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U.S. Congress. Banking and Currency
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Rehabilitation loans by the Recon-
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2d Session }

SENATE

{ REPORT
{ No. 1747

*U.S. Congress. Congress. Senate. Committee
on Banking and Currency*

REHABILITATION LOANS BY THE RECONSTRUCTION FINANCE CORPORATION

FEBRUARY 24 (calendar day, APR. 7), 1936.—Ordered to be printed

Mr. FLETCHER, from the Committee on Banking and Currency,
submitted the following

REPORT

[To accompany H. R. 11968]

The Committee on Banking and Currency, to whom was referred the bill (H. R. 11968) relating to the authority of the Reconstruction Finance Corporation to make rehabilitation loans for the repair of damages caused by floods or other catastrophes, and for other purposes having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The bill as reported, insofar as rehabilitation loans by the Reconstruction Finance Corporation are concerned, is the same as the bill which passed the House, with the following exceptions:

First. The aggregate amount which may be loaned by the Corporation for such purposes has been increased from \$25,000,000 to \$50,000,000.

Second. Under the House bill the catastrophe with respect to which the loan is made must have occurred in the years "1933, 1934, 1935, 1936, and 1937", while under the bill as reported the catastrophe must have occurred in the years "1935 or 1936."

Third. Under the House bill there was a requirement that as a condition to obtaining a loan the repair, construction, reconstruction, rehabilitation, or acquisition be deemed by the Corporation to be "economically" useful or necessary, while under the bill as reported the word "economically," has been eliminated.

The bill as reported also contains the substance of S. 4396, introduced by Senators Walsh and Bulkley, which had the approval of the Federal Housing Administration. It provides for adding a new section to title I of the National Housing Act, as amended, under which the Federal Housing Administrator is authorized to insure financial institutions heretofore or hereafter approved by him as qualified by experience and facilities as eligible for credit insurance, against losses

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which they may sustain as a result of loans, advances of credit, and purchases of obligations representing loans and advances of credit, made by them for financing the restoration, rehabilitation, rebuilding, and replacement of property damaged or destroyed by flood or other catastrophe in 1935 or 1936. To be eligible for such insurance, the loans or advances must have been made subsequent to the date the new section takes effect and prior to January 1, 1937, or such earlier date as the President may fix by proclamation upon his determination that the emergency no longer exists, and no such loan or advance may be so insured unless it was made to an owner of real property or to a lessee thereof under a lease for a period of not less than 1 year.

The maximum amount of insurance which may be granted under the new section to any approved financial institution is fixed at 20 percent of the total amount of such loans, advances of credit, and purchases made by it, and any insurance reserve which it may have accumulated under section 2 of the National Housing Act prior to April 1, 1936, is made applicable to the payment of any losses it sustains as a result of loans, advances of credit, or purchases insured under the new section. The provisions with respect to the maximum amount of individual loans and advances which may be insured, and those which relate to interest, maturity, etc., correspond to the provisions contained in such section 2.

The provision of existing law that the total liability of the Administrator for all insurance under such section 2 shall not exceed \$100,000,000 is made applicable not only to such section but also to the new section added by the bill as reported. However, if the President finds at any time that there exists a necessity for such insurance in order to make ample credit available he may authorize the Administrator to incur additional liability for such insurance in an amount not in excess of the amount of the liability incurred under the new section.

A provision is also added authorizing the Administrator to waive compliance with his regulations in certain cases where the enforcement thereof would impose an injustice upon an insured institution which has substantially complied with such regulations in good faith, and where such waiver would not increase the obligation of the Administrator beyond that which would have been involved if the regulations had been fully complied with. The purpose of this provision is merely to remove certain technical difficulties that have arisen in connection with the administration of title I of the National Housing Act.

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U.S. Congress. Banking and
Currency Committee (s)

Progress report on federal
flood insurance...

Pt. I - Hearings held Feb. 19
1957

Pt. II - Hearings held
April 4, 1957

PROGRESS REPORT ON FEDERAL FLOOD INSURANCE

HEARING

BEFORE A

U.S. Congress, Senate,
SUBCOMMITTEE OF THE
COMMITTEE ON BANKING AND CURRENCY,
UNITED STATES SENATE

EIGHTY-FIFTH CONGRESS

FIRST SESSION

TO RECEIVE A REPORT ON THE PROGRESS MADE UNDER
THE FEDERAL FLOOD INSURANCE ACT OF 1956

FEBRUARY 19, 1957

Printed for the use of the Committee on Banking and Currency



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PROGRESS REPORT ON FEDERAL FLOOD INSURANCE

TUESDAY, FEBRUARY 19, 1957

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
SUBCOMMITTEE ON SECURITIES,
Washington, D. C.

The subcommittee met, pursuant to call, in room 301, Senate Office Building, at 10 a. m., Senator Frank J. Lausche, chairman of the subcommittee, presiding.

Present: Senators Lausche, Clark, Ives, Bennett, and Bush.

Senator LAUSCHE. We will call the meeting to order, gentlemen.

Gentlemen, the hearing this morning has been set primarily to receive a report on the progress made under the Federal Flood Insurance Act of 1956.

It is my understanding that this act became law on August 7 of last year. Because of the experimental nature of the program and the lack of experience for many of the problems which have arisen in connection with it, the program has not been placed on an operating basis as soon as many of the proponents of the bill hoped it might be.

You understand that I was not a Member of the Senate last year, and, therefore, my knowledge of the objectives and the language, the provisions, of the bill is rather limited.

Under the bill as reported by the Senate and House committees, it is my understanding that the current interpretation is that certain fees which are being paid can only be paid out of direct appropriations.

It is a fact that the appropriations which were made to finance the Federal Flood Indemnity Administration are not adequate to meet the purposes of the bill. The report which has been submitted to me and my colleagues is that the prospects are that no request from the administration will be forthcoming with regard to needed appropriations until after March 1.

It is now almost six and a half months since this act became law. If it is to be put into operation, it is perfectly manifest that the moneys will have to be provided.

It is my understanding that this morning in attendance to report what has thus far been done are, first, Mr. Albert M. Cole, the Housing and Home Finance Administrator. He is the official in whom the statute vests the power to operate this program. Also under the statute Mr. Cole has designated Mr. Frank J. Meistrell as Commissioner of the Federal Flood Indemnity Administration to assist him in carrying out this program.

I have already stated that I was not a Member of the Senate last year and therefore could not have been on the committee which studied the problems sought to be remedied and cared for under the bill.

It is my understanding that the bill became law primarily through the nonpartisan approach adopted in the matter by Senator Lehman, of New York, and Senator Bush, of Connecticut, with the support of Chairman Fulbright. It seems clear that if it had not been for Senator Lehman, Senator Bush, and Chairman Fulbright, this statute intending to help those caught by floods would not have been in existence.

In the same spirit, it is my hope, based upon the knowledge which I have of the purposes of the bill, that it will be placed into operation soon in order that its intended benefits may be received by those who are unfortunate victims of floods.

I take it that Senator Bush and others who have made inquiry about the progress thus far made by the administration did so because they hoped that sales were already being made of this coverage to those who might become victims of the floods.

Mr. Cole and Mr. Meistrell, I suggest that you proceed with the presentation of your knowledge of the developments of the program thus far.

STATEMENTS OF ALBERT M. COLE, ADMINISTRATOR, HOUSING AND HOME FINANCE AGENCY; AND FRANK J. MEISTRELL, COMMISSIONER, FEDERAL FLOOD INDEMNITY ADMINISTRATION

Mr. COLE. Thank you, Mr. Chairman.

We are delighted indeed to have this opportunity to appear before this distinguished committee to report the progress which has been made in connection with our responsibilities on the flood indemnity program.

First, may I say that I as Administrator am exceedingly happy and pleased with the progress which has been made to develop the program. It is my judgment that the program has developed to a point far beyond that which was expected of it at this stage of the timing.

The committee will well remember that when Mr. Meistrell appeared before the committee, the committee and the administration both came to the conclusion that this was an untried experimental program, that we had no experience, no data, no information, no history, no legislation to point the way to guide either the Congress or the executive branch in the development of such a program.

No studies covering all the problems involved in setting up a program of Government flood indemnity have been made by either Government or private insurance companies. No private insurance companies have ever undertaken specific flood indemnity, on any broad scale of any sort whatsoever.

Therefore, when the legislation was enacted, it was understood by the Congress and by the executive branch that a careful study must be made of all of the complex, difficult problems involved before the executive branch would come before the Congress and recommend the program under which we hoped to carry out our responsibilities.

Therefore, if I may repeat, Mr. Chairman, I am exceedingly delighted with the progress which has been made, and it is my judgment that the progress has been so advanced that it is far beyond our expectations when we undertook this study.

Now, Mr. Meistrell has been the individual primarily responsible for the development of the program. He knows more about this program, may I say, other than the Senators, than any man in America. He has given careful study to the problems. And I would like to turn the questions and answers over to him for him to make a report to the Senate, to the committee, and then, of course, we will submit ourselves to any questions which you may care to ask.

Senator LAUSCHE. Mr. Meistrell.

