

JO ANN HOWARD & ASSOCIATES, P.C.



March 7, 2005

Mr. Steve Kanstoroom
[REDACTED]

Dear Mr. Kanstoroom:

I was disappointed to learn that flood victims in several states are experiencing problems getting claims paid by Write Your Own (WYO) companies and third-party administrators that serve as the arm of the National Flood Insurance Program (NFIP).

I was appointed by President Clinton and served as Federal Insurance Administrator from 1998 until 2001. Before that, I was one of three appointed Texas insurance Board Members. I was appointed by Governor Bill Clements, a Republican. During my tenure at FEMA as Administrator of the NFIP, I was impressed by the attitude of the FEMA Director during my tenure as well as the Flood Insurance Administration staff regarding fair treatment of flood policyholders filing a claim for a flood loss. This was underlined by the fact that many policyholders are required to purchase flood coverage in order to obtain a mortgage loan.

While at FEMA, I attended adjusters' and agents' meetings at various locations and do not ever recall any instructions or implications that anything less than restoring the damaged home to its pre-flood condition was acceptable. The NFIP's regulations provide no incentive for WYO companies to undercut a claim as they pass through the premiums and losses to the federal program, less their commissions for placing the coverage.

While it is true that the coverage has some limitations as to basement coverage, exclusion of certain structures not affixed to the insured structure and some other limitations, we rewrote the policy in Plain English so as to make coverage clear to agents, policyholders and adjusters. The rates are set to be actuarially sound over a period of time, and that is exactly what has occurred. In the event a dispute arose over the policy, inasmuch as FEMA drafted the policy language, we adhered to the interpretation most favorable to the party with no input in the contract language under a contract of adhesion. In other words, the policyholder received the benefit of the doubt.

The dedicated flood program staff I knew and worked closely with in the NFIP were fair and compassionate people who had a great deal of insurance expertise. The claims managers adhered to payment of RCV, replacement cost value as included as part of the premium. I am puzzled as to how this program's policy could have changed in just a few years. The NFIP has been an exemplary program which has saved many families from financial ruin since its inception.

I am troubled by the media reports indicating that people who budget to pay for flood coverage are reporting that they are receiving reduced damages for their flood claims. This is inconsistent with the NFIP's practice of restoring victims' covered losses to their pre-flood condition. During my tenure, and in prior administrations, the NFIP paid for the unbroken chain of events flowing from the flood loss, i.e. direct physical loss. That meant damage was restored as a result of its proximate cause – flood, regardless of contact with flood water. For example, when an air conditioning system's outdoor unit is torn from the

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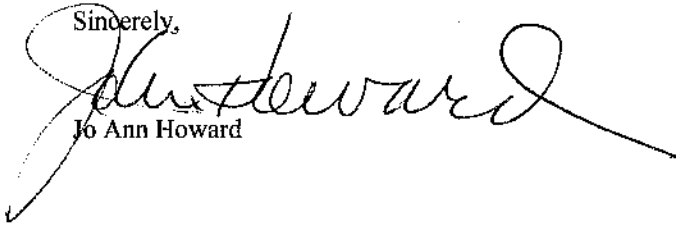
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building leaving its refrigerant lines open to contaminants, other components although not contacted by the flood waters are often affected. In such a case, the indoor air handler would also be covered inasmuch as it was part of a system and could no longer be deemed reliable – there being no way to wholly remove the contaminants. To do any less was not consistent with our regulations. North Carolina had severe flooding in 2000 and many homes had high dollar damages which were paid. Commissioner Long was in touch with FEMA about policyholders in that state as claims were adjusted. The NFIP paid for damages caused by “wicking” in which insulation would carry moisture many feet above the flood water level and damaged the structure to a great extent, as I recall.

I am troubled by the reference I read by Congresswoman Davis in her letter to the President regarding the industry lawyer’s potential conflict of interest. I was unaware any such conflict existed during my tenure. The conflict, when coupled with the misinterpretation that the policyholders’ premiums held in a Treasury account are federal funds, is significant. The source of funding for all contract benefits and claims expenses under the NFIP is derived solely from policyholders’ premiums and not taxpayers’ funds, notwithstanding that they may be temporarily held in a Treasury account.

I appreciate your contacting me. Let me know if I can help in any way. Surely this situation will be rectified. I hope so.

Sincerely,

A handwritten signature in cursive script that reads "Jo Ann Howard". The signature is written in black ink and is positioned to the right of the typed name.

Jo Ann Howard