Louisiana's communities should not be required to pay FEMA more than a billion more dollars in cost share.

CONCLUSIONS

Yes, we are making progress but as just outlined, many communities in South Louisiana are still suffering greatly – more than they should be this long after a disaster. In many ways recovery has yet to be felt in our neighborhoods, and in our homes. My neighborhood in St. Bernard Parish is a perfect example – most homes are still vacant and heavily damaged, roads, water and sewer are in disrepair, most businesses have yet to return.

The simple truth is that recovery is not happening quickly enough. Things need to change.
It should be noted that the need to provide housing assistance after a truly catastrophic series of events like Katrina and Rita is different from garden-variety disasters. It's not just about helping people – it's about restoring neighborhoods and cultures through the redevelopment of housing. It's important to remember that we didn't have a few hundred or a few thousand homes impacted. We had more than 200,000 homes damaged or destroyed entirely. Entire parishes, entire cultures were devastated.

To say that Louisiana faces challenges in its recovery is an understatement. Replacing 200,000 homes, rebuilding an economy, addressing the issues created by demographic and economic shifts, reconnecting people to their neighborhoods and cultures again – all complex problems that we need to address.

We are all learning each and every day how to make progress. And we are learning lessons and changing our approaches to take into account the reality that the recovery from catastrophic disasters is fundamentally different than recovery from more typical ones. We aren't just rebuilding homes and infrastructure – we are rebuilding civil society and community. That takes new ideas and creativity, along with a commitment to making things work.

I am pleased that the Financial Services Committee has chosen to focus on the tremendously complex housing issues facing our recovery. It is my sincere hope that through the leadership of this committee, we can fix what is broken. Our city and state cannot heal and will not heal until we are back in our homes and living normal lives once again.

Thank you for the opportunity to appear before you today. I'd be happy to take any questions that you may have.

Appendix A

INSURANCE JOURNAL
Texas / South Central News

Report: La. More Insured than any Other State for Flooding

March 20, 2006

In the 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.

But data from the office of Donald Powell, the Bush administration's liaison to the disaster zone, shows that Louisiana was a more enthusiastic participant in the National Flood Insurance Program than any other state in the nation, *The (New Orleans) Times-Picayune* newspaper reported in its March 19 editions.

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 the Lakeview neighborhood of New Orleans, 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 was $143,023.

The huge payouts caught many people by surprise because so many pundits and members of Congress had predicted a majority of homes 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.

House Speaker Dennis Hastert, R-Ill., 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.

In fact, New Orleans and the rest of state 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.

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."

Katrina has made it clear that 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 newspaper.

Also in the top 10, in terms of market penetration are: 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.

Information from: *The Times-Picayune*, www.timespicayune.com.

The Times-Picayune

New Orleans had better coverage than most other communities

Sunday, March 19, 2006

By Jeffrey Meitrodt and Rebecca Mowbray
Staff writers

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."

. . . .

Appendix B

On Sept.15, 2005, President Bush stood in Jackson Square and promised

"an unprecedented response to an unprecedented crisis"

But 18 months later in Louisiana

WE ARE STILL WAITING

to be treated like other states.

Disaster	State	FEMA spend per capita	Cost share waived
9.11.2001 	New York	$390	☑
Hurricane Andrew ('92) 	Florida & Louisiana	$139	☑
Hurricane Iniki ('92) 	Hawaii	$234	☑
Hurricanes Katrina & Rita ('05) 	Louisiana	$6,700	☐

Treat us fairly.

LOUISIANA RECOVERY AUTHORITY