Mr. MEISTRELL. Mr. Chairman and members of the committee, I am very happy with the opportunity afforded me to give you a report of what we have done and to raise some of the problems that we are attempting to resolve and, if I may be presumptuous perhaps, to solicit your opinion on some basic issues with which we are not altogether certain of the way to proceed.

Mr. Chairman, you indicated that you were not in the Senate at the time this bill was under consideration, and with your permission I should like to advert for a moment to some of the considerations which led up to its enactment.

You will recall, I am sure, the very tragic occurrences in the Connecticut Valley in 1955 and subsequently within a relatively short time thereafter the repetition of those tragedies in California. As a result, there was considerable public interest as well as a real interest in the Congress that some method should be found, if possible, to afford to victims of floods and these tragedies that occur through the forces of nature a means whereby they could help themselves and not rely on charity.

I think the feeling was very proper. The American people are a generous people. They like to help each other. But they are also a proud people, and they like to do things for themselves. And charity is not the full answer to these tragedies that occur through flood conditions.

The traditional position of the insurance industry has been one that they believe, and I think properly, that risks of this nature do not readily lend themselves to the accepted concept of insurance. And it is their position that large aggregates of capital of both stockholders and policyholders in the mutual companies would be put at risk in an area where losses are bound to occur, and, when they do, are very substantial, and that it would be unwise for them to undertake to collect premiums if within a relatively short time thereafter they would be put to heavy losses, and that there is no certainty with respect to the feasibility of such a program from an insurance standpoint.

I think there is merit to that position, and I think the Congress recognized it. However, the carriers made it quite clear that if some method could be developed wherein a period of time were available to establish the feasibility of such a program that they would be very willing to cooperate and also would be ready to take over such a program in the event we could resolve this basic question.

Senator Bush, as you have indicated, was extremely interested in developing some program and gave very generously of his time and ability to evolve some method for dealing with this problem.

I think the Congress had in mind several things which ultimately found their way into the statute. The first one was that a program be developed which would be noncompetitive with the private insur-

ance industry, and, consequently, in the statute it is provided that where this form of insurance is available from private insurance companies at reasonable rates the Government will not enter that area, and if it is already in the area, will withdraw.

Secondly, that the Government would use the facilities and services of the private insurance industry to the maximum practicable extent. That also is in the statute.

And then there was considerable interest in the rates. It was expressed by witnesses that to get an adequate rate that we would price ourselves out of the market. And after considerable discussion, a formula was developed which provides in substance that we would attempt to evolve an actuarial rate to which we would apply in order to make the policies marketable, a subsidy up to 40 percent; the idea being that if we developed an actuarially sound rate that people who needed this protection the most would be the ones the least able to pay.

So the statute provides that to the actuarial rate the Government may apply up to 40 percent in order to arrive at the price the buyer would be required to pay, with the test always before us that that price must be marketable.

In other words, if the rate should be \$1, the purchaser would pay 60 cents and the Government would contribute 40 cents.

There was also a very definite feeling that the States have an interest in this program. That when these tragedies occur it means a loss to a State of income through the tax base being destroyed, that people lose their jobs and there is considerable unemployment, and that in the final analysis the States have to come to the rescue by some form of charity, some form of rehabilitation, and, because they do have an interest and a real interest, that they ought to participate financially.

It was then determined that they would contribute equally with the Federal Government on the subsidized portion of the premium.

A number of States took the position that time was an important factor. That in order to qualify under this program they might have to amend their constitutions, and in practically all States some form of legislation would be necessary and that it would be utterly impossible for them to comply within a short period of time.

So the Congress, in its wisdom, placed a date of June 1959 as the time for the States to conform to this requirement of equal participation in the subsidy along with the Federal Government.

Now, there was another point that was quite interesting and I think had considerable merit. As you know—

Senator LAUSCHE. What happens at June of 1959 if the States have not taken the necessary action making it possible for them to participate equally with the Federal Government?

Mr. MEISTRELL. If they do not, Mr. Chairman, the insurance will not be available to the people in those States.

Senator CLARK. Excuse me. Would you mind referring me to the section of the act which calls for State participation?

Mr. MEISTRELL. Yes.

Mr. COLE. We will get it for you, Senator.

Senator CLARK. Please go ahead, Mr. Chairman.

Senator LAUSCHE. Proceed.

Mr. MEISTRELL. Now, there was another consideration which I believe was of considerable importance, and that dealt with the question of zoning. As you know—

Senator BUSH. Mr. Meistrell, would you not want to mention there, as long as you are talking about rates, the fact that the Government also assumes the administrative expenses?

Mr. MEISTRELL. Yes. I was going to come to that, Senator Bush.

Senator BUSH. All right. Go ahead.

Mr. MEISTRELL. The other consideration deals with the problem, Mr. Chairman, that you referred to and that Senator Bush has called my attention to, namely, the cost of administering this program. As you know, in the buildup of a rate in the insurance industry there are three elements that are taken into consideration. First are the losses that a company is called upon to pay. Secondly are the administrative and overhead expenses. And thirdly a percentage loading for profit. And that is the way a rate is built up in the traditional way of ratemaking in the industry.

In approaching the rate problem, the Congress felt that we should attempt to establish an actuarial rate without any loading for administrative expenses, and, of course, being a Government program, there was no profit involved.

So when I referred a moment ago to actuarial ratemaking, I should have mentioned that that is pure losses with no loading for administrative expenses.

We thought if we approached it in that fashion we would get a rate that would probably form a point at which we could get pure premiums and pure losses only.

The cost of administering the program is provided through appropriations. And again the Congress in its wisdom felt that in order to operate the program we should get money appropriated rather than use premium income and from that offset our expenses.

So when you refer to the comments that we have not put the program into operation and that there is apparently concern as to why it has not been put into operation, the fact is that until we get the appropriations we cannot put it into operation, because we have the necessity of going before the Congress and getting adequate funds.

The point I was referring to a moment ago deals with zoning. The opinion is quite manifest that with the growth of population and the great demand for land and the increasing costs of land that perhaps building was being undertaken in areas which under ordinary circumstances would not be readily usable for building purposes. Rivers have a natural right to a floodway to the sea. As the rivers try to find their way to the sea, man interferes with them by constructing and building in their way and the rivers fight back. In order to properly prevent the unwise use of land and in order that we not insure properties in these exposure areas which are subject to recurring floods that an obligation existed on the States, as well as on the part of the Federal Government, to have appropriate flood-zoning legislation enacted.

So the statute provides that in June 1958 the States must adopt appropriate flood-plain zoning, if required by the administration, in order to reduce and minimize the exposure to flood damage.

That, briefly, is a bit of the background that I thought, Mr. Chairman, you would be interested in, in better appraising some of the more specific programs provided in the statute.

Mr. Cole has mentioned, and I should like to reiterate what he has said, that we are embarking into an area where there is little or no credible data upon which we can rely. We are venturing into a field where at best we are groping for a solution to a problem that private industry has not been able to solve. And from my own personal viewpoint I want to be very sure that what we are doing is sound.

I think we ought to make haste slowly. This is an extremely important program. It affects many lives and many people, and I think we would be ill advised to attempt to resolve some of these difficult problems without mature judgment and very careful consideration. And I am perfectly willing to take any criticism that anybody cares to level at me for what might be assumed delay, because I believe very strongly that when we put this program into operation we do it in a businesslike way.

Now I should like to comment on some of the provisions of the statute, and—

Senator LAUSCHE. May I ask whether in your document you will give us information of the progress which you have made?

Mr. MEISTRELL. Yes.

Senator LAUSCHE. You will come to that?

Mr. MEISTRELL. Yes, I am coming to that, Mr. Chairman.

Senator LAUSCHE. Proceed.

Mr. MEISTRELL. Perhaps I have taken too much time on this background, but I thought you might care to have that.

The statute has three basic programs. One deals with insurance, the second with reinsurance, and the third with a loan-contract program. I will deal with each of those separately with your permission.

The insurance program provides that insurance will be available up to \$10,000 on residential properties, including contents, and \$250,000 on commercial properties and their contents. We have an authorization of \$3 billion plus \$2 billion more on Presidential authorization. That is our total authorized capacity.

The coverage as specified in the statute covers floods, wave wash, tidal waves, the water component of hurricanes, landslide, and such meaning as may be given to those terms as we develop experience.

Also, the \$3 billion or \$5 billion authorization, whichever figure you choose to take, covers both the insurance and the reinsurance.

We have believed that we would not venture into the reinsurance program at this time because reinsurance is a matter of negotiation between private insurance companies and ourselves, and they are private contracts, which we believe at this time would open up to the large insurance companies the possibility of reinsuring with us large risks, and we have no experience in that form of contract negotiation. But more important, much more important, is the fact that this program I believe was intended to help the small-business man and the small-property owner. I do not believe it was intended for the Standard Oil Co. or for American Cyanamid or the New York Central Railroad.

I think ultimately if we prove the program to be sound we can then look at those risks in a much more objective light. But if I am correct that it is intended for the small-home owner and the small-

business man, then, obviously, with a \$5 billion capacity, the large reinsured risks could very well gobble it all up. And so we are deferring that until a later time.

Now, with respect to the insurance program itself, we are faced with some extremely difficult and complex problems. The most difficult is the question of rates. How do you determine a rate to be charged to a prospective buyer—recognizing, as I know you do, that there is little or no credible experience or data upon which to predicate a rate structure.

In view of that, we promptly organized two approaches to this very difficult problem. I asked the insurance companies if they would organize a rate committee and put on that rate committee their expert ratemaking people, those with judgment and those with experience and those who had an objective viewpoint on this problem.

I also called in a group from the Government and organized an intergovernmental group to study the problem.

These two groups have been working almost continuously in an attempt to evolve some sensible solution to ratemaking. I think you will be interested to know that they have been working separately, and I have been the link between the two. Both groups have come up with entirely different approaches.

The intergovernmental group have approached the problem from the standpoint of developing data from the Geological Survey, the Army engineers, and other sources where there may be some information which would be useful to us in arriving at a rate pattern.

Briefly, the governmental approach has been that we would take the river gages, of which I believe there are some 6,000 or 7,000, and take the readings on those gages that are recorded and attempt to determine a frequency or probability approach.

In other words, we would attempt to project how frequently a known river reaches a 10-foot stage and a 20-foot stage and a 30-foot stage and a 40-foot stage. Having developed a probability curve that a river reaches a 20-foot stage once in 20 years or a 40-foot stage once in 40 years, we would project that frequency curve onto a contour map and attempt on those maps to mark out the areas where a given river reached a given stage. And if you wanted to buy insurance, you would consult the map and find out where your property was located: and if it was on Front and Main Streets, you would then look at the frequency curves and say, "Well, at a 10-foot stage the water will be up to my front lawn. At a 20-foot stage it will be up over the second floor. At a 40-foot stage my house will be under water." And then you would select the point at which you wanted protection.

Now, the difficulty that we immediately ran into was this: Having chosen the point at which your property would be exposed at a given stage, how do you determine what the rate would be?

Some of our fellows thought that the sensible thing to do was to take the frequency and divide it into the amount of coverage that you were going to buy, so that if you wanted a \$10,000 policy and you were in a 20-year frequency point you would divide 20 into 10,000 and that would be your rate.

Now, the difficulty with that, as I am sure you all recognize, is that for all practical purposes what we are saying to you is if you were

going to be a self-insurer and you were going to set up a reserve this is the way you ought to reserve, and, conversely, if you were depreciating your property this is the rate of depreciation that you should use. And it is counter to a very fundamental of the insurance business, and that is getting some spread, because unless we can get spread and have those who are not going to have losses contribute to those who do have losses, then we are buying ourselves into losses only, and that, I think, is a very difficult problem.

But, more important, with these stages that are throughout the various river basins of the country, many of them are in places where there is little or no exposure, and that, from the geological viewpoint, is perfectly proper, because these river stages are to determine river flow and not necessarily how far the flow is going to affect people. In some places there are only 20 or 30 people in the area.

Secondly, and much more difficult, is how we would be able to map the entire United States in the short period of time that we have to get this program operating. Because, to make this type program work properly, we have got to have a map for every place where everybody has got a house that wants to be insured. And, further, to develop maps covering all of the floodable areas in the country and do it with any degree of accuracy would be an extremely costly and time-consuming job.

However, we are going to proceed in certain areas, and presently we have some 200 cities that we are running these frequency curves and probability curves on, and we are undertaking some mapping as we go along.

With your permission, Mr. Chairman, if you would like to see one of these maps, which are quite interesting, I would be very happy to show it to you, but I think we might do that later.

Senator LAUSCHE. You may do it later. Proceed with your presentation.

Mr. MEISTRELL. Now, as I say, we have got some 200 cities under study.

Another deficiency in this approach which has developed as we have gone along is that this data deals only with known rivers and with given marks, given gage marks, within these rivers. A great deal of the damage that is done by flooding in this country is not from rivers overflowing.

In New England, for example, with the torrential rains that fell in a relatively short period of time, the rainwater followed the natural contours of the earth and found its way through dried-out river beds and creeks and in many instances went right down the highways. So a great deal of the damage was done not in relation to a river and a gage but apart from that. Under this gage approach there is no way of properly evaluating a rate to deal with those hazards.

Secondly, a great deal of damage is done in this country from wind-driven rain. If we applied the frequency tests we would, in effect, be attempting to say you can buy insurance when the wind and rain are going at 70 miles an hour but if you do not pick the 70 and pick 50 you are not insured, and that is contrary to insurance principles to attempt to relate exposure to the force of the wind. And damage along the coastlines particularly is very severe from wind-driven rain the spray that is blown in from the sea by the force of a hurricane wind.

The third very difficult aspect of this approach is that we are

required to insure wave wash. Wave wash, again, along the Atlantic coast particularly, does terrific damage, and I do not believe that he gage approach is a full answer to the exposure that we would be assuming nor measuring the risk for ratemaking in relation to that hazard.

Well, that briefly, Mr. Chairman, is some of the work we have been doing among the intergovernmental groups.

Now, the carriers have spent a great deal of time attempting to evolve a rate pattern. They recognize that there is no adequate way of measuring the degree of exposure to the rate without a very costly and time-consuming approach. You necessarily ought to have height and distance from the exposure and to get that would take a great deal of engineering study at great cost.

So, in the judgment of their rate people, they have evolved a pattern for ratemaking which, in effect, is an average rate which would be applicable nationwide, with certain adjustments within that rate pattern for evaluating not the exposure but the types of structures and buildings that would be exposed and applying a differential in that fashion.

For example, they would have a different series of classifications commencing with the largest exposure, and that would be properties over water, such as piers and docks and amusement parks and things of that kind where a high degree of exposure exists, going down through manufacturing establishments, generating plants, substations, underground electrical equipment, conduits, and that sort of thing to private residences, and so forth, and there are some 8 to 10 classifications of property.

The rate under this method is related to the type of buildings that we would insure. The lowest rate, of course, would be applied to residential properties, graduating up through various kinds of manufacturing establishments to the highly exposed property along the coastlines such as piers and wharves and things of that nature.

We have attempted to inject a further consideration into both of these approaches, and that would be to afford the purchaser an opportunity to select what amount of insurance he wants to purchase, upon which we would be on the risk in the amount that he would not assume himself. So we would have a series of steps of a deductible nature, and in that way we hope again to get the rate much lower.

We are now in the process of studying these various steps in the deductibles so that we can give the buyer some selectivity in the amount of insurance he hopes to purchase.

We have now got the problem of whether or not we should put this program in nationwide or attempt to deal with it on a piecemeal basis—whether, for example, we should select some given area and go into that area and afford insurance in the hope that we could expand as we go along, much like dropping a pebble in a pool and, as the circles expand, so would we expand.

Senator LAUSCHE. Mr. Meistrell, may I ask if in contemplating putting the law into effect in a piecemeal fashion you had in mind probably that that would expedite making available a part of this coverage at an earlier time than if you tried to put it into effect on a nationwide basis?

Mr. MEISTRELL. No; not necessarily, Mr. Chairman. If we put it in on a piecemeal basis I frankly believe it will delay the program and,

secondly, I do not believe the Congress contemplated that we would deal with it on a piecemeal basis. I think floods are peculiar in the sense that they are not selective.

Senator LAUSCHE. Well, then, may I ask why are you contemplating or considering a piecemeal operation?

Mr. MEISTRELL. Well, we had hoped that if we could develop these frequency charts and we could get sufficient mapping done in given areas that we would at least have the security in knowing that we were relating the risks to the degree of exposure. But we had in mind that we would proceed with that program and modify our overall program as we developed this experience.

Senator LAUSCHE. What is your purpose at present? Do you contemplate making your complete study covering all of the areas where inundation does occur before you begin selling coverage?

Mr. MEISTRELL. No. No, Mr. Chairman; we intend to sell coverage very shortly.

Senator LAUSCHE. Proceed.

Mr. MEISTRELL. And that would be entire coverage.

Senator LAUSCHE. While you were discussing this—

Mr. MEISTRELL. I was not clear. What I was attempting to say was that we were making these studies with the hope we could resolve this problem of nationwide against going into specific areas, and what I further had in mind, Mr. Chairman, was to let you know what we have been doing and some of the problems that we are dealing with without being definitive as to that particular issue.

Now, you mentioned in your opening statement about—

Senator LAUSCHE. May I suggest at this time that you give us some idea of how far you have progressed in making this study about the rates that are to be charged and when you anticipate that you will have completed that study to the point where you are prepared to sell coverage.

Senator BUSH. Mr. Chairman, may I offer an observation here? I spent a great deal of last year on this, as the record will show, and I think if Senator Lehman was here he would agree with me that what we have been hearing and getting into this record is very valuable information for the future. While it may seem to one who has not followed this, like yourself, as closely and as long as I, that this is rather an extended introduction. I feel myself, Senator, that this is a very thorough and necessary introduction and it really is going to be valuable background for this committee in the future.

You see, we are dealing here with a form of insurance that has never been written before, and the reason it has never been written before is because of the great difficulty in finding a formula and finding rates which would be salable.

So that I think it is awfully important for the Administrator to make the record complete as to all the problems that he has run into, and then I feel sure that his final report on what he has actually done will be satisfactory. I have been over this with him before.

Senator LAUSCHE. I am very grateful for the statement which you made. I began to labor under the fear that you are going into a lot of detailed explanation maybe for my benefit or primarily for Senator Clark's over there.

Mr. MEISTRELL. Oh, no.

Mr. COLE. We can cut it much more briefly if the Senator prefers.

Senator LAUSCHE. No, no. I do not want to do it. I think you had better follow—

Senator BUSH. Mr. Chairman, I appreciate your indulgence here, and I beg the indulgence of my good friend from Pennsylvania, because I feel this background is very, very important for this committee to have on the record, and in the years ahead we will be very glad we had this session. It may seem a little tedious but it is very, very important to get it all out right now.

Senator LAUSCHE. All right. Proceed.

Mr. MEISTRELL. Mr. Chairman, I perhaps was presumptuous in going into this detail, but, knowing you were not here last year, I thought if you got a bit of this background it would better equip you to evaluate some of the problems we have.

I would be very happy to reduce my statement to a very brief one if it is your pleasure.

Senator LAUSCHE. No. You have heard the statement which I made. You proceed in presenting the problem as you see it.

Mr. MEISTRELL. All right.

I think you inquired about when we were going to have the program in operation.

Senator LAUSCHE. You need not answer that now. You proceed as you intended.

Mr. MEISTRELL. Good.

Well, I would also like to comment about the cooperation that we have had with the private insurance industry. They have given very generously of their time and their abilities and they are very enthusiastic about making this program work.

In the final analysis I think they are joined with the Federal Government in an effort to solve a very difficult problem, and they are going forward with enthusiasm and I think with a very definite hope that we can evolve a program that will merit the recognition of the American public that we have done a good job, and I think ultimately they may very well find it a type of insurance that they can properly offer themselves.

Now, what we have done, Mr. Chairman, is this: We have taken the words of the statute literally, which provide that we should use the facilities and services of the private insurance industry to the maximum practicable extent. I have had a series of meetings with the various segments of the industry, and I think you will be interested to know that there are some 5,000 insurance companies in the fire and casualty field who will participate in this program.

I have tentatively worked out an arrangement with them whereby they will issue the policies, they will underwrite the risks, they will collect the premiums, they will do the accounting and statistical work, and they will remit to us the proceeds of the premium payments. Further, and this I think is extremely important, these insurance companies are willing to do this on an actual out-of-pocket reimbursable basis with no profit, no loading for administrative costs or overhead, and no charge to the Federal Government for any expenses that are normally incident to their operating activities.

Secondly, there are some 150,000 agents and brokers throughout the country, which will be our sales organization. These producers of the business have also undertaken and given me their pledge that they

will attempt to market this coverage for a reasonable compensation for their services and facilities. We have had several meetings in an effort to reach some reasonable basis of compensation.

In addition, the insurance companies and their organized adjustment organizations have undertaken to put at our disposal some 5,000 adjusters on an "if, as, and when" basis so that as these losses occur we will have that force of adjusters to put into an area promptly to handle the adjustment of losses. And there again—and I think this is important and quite complimentary to the industry—they are willing to do this for cost.

Now, that would mean that, instead of us having a huge force on our payroll, we will have an entire sales organization, an entire adjustment organization, and all of the facilities of the private insurance industry at our disposal on a cost basis, and I think, frankly, that is quite an accomplishment.

Now, we could very well put adjusters on who would sit around on their hands waiting for something to happen, and if we had no serious floods during the course of a year, they would be quite an expense to the Government. In this fashion we have them when we need them, as we need them, and at cost.

That, very briefly, is the important aspects of the insurance program, with a further remark which I think you will be interested to know. The statute provides that we should appoint an advisory committee composed of 3 to 15 men, and the eligibility test is that they should be familiar with insurance and reinsurance.

We have appointed such a committee, and we got, I think, a very rounded-out group, and we have, I think, the best brains that we could possibly hope to obtain.

We have had a meeting with that group, and we are planning another one very shortly.

Now, the forms—the insurance policy, the underwriting rules and regulations, the accounting and statistical rules and regulations, the loss adjustment rules and regulations, and the contracts dealing with the carriers and the adjustment organizations—have all been prepared. They are, I believe, in their next-to-final draft.

That has meant a great many meetings with the industry. As you know, Mr. Chairman, when you get dealing with words you can spend endless hours trying to express what you have in mind and then have the lawyers go over it and meet again and go over it and meet again, and we have had innumerable drafts, but we have finally I think now seen the light.

So we are prepared. We are very well prepared to go forward with this program. And I think in a relatively short time we can conclude our negotiations with the industry and have some definitive forms of contracts ready to proceed with.

Now, I should like to comment briefly on the third aspect of this program, and that deals—

Senator BUSH. Mr. Chairman, if you might just pause there a moment—maybe the witness would like to rest his voice for a minute, too—I would like to express my appreciation on behalf of myself and others who have worked a long time on this insurance program to the insurance industry for the splendid cooperation that they have given, beginning in November 1955 when hearings were first

held on this bill in various States, and all through last year, and up to the present time.

I think it is very significant and very creditable to the insurance industry that they have cooperated so fully in such a difficult problem the success of which is important to so many people.

So I would like to make that statement for the record.

Mr. MEISTRELL. Mr. Chairman, one of the processes of our Government, as you know, is appropriations, and we are now, in view of the statutory provisions which I referred to before, in the posture of preparing and submitting a budget justification. When the Congress acts on that and funds are available, we will be prepared to put this program into operation.

The reason that I refer to appropriations is that we are going to have to pay the insurance companies for their services and facilities. We are going to have to pay the producers for their getting the business. And we are going to have to pay the adjusters if, as, and when losses arise. Those are contract obligations. And I would be very remiss in my duty if I attempted to enter into contracts with the insurance carriers or with the producers or with the adjusters if I had not legal authorization to do it. My legal division advises me that I cannot do that until the money is actually available.

Now, I would like to spend a few moments on the third program which is referred to in the statute as the loan contract program.

Perhaps I should mention, Mr. Chairman, that the provisions of that section of the statute were inserted after the bill was passed by the Senate. There were no hearings to my knowledge and there was no testimony from the industry or the public with respect to this provision. It provides, in substance, that any person can purchase from the Government a promise that it will lend that individual or corporation money in the future in the event a flood loss occurs.

In other words, you would pay to us today a fee for a promise that we would make to you that we would lend you money in the future if you have a flood loss.

It also provides that, with that promise, if a private lending institution chooses to make you the loan, we will guarantee that financial institution against loss of principal and interest. And we can make loans up to \$250,000.

We have an authorized capacity in the lending program of \$2 billion, plus \$500 million each fiscal year.

That places upon our agency a very heavy responsibility, and I want to comment, with your permission, upon some of the problems that we have, because in venturing into this program I want to be very sure that we all understand what we are doing, and I want to be very sure we all understand what we are getting into.

Senator LAUSCHE. You are now speaking of the contract loan?

Mr. MEISTRELL. The loan program. The theory of it, Mr. Chairman, was that an individual could buy an insurance policy, and he could back it up with a loan contract so that he could have the assurances of a line of credit when he needed it and also the amount of money that would be payable to him under an insurance contract.

With a \$10,000 limit on residential and a \$250,000 limit on commercial, we would be faced with some of these problems:

First, the statute provides that we charge the prevailing interest rate in the area but in no event can it exceed 4 percent. As I view the 4-percent limitation——

Senator LAUSCHE. Is that the present provision?

Mr. MEISTRELL. That is in the statute at the present time.

I have had a series of meetings with lending institutions throughout the country, the commercial banks, the savings and loans, and the savings banks, and I think I am perhaps accurately reporting their sentiment. I do not believe that you are going to get very many lending institutions making 4-percent loans in today's market.

But, more important, I do not think you are going to get many lending institutions making 4-percent loans on the type of risk that they would be called upon to underwrite, because if a man who is affected by a flood has any credit at all the private lending institutions are open to him. If for any reason his credit is not too good, he has the Small Business Administration to turn to, and that is an after-the-fact sort of an approach. He goes to them after the event occurs—the loss, the flood.

And, thirdly——

Senator BUSH. And, incidentally, what is the interest rate on that small-business loan?

Mr. MEISTRELL. The interest rate on the small-business loan, Senator Bush, is 3 percent. They are disaster loans, and they were intended quite frankly to deal with this very problem—that where a disaster such as a serious flood occurred, the Small Business Administration would make loans available. And I think they have done a very creditable job.

Now, there is a third source of money available, and that is the Federal Housing Administration, which has a rehabilitation and modernization loan program where you can borrow \$3,500 on a 5-year pay-back.

Here is the problem that we are faced with: If our assumption is correct that the lending institutions are not going to participate in this program to any great degree because of the 4-percent limitation, then we are going to be in the direct lending business, and I look with a very grave responsibility to lending some \$3 billion directly by the Government on risks that may be very questionable.

Now, you may ask me why they are questionable, and I would like to answer that. We are required under the statute to sell you a promise. And if you came in to me today and I was attempting to evaluate whether I would lend you \$250,000, I would like to know how you are going to pay it back, and I would like to know what security you are going to give me, and I would like to know what you are going to do with the money when you get it, and I would like to know a lot of things.

And looking at you today and attempting to promise you at this time that I am going to give you \$250,000 some time in the future on an unknown event and you do not know yourself how much of it you will need nor what you are going to do with it when you get it presents to me a real challenge.

Senator BUSH. Mr. Chairman, does the statute provide that these loans must be secured?

Mr. MEISTRELL. It does not. It does not. Now, if I promise to give you \$250,000 and you pay me for that promise, I am obligated

legally to perform it. So when you come around 6 months from now and you may be flat broke, I am still going to have to give you \$250,000 if I am going to live up to my legal obligation.

Senator LAUSCHE. May I ask you this: Do you construe that described transaction as one of a loan, or does it have any of the attributes of insurance?

Mr. MEISTRELL. I am glad you asked that question, Mr. Chairman. In my judgment it has no attributes of an insurance policy. When you borrow money and you have got to pay it back, there is a whole of a lot of difference from getting money that you do not have to pay back.

Senator LAUSCHE. How do you determine the premium that is paid for the promise to make a loan in the future predicated upon uncertain conditions?

Mr. MEISTRELL. Well, if you think it is difficult to determine an insurance premium, then you have just added confusion on confusion when you try to determine how much we are going to charge you for a promise.

Senator LAUSCHE. Well, the statute does provide that there shall be a consideration.

Mr. MEISTRELL. Exactly. The statute says that what we charge you for the promise must bear a relationship to the premium that you would pay for the insurance.

Senator LAUSCHE. Yes.

Mr. MEISTRELL. I do not know whether that is a variable. I do not know whether it is a variable or we could put in a flat rate on a promise, say an eighth or a quarter point. I do not know. But if we are going to try to relate it to the premium, again you defeat the very purpose that we are talking about because when you put a premium on an insurance policy you are dealing with a known hazard that is in some degree measurable, but when you are dealing with an individual and trying to determine whether he can pay it back or not, that has a great deal to do with what you are going to charge because if a fellow was a good credit risk you might very well charge him a lesser amount than if he is a bad credit risk. And you are dealing with an individual who has control over his ability to repay and, more important, you are dealing with a man's character. And if a fellow is no good, you are talking of character.

When we sit here today and try to determine whether we are going to give you a promise to make you a \$250,000 loan, we are talking in praesenti and not after the fact.

There is no time limit in the statute as to how long these promises are to run and, more important, the statute says these are to be long-term loans.

Now, I do not know what a long-term loan is, and I do not think you do, because if we are making loans on inventories, consumables, perishables, I cannot imagine a long-term loan being 10 or 20 or 30 years.

Senator LAUSCHE. I suppose the definition of a long-term loan would have a definite relationship to the durability of the security that you are receiving.

Mr. MEISTRELL. Quite right.

Senator LAUSCHE. Six months on perishable goods—

Mr. MEISTRELL. Is a long time.

Senator LAUSCHE. Would be a long term; yes.

Mr. MEISTRELL. But, Mr. Chairman, here is our problem: When you give you this promise, you do not know whether you are going to need all of it or none of it. So if you bought a promise from me for \$250,000, you do not know how much of that you are going to need because you can only borrow the difference between what your insurance contract pays you and the amount of your loss.

For example, let's assume you had a \$250,000 insurance policy and you had a \$250,000 promise and you had a \$300,000 loss. You could borrow only \$50,000 although you had paid for \$250,000.

Now, more important, when I give you that promise I do not know what you are going to do with the money, and neither do you, because when the loss occurs—let us assume you had a factory which was filled with perishables, and let us assume the perishables were destroyed but the factory was not. Then you are borrowing that money for the perishables. And when the statute says to me it is to be a long-term loan, I do not know what a long-term loan is with respect to perishables, and if you think 6 months is a long time how can the fellow pay it back?

Senator LAUSCHE. Just pardon me, Mr. Meistrell. Senator Bush has some visitors here from his State.

Senator Bush, please.

Senator BUSH. Mr. Chairman, I thank you for the courtesy. I do have some very attractive, charming young visitors here from Westport, Conn., representing troop 4 and troop 20 of the Mariners—that is, the senior Girl Scouts' organization—chaperoned by Mrs. Clark and Mrs. Roberts.

Will you girls kindly stand up and let all of us see you?

You may be seated.

We are having a hearing here on the question of flood insurance, which is a very important question to New England and particularly to your State of Connecticut. The gentleman testifying is Mr. Meistrell, the Administrator of the new flood insurance program. So if you want to stay, I think you will find it interesting.

I am very grateful to the chairman and to Senator Clark for the courtesy.

Senator LAUSCHE. May I say to the Girl Scouts that there was once a judge who was leaving the courthouse building, and as he was going through the door a lovely girl came in. And he said to the lovely girl, "What a lovely girl!" And she said, "What an excellent judge!"

Mr. MEISTRELL. Mr. Chairman, I want to make just one concluding remark. We have proceeded on the loan contract program much as we have with the insurance program. We have had a series of meetings with the lending institutions; we have explored many of the aspects of this program, and we have prepared forms, tentative agreements, and we are working on the question of commitment fees, guaranty fees, and many other problems that are involved.

Mr. COLE. Mr. Chairman, may I interpose at this point with respect to the loan program? Because of the complexities of it, and because I have felt as Administrator that the program has not really had a full and complete hearing before the Congress, because frankly, as Administrator I feel that some of the problems may be deemed to be insur-

mountable and that a second look at it is really necessary, we will be making definite recommendations to the Congress about this program, not only through our budget presentation, which will be very shortly, but we will also be making definite recommendations about the program to the Banking and Currency Committee.

In the interim, however, I have asked Mr. Meistrell not to put it into effect—not to put it into effect until we do make our recommendations to Congress and Congress has an opportunity to take a second look at it.

I have taken this as a responsibility on the part of the Administrator because it seems to me that it is much more important that we immediately get into operation the flood indemnity insurance program.

Senator BUSH. Mr. Chairman, would Mr. Cole tell us when we might expect his recommendations regarding the loan program?

Mr. COLE. The loan program? Yes, Senator Bush. We will be making a recommendation first to the House Subcommittee on Appropriations. I understand that will be next month. We will have in our legislative program, which will come to Congress also the early part of March, recommendations about the loan program. In other words, you will have an immediate look at it—almost immediate look at it.

Senator BUSH. Is it your present feeling that you will be able to implement this program?

Mr. COLE. I must say my present feeling is we will not be able to implement it until and unless we have some legislation which will make it more effective than we now believe it to be.

Senator LAUSCHE. Mr. McKenna, counsel for the general committee, has some thoughts we ought to make inquiry about, and I think you might put the questions yourself, Mr. McKenna.

Senator CLARK. Mr. Chairman, I wonder if the members of the committee will have an opportunity to ask questions at some time.

Senator LAUSCHE. Oh, yes, I anticipate that. Will you go ahead.

Senator CLARK. Senator Bush, I venture, has some.

Senator BUSH. I will be glad to yield to the Senator. I have a few questions, but I will be glad to yield.

Senator CLARK. Senator, you know so much more about this program than I do that I would be happy to have you go first.

Senator BUSH. Without admitting that, that would be a good reason for me to yield to you.

Senator CLARK. Mr. Meistrell, and, Mr. Cole, if you want to chip in at any point, please do; let's make this informal. Mr. Meistrell, I understood you to say that you expected very shortly to issue your first policy. Can you give us a possible date?

Mr. MEISTRELL. Well, Senator Clark, when I said "very shortly," perhaps I should have modified that in the context of my entire presentation, when I mentioned that we would have to have funds appropriated to do it.

Senator CLARK. So you can't issue any policies until you get some appropriations?

Mr. MEISTRELL. That is correct.

Senator CLARK. Could you tell us the present status of your request for appropriations?

Mr. MEISTRELL. I think perhaps Mr. Cole could answer that.

Mr. COLE. I think I could answer that. The request is now being considered by the Bureau of the Budget. We had a conference yesterday with the Bureau. It will be up on the first supplemental, which, I understand, will be presented to the House Subcommittee on Appropriations the forepart of March.

Senator CLARK. Are you at liberty to tell us how much you asked for?

Mr. COLE. I'm sorry; I believe not.

Senator CLARK. You are not able to give us any idea?

Mr. COLE. But may I say to you we are asking—it is in the present budget.

Senator CLARK. Would you mind refreshing my recollection as to how much you did ask for?

Mr. MEISTRELL. Yes; I think in the President's submission there was \$100 million.

Senator CLARK. Can you tell us whether that is what the budget gave you?

Mr. MEISTRELL. The Bureau of the Budget?

Senator CLARK. Yes.

Mr. MEISTRELL. No. We had a meeting with the Bureau yesterday, Senator Clark, on this very question.

Senator CLARK. This reveals my ignorance more than anything else, but I am not clear as to what the \$100 million really means. Is that what you asked for, Mr. Cole, what the budget is going to give you, or—

Mr. MEISTRELL. That, Senator Clark, is what we estimate would be necessary to meet the financial obligations we would undertake in this program. In other words, those are what are referred to in the statute as administrative expenses. They would include the amounts that we would incur as obligations to the insurance industry for the services that I referred to, plus the 40-percent anticipated subsidy that we would contribute into a reserve fund.

Senator CLARK. What are you operating on now?

Mr. MEISTRELL. We were given \$500,000 at the time the act became effective, for organizational purposes, and the research and studies, and that sort of thing.

Senator CLARK. Will \$100 million merely enable you to get into the insurance policy part of your responsibilities, or is it contemplated that that will also include the funds necessary to put the loan program and some part of the reinsurance program into effect?

Mr. MEISTRELL. It does not include any amount for the loan contracts.

Senator CLARK. Does it include anything for reinsurance?

Mr. MEISTRELL. No.

Senator CLARK. So you made the administrative decision to abandon 2 out of 3 purposes of this act?

Mr. MEISTRELL. I have made an administrative decision to defer the reinsurance program.

Senator CLARK. Excuse me. You say "defer," but as you are not asking any money to make it possible to put it into effect, you really are abandoning it; are you not?

Mr. MEISTRELL. Oh, no, indeed; we are not abandoning it. There is a great deal of difference between doing first things first and aban-

doing it. In our judgment, the insurance program is the first program. The reinsurance program would be the second program.

Senator CLARK. Is it fair to say, Mr. Meistrell, in view of what you have asked for from the Bureau of the Budget you intend to defer it for the coming fiscal year?

Mr. MEISTRELL. That is correct.

Senator CLARK. And as I understand your testimony, you intend to take no action with respect to the contract loan program for the coming fiscal year?

Mr. MEISTRELL. That is correct. When you say "no action," that isn't quite true.

Senator CLARK. You do not intend to make any loans—

Mr. MEISTRELL. We have deferred—

Mr. COLE. Let me add one thing more. If the Senator will recall my statement—I am sure he does—I said we would defer action until we presented our recommendations to Congress. These recommendations to Congress will be made very shortly. Congress will act and Congress can adopt the supplemental budgets if Congress wants to proceed, or if the executive branch wants to proceed.

Senator CLARK. I could, perhaps, cut it very short, Mr. Cole, by asking you if it is not true that you have made an administrative decision that the present purposes which this act called upon you to carry out are unworkable as to 2 of the 3 purposes.

Mr. COLE. No, no; that has not been our testimony at all, Senator.

Senator CLARK. Perhaps I misunderstood you.

Mr. COLE. Perhaps you did misunderstand us.

Senator CLARK. Perhaps you will restate it, then. What are you going to defer?

Mr. MEISTRELL. We are going to defer the reinsurance program, as I testified, until we get some experience.

Senator CLARK. How can you get any experience on reinsurance if you don't reinsure?

Mr. MEISTRELL. We can get a great deal of experience on the losses we are undertaking on the type of risks we are going to underwrite, and as we continue our studies we will know a great deal more at a later date than we do now.

Senator CLARK. Believe me, I want to be fair to you.

Mr. MEISTRELL. I know you do. Let me ask you a question, Senator.

Senator CLARK. I do not think you are supposed to ask them.

Senator LAUSCHE. I have implicit faith in my associate Senator's answer.

Senator CLARK. Go right ahead, Mr. Meistrell. I am prepared to be cross-examined.

Mr. MEISTRELL. No; Senator Clark, I wanted really to get to your opinion on this very problem.

Senator CLARK. Perhaps we could do that a little later and not at this time.

Mr. MEISTRELL. Right.

Senator CLARK. Mr. Meistrell, do I understand correctly that you want to get some experience from your actual insurance policy work before you move into the reinsurance field?

Mr. MEISTRELL. In substance that is correct; yes.

Senator CLARK. And that you do not think that the contract loan purpose and policy as set up in this act is practical without, could I say substantial amendment, Mr. Cole?

Mr. COLE. Yes; it would need substantial amendment.

Mr. MEISTRELL. Yes; that is correct.

Senator LAUSCHE. To make practical which phase?

Senator CLARK. Contract loan.

Mr. MEISTRELL. Contract loan.

Senator LAUSCHE. Now, then, for the purposes of the record, I would like to—

Senator CLARK. May I ask one more question?

Senator LAUSCHE. Oh, yes. Pardon me.

Senator CLARK. Can you not give us even a guess as to when you will issue your first policy?

Mr. COLE. We will guess very easily; yes.

Senator CLARK. I do not know, Mr. Cole—

Mr. COLE. First, we do not put the responsibility on the Congress. It is a matter of presentation of the budget, our justification, and when we are ready in the executive branch to present it, and I think it will be presented the forepart of March. When Congress acts upon it is your guess as well as mine. I think it should be early summer, late spring.

Senator CLARK. Let us put it this way: How many days after you get your appropriation—

Mr. COLE. Oh, no; we are not going to be bound to that. We will put it into effect.

Senator CLARK. I have no further questions.

Senator LAUSCHE. Senator Bush.

Senator BUSH. Yes. I have just 1 or 2 questions.

Can you state what the probable rate, the range of rates, on insurance is apt to be? Can you give us any bracket at the present time that appears to be likely or not?

Mr. MEISTRELL. Well, yes, I think so, Senator Bush.

Senator BUSH. That is, on flood and damage.

Mr. MEISTRELL. Yes; flood and damage. To issue a policy covering all of the hazards that the statute contemplates, we probably will have a range—and again I want to qualify this because we are now making studies of these deductible provisions and we are hopeful that we can more accurately measure the degrees of the exposure if we can evolve a pattern on the work that is being done within the governmental committee.

The insurance industry has made certain proposals which, before the application of a subsidy, would range from roughly \$2.50 to perhaps \$20 per hundred. That is before the application of a subsidy and before we apply the marketability test. So that, with these additional calculations we are making, that rate level or that range would, I think, be materially reduced, so that we may conceivably have a range of \$1 per hundred to maybe \$12.

Again I want to qualify these, Mr. Chairman and Senator Bush, because we have still got some additional work to do before we can make a definitive statement on the rates.

Senator BUSH. Mr. Chairman, I would like to ask this question.

Senator LAUSCHE. Proceed.

Senator BUSH. What reaction have you gotten from the various States that might be interested in flood insurance? Are any of them moving in the direction of legislation?

Mr. MEISTRELL. We have had a great deal of interest manifested by the various States. I have attended meetings of the Council of State Governments and other meetings of representatives of the various States. They are principally concerned at this moment with the zoning problem and with the contributions that will be necessary if they want to participate come 1959.

I think there are 48 State legislatures now in session. Some of them meet on alternate years; others meet in even a lesser period of time. But we are experiencing a great deal of interest on the part of the State, and I think a favorable interest. I think they look at it as a tremendous aid to them in getting flood plain zoning legislation underway—there is a great deal of interest in that, and, of course, a great deal of interest in the program.

We are working with the Council of State Governments and with other groups, and we are attempting now to evolve some legislative pattern that the various States could follow during the sessions of their legislatures.

Senator LAUSCHE. May I ask: In the event the respective States do not pass zoning laws, what happens to the right of their inhabitants to buy this coverage?

Mr. MEISTRELL. They could continue to purchase it, Mr. Chairman, the statute does not make it mandatory on the administration to have the States enact zoning legislation. It is a "may" provision, and it says in substance that if required by the administration, then we can refuse if they fail to enact it; we can then refuse to write insurance in any city or town or village that has not taken appropriate measures.

Senator LAUSCHE. Am I correct in my understanding that the provision for contributions by the State is a condition as to which, if not fulfilled, you could not sell?

Mr. MEISTRELL. That is correct; that is correct.

Senator LAUSCHE. I see. Senator Bush, pardon me.

Senator BUSH. Oh, no, that is all right. I am very much interested in that question, and I was just going to read from the statute a point which you were just talking about. It says here—

Senator CLARK. What section?

Senator BUSH. Section 12 (c), page 5:

After June 30, 1958, no insurance or reinsurance shall be issued under the provisions of this act in any geographical location unless an appropriate public body shall have adopted and shall keep in effect such flood zoning restrictions, if any, as may be deemed necessary by the administrator to reduce, within practicable limits, damages from flood in such location.

So he has a considerable persuasive power, I would think, under this section, to push these States into flood zoning regulations, which is very, very desirable because one of the great tragedies of the flood was the encroachment on the river plain, and that is where most of the big damages come from.

Senator LAUSCHE. May I suggest to you, based upon my experience as governor, that you will have to apply yourself very diligently to get them to appropriate the money that will be needed to carry their part of the cost. I think the provision is sound, but there will have to be brought to the attention of those who are available for this

coverage the conditions that must be fulfilled, and they will have to bring their influence to bear upon the legislatures.

Senator BUSH. That is right.

Senator LAUSCHE. This has been suggested to me: What consideration has been given to covering farmlands and crops, growing or harvested, in coordination with the Federal Crop Insurance Corporation?

Mr. MEISTRELL. Well, of course the Federal Crop Insurance Corporation underwrites growing crops, and they operate in a considerable portion of the country. Where they are undertaking the risks, we are not going to compete with them.

Senator LAUSCHE. All right. The next question——

Senator BUSH. I might say to the chairman my recollection is that that program also is an experimental program.

Mr. MEISTRELL. That is correct.

Senator BUSH. And it has not been too successful. It has not worked out very well.

Senator LAUSCHE. Where they do not undertake the coverage, what will be your policy, if you have already determined it?

Mr. MEISTRELL. We have in mind that in areas where they do not insure, we will determine why they did not, and get the experience, if it is available, of the Federal crop insurance program to determine the degree in which we should go into those areas.

Senator LAUSCHE. It would seem paradoxical if that agency, acting on an experimental basis, determined that it was not feasible——

Mr. MEISTRELL. For us to go in?

Senator LAUSCHE. For you then to go in.

Mr. MEISTRELL. That is correct.

Senator LAUSCHE. I have not seen these letters, but it is reported to me that there have been some complaints that the private part of the insurance industry is not getting information on what the Federal Flood Indemnity Administration is doing. Have you had any complaints of that character?

Mr. MEISTRELL. No. I do not know the nature of the complaints, and, of course, if we knew the source we could better deal with the problem. I would be quite surprised, however, if the complaints were coming from any of the industry, for this reason: We have worked very closely with the industry. We have on our advisory committee I think 8 or 9 presidents of most of the large carriers, and we attempted to select from the different groups in the industry the stock companies, the mutuals, the reciprocals, the factory mutuals, the independent companies, all of whom are represented on the advisory committee, and they have been kept fully informed.

And we also organized an advisory committee of the producers. We have got all of the representatives of the agents and brokers on the committee, and we have had a series of meetings with them and they have been fully informed. We have given them all of the documents, we have given them the rates, we have given them everything, and they have been fully informed.

In addition, we have put out as much public information as we could, and I think I have made considerable speeches before all segments of the industry.

Mr. McKENNA. May I say, Mr. Chairman, these complaints that were received by the Senators were apparently at the front-line work-

ing level of the insurance industry, from folks who had heard there was a program in the works but couldn't get the details about it.

Mr. MEISTRELL. We have had many inquiries, not from the companies, but from people in the industry who have written to us wanting copies of the act or summaries of the act and things of that kind, but we have had no complaints. And, quite frankly, we have attempted to give the program the greatest publicity possible, and we have been in communication with all of the State governors, the attorneys general at the State level, and we have availed ourselves of the press facilities to get our statements, and I am very interested to hear a comment that there have been complaintss that they are not familiar with what we are doing.

Senator LAUSCHE. Senator Bush, may I ask you: Was it your understanding that the purpose in the adoption of the bill was to have all administrative expenses borne by the Government directly?

Senator BUSH. Yes, sir, that is in the bill.

Senator LAUSCHE. Yes. Was there any specific consideration given to the premiums or the payments made to agents?

Mr. MEISTRELL. The bill, Mr. Chairman, provides that we should use the facilities and services of the industry, and I think specifically refers to agents and brokers. They are mentioned by name in the statute.

Now, the problem that you touch upon, as to whether the payments to be made to the various segments of the industry are administrative or nonadministrative, seems to be rather definitely determined in the House report. There is an express statement that administrative expenses shall include amounts to be paid to the insurance industry and others, and it is in reliance on that statement that we have concluded that these expenses are administrative.

Mr. McKENNA. On that point, Mr. Chairman, may I say, to clarify the record, we did have before us roughly three bills when we started this last year after the Congress convened. In S. 3137 of the 84th Congress, introduced by Senators Lehman and Kennedy, and S. 2768, introduced by Senators Kennedy and Saltonstall, it would have been provided that the administrative expenses be payable out of the insurance fund and the reinsurance fund. The third bill, which was introduced on behalf of the administration, as I recall, provided that the administrative expenses would be payable from appropriated funds.

So that problem was considered at the time. It may be a little ironical at this time that we are up against a bottleneck because of the fact this last provision prevailed in the statute. But we did give consideration to it in the committee, sir.

Senator LAUSCHE. For my own information: You made a statement early this morning about the premium to be charged being controlled by a certain formula, providing there was also a marketability. Will you explain that to me, that last phrase?

Mr. MEISTRELL. Section 7 of the act provides:

The Administrator shall from time to time establish a schedule of "estimated rates" for insurance offered under the provisions of this Act, which would be adequate, in his judgment, to produce sufficient proceeds to pay all claims for probable losses over a reasonable period of years. Such "estimated rates" shall be used as a basis for determining the fees to be paid by the persons insured. They shall be based on consideration of the risks involved and shall be uniform for similar risks within a given classification of property. They shall not

include any loading for administrative expenses of the Federal Government under this Act. The Administrator shall establish a schedule of fees to provide insurance protection at reasonable costs designed to achieve marketability.

Then there is a proviso which reads:

That no insurance policy shall be issued for a fee less than 60 per centum of such "estimated rate."

Senator LAUSCHE. I think the language which you used was a little stronger than the language contained in the law. I understood you to say that under all conditions the rate charged had to be one that produced a marketability of your coverage, but that is not the fact. It shall never be less than 60 percent.

Mr. MEISTRELL. That is correct; that is correct, Mr. Chairman. The concept that I had in my mind—and I am glad you mentioned that, because I did not want to create that impression—was the language "at reasonable costs designed to achieve marketability." In no event could we go below 60 percent.

Senator LAUSCHE. Yes.

Are there any further questions?

Mr. McKENNA. I think in our discussion of the details of the problems that we are confronted with on this section 5, on the loan contract, we may have overlooked the principal philosophical basis for that section, I think it is a fair statement to say that while it did originate on the House side, the theory was a person would exercise his own choice to take his protection against flood either in the form of a loan contract for which he would pay a commitment fee—and presumably the commitment fee would be less than the insurance premium—or in the form of insurance or indemnity, whichever you prefer to call it, or in the form of a combination of both those programs. And I think, as I recall it, the sponsor argued that it would make it possible for more people to gain some protection against flood loss than would be the case with merely an indemnity program itself in the form of insurance policies.

I think that will clear the record a little bit on at least the basic philosophy of the section.

Mr. MEISTRELL. Perhaps I should have mentioned it is our contemplation we would have either or both available.

Senator LAUSCHE. You mention that you will be asking for amendments to the law. Did I understand you to say that?

Mr. COLE. Yes. There will be a recommendation, Mr. Chairman, coming up here to the Congress from the executive branch, from the Administration, on all housing problems, and part of it will be any recommendations we may have with respect to the flood insurance, Flood Indemnity Administration. What they are, we are not now in a position to announce.

Senator LAUSCHE. Any further questions?

Mr. McKENNA. Senator, may I ask one thing? Do I understand that the Administration will have a mailing list on which people can request to be placed so that they will get information?

Mr. MEISTRELL. We have a very lengthy mailing list at the moment, and we are adding to that all the time, and I would be very happy,

if it isn't a violation of any confidences, to have you submit to us the names of any people who feel they are not well informed, and we will give them a good deal of material.

Senator LAUCHE. Is there anything further? If not, thank you very much.

The hearing is adjourned.

(Whereupon, at 11 : 45 a. m., the hearing was adjourned.)

x

PROGRESS REPORT ON FEDERAL FLOOD INSURANCE

HEARING

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

EIGHTY-FIFTH CONGRESS

FIRST SESSION

TO RECEIVE A FURTHER REPORT ON THE PROGRESS
MADE UNDER THE FEDERAL FLOOD INSURANCE
ACT OF 1936

APRIL 4, 1957

PART 2

Printed for the use of the Committee on Banking and Currency



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PROGRESS REPORT ON FEDERAL FLOOD INSURANCE

THURSDAY, APRIL 4, 1957

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
SUBCOMMITTEE ON SECURITIES,
Washington, D. C.

The subcommittee met, pursuant to call, in room 301, Senate Office Building, at 10:10 a. m., Senator Frank J. Lausche, chairman, presiding.

Present: Senators Lausche and Bush.

Senator LAUSCHE. The meeting will come to order.

Gentlemen, this meeting has been called for the purpose of receiving further reports on the progress being made in the Federal flood-insurance program. The meeting is, in effect, a continuation of the hearing held by this subcommittee on February 19, 1957. At that hearing, we received a report from the Housing and Home Finance Administrator and the Federal Flood Indemnity Commissioner on the outline of the problems confronting them in connection with the programs authorized by the Federal Flood Insurance Act of 1956.

At that meeting, it was indicated that a request for supplemental appropriations was then in the process of preparation and clearance through the Bureau of the Budget.

As the committee having legislative jurisdiction over this special matter, the committee is interested in knowing what progress has been made on that front.

Also, at the February 19 hearing, certain tentative estimates were made concerning the charges that would be made on policyholders for Federal flood-insurance policies. It was then indicated that the Federal Flood Indemnity Administration would give further consideration to those rates in an attempt to make them as low as possible consistent with the requirements of the statute. The committee is interested in receiving a further report on that aspect of the Federal flood-insurance program.

It was also indicated at that meeting that the Administration would be transmitting to the committee certain suggestions for amendments to the Federal Flood Insurance Act of 1956. I was under the impression that these amendments would be submitted at the same time the Administration forwarded its suggestions for amendments to the Federal housing legislation. To date, no suggested amendments have been received by the committee from the Administration, based upon my knowledge.

The subcommittee has received for consideration certain amendments to the Federal Flood Insurance Act of 1956, suggested by Senator Kennedy. These are contained in S. 1656. As chairman of the

subcommittee, I would prefer to consider specific legislative amendments to the statute at one hearing. I would therefore urge the Administration to forward its suggestions for amendments to the Federal Flood Insurance Act at as early a date as possible. This becomes particularly important, because if I interpreted correctly the remarks made by Mr. Cole and by Mr. Meistrell at the February 19 hearing, certain portions of this act are not likely to be placed into operative effect until the appropriate legislative committee has given consideration to certain suggested amendments.

I would like to impress upon the representatives of the Administration present here today that there is great disappointment expressed in many quarters because this statute has not yet been placed into effective operation.

At my request, the staff of this subcommittee has brought up to date the estimates of flood damage last presented to this subcommittee in early 1956. Without objection from the other members of the subcommittee, I will place that data into the record so as to make it available to the public. (See p. 48.)

Senator LAUSCHE. While variations still exist among the flood-damage estimates made by separate agencies, all are in agreement in the conclusion that fortunately flood damages in the year of 1956 were comparatively low. On the other hand, the statistics indicate that flood damages in the first 2 months of this year have already exceeded the entire amount of flood damage for the calendar year of 1956.

I appreciate the natural caution which impels those responsible for administration of this program to proceed carefully in its launching. However, I think it is obvious that a start must be made somewhere, even if ideal conditions for launching the enterprise have not yet been achieved in the minds of the administrators. Borrowing from the experience of private insurance practice, it is to be expected that premium rates will be adjusted periodically on the basis of experience gained in operation of the program.

With these thoughts in mind, I invite the Federal Flood Indemnity Administration to bring us up to date on developments in this Federal flood-insurance program.

STATEMENTS OF ALBERT COLE, HOUSING AND HOME FINANCE ADMINISTRATOR; AND FRANK J. MEISTRELL, COMMISSIONER OF FEDERAL FLOOD INDEMNITY ADMINISTRATION

Mr. COLE. Mr. Chairman, may I first make a very brief comment, based upon the chairman's statement with respect to the progress of the program and the expectation of the Administration to put the program into effect at the earliest possible date.

I recognize, Mr. Chairman, that the natural feeling on the part of people is that programs should be put into effect immediately, and I recognize that these natural attitudes come about due to their impatience with planning and progress.

May I, however, from my point of view, state once more that I am extremely pleased with the progress which the Federal Flood Indemnity Administration is making with their planning and putting into operation the program. It has followed, I think, exactly the schedule which Mr. Meistrell first announced when he appeared be-

fore this committee and the House Banking and Currency Committee last year.

We were very careful, and very clear, I believe, in advising the committees that this was a new, untried, experimental, complex program; that such a program would require a great deal of planning, a great deal of thought, the acquisition of personnel as well as the development of regulations and policies.

Therefore, it is my judgment, and only mine, you understand, that the Administration has moved within schedule and on schedule.

In addition to that, our statement still stands that policies will be ready to be issued as soon as authorized by the appropriations and the Congress to do so. Now, when that may happen, I do not know. We did present to the subcommittee yesterday our justification for the appropriations for the Flood Indemnity Administration in the hearings. And our guess is, and it is purely a guess, that it will take 30 or perhaps 60 days for this to clear the Congress and be signed by the President. Maybe the 30 days is too fast a schedule, and maybe the 60 days is too long. But knowing how Congress works, it would appear to me that that is about the best guess we have on it.

Now, if you will permit—

Senator LAUSCHE. For the benefit of Senator Bush, who has just entered the room, may I say that I have requested that they bring us up to date on preparations that have been made for putting into action and effecting the provisions of the flood-insurance program.

Senator BUSH. Thank you.

Senator LAUSCHE. Mr. Meistrell, unless you have some prepared manuscript, let us go into the subject of your work on insurance rates first.

Mr. MEISTRELL. May I make one statement, Mr. Chairman, before we get into the question of rates. There has been some intimation, and you referred to it this morning, that there has been a delay in putting this program into operation. When I last testified, I think I attempted to inform the committee that under the statute we have to go before the Congress and obtain appropriations in order to put the program into operation. And until we obtain the necessary funds, we cannot put this program into operation.

I feel some concern about the statements that are constantly made, in the press as well as in other places, that there has been a delay. There has been no delay. We have prepared our justification with expediency and dispatch, and as promptly as we could within the realm of good judgment. The appropriation request has been submitted to the appropriate committee of the Congress, and we held hearings on it yesterday. And until we get the money—as Mr. Cole has indicated, it may be 30 or it may be 60 days. And how much we will get is another question. And it has a material effect upon this program. Until we know that, we cannot put the program into effect.

Now, if you will recall, at our last meeting I outlined to the committee the various problems we were confronted with concerning the question of rates. It is an extremely difficult problem. And I mentioned at that time that we were attempting, within the limits of the personnel of our own agency, with the cooperation of the industry and with the cooperation of the committee of Government people which I appointed, to exercise our best judgment so that we could develop a rate

pattern which would be consistent with the terms of the act, and yet bring this insurance to the many people in our country who we believe need it and want it.

In a sense, we are on the horns of a dilemma. If we make our rates so low that we do not generate enough premium income, then we are putting at risk taxpayers' money, which in my judgment should not be put at risk. If, on the other hand, we develop a premium or a rate pattern which is too high, we will price ourselves out of the market, and our efforts will have been in vain.

Between those two extremes, we have attempted to evolve what we believe to be a sound approach which will produce adequate income and yet be within the reach of those people who presumably will buy the insurance, namely, persons in high exposure areas.

Now, with that premise in mind, we had three possible approaches. One was—and this theoretically is a sound one—to attempt to develop the exposure element with respect to river stages and river gages, and project that exposure on topographical maps. That would mean that we would have to fix a benchmark of exposure, and then relate it to distance and height of property to that exposure point. That would mean, Mr. Chairman, mapping great areas of this country, a very timely undertaking, and indeed a very costly one. We undertook to do that, and we did develop a map, and we are developing others. But I would be less than honest with you if I did not tell you we cannot put this program into effect if we hope to wait to develop that kind of technical data. However, we are going forward in an experimental way with that particular aspect of the program, hoping that as we develop this information, we can project it intelligently into our rate schedules.

Now, having for the moment set aside the idea of mapping the country, we thought perhaps we could approach it on a countywide basis, relating exposure by county to the known flood areas.

Senator LAUSCHIE. That is your program No. 2?

Mr. MEISTRELL. No, this is the second approach. I have three approaches and the third one is the one we are going to adopt, which I will comment on in more detail.

Senator LAUSCHIE. This is the county exposure, you say.

Mr. MEISTRELL. This is the second approach that we hoped might have some merit to it, but it does not. In any event, we had innumerable meetings with the insurance industry, and indeed, with our own intergovernmental committee, with the hope that perhaps having abandoned the idea of drawing lines up and down streets to relate exposure by that degree of fineness, we would attempt to do it by counties.

The industry felt that that was unwise and highly impracticable, and we do too.

The third approach was to attempt to use the established and recognized marks of river basins which the hydrological survey and the Army engineers have over the years recognized as areas that tend to lend themselves to geographical flood limitations. And so proceeding on the theory that perhaps the river basins might give us a more accurate way of measuring exposure, we proceeded to evolve a rate pattern.

There was considerable opinion among ourselves, as well as the industry, that exposure along the coastlines was a different kind of

exposure than that which comes from inland flooding. And recognizing that, we attempted to measure that degree of exposure in relation to our total exposure, and in order to arrive at a differential in our rate.

Now, the principles we have evolved are these. Taking the river basins, as established by the hydrological survey and the Army engineers, we attempted to determine the frequency of floods in those river basins, and secondly, the total average annual losses nationwide, and relate, on a percentage basis the total average annual losses and the percentage of frequency in those basins in order to arrive at two figures. First, frequency, and second, severity. And with those in mind, we have evolved what we believe to be the total premium income we would need by river basins related to the total capacity of \$5 billion that we are authorized to insure, less the \$2 billion which we are not going to ask for at this time.

Senator BUSH. In other words, the rates would be established for a river basin. You take the Ohio River Basin and you establish rates for that. You take the Allegheny River Basin and you establish rates for that, is that correct?

Mr. MEISTRELL. Generally speaking, Senator Bush, that is correct.

Senator BUSH. And what you may charge in the Ohio River Basin might not necessarily bear any resemblance to what you charge in the Connecticut River Basin or the Naugatuck River.

Mr. MEISTRELL. That is correct. Well, as to the Naugatuck, I don't want to mislead you. I am referring to the river basins, and I think the Naugatuck Valley is part of the basin that is established by the hydrological survey. But in any event, the principle is correct.

Senator BUSH. That is the point I wanted to bring out.

Mr. MEISTRELL. That is correct.

Now, the second thing we did was to determine what the types of exposure propertywise would be. And we concluded that we would have three rate classifications related to property exposure; namely, we will insure a dwelling or building; we will insure the contents of a dwelling or commercial building; or we will insure both. So that in the rate pattern, you have a choice. You can insure the building, you can insure the contents, or you can insure both. And we have established a differential between them.

Secondly, in our opinion, and supported by what statistics are available, we determined we would impose a surcharge on all properties on the eastern coastal area, within counties abutting on the coast. But more important perhaps is the opinion of informed people that the exposure above the boundary line of North Carolina and Virginia, up through to the Canadian border, is a much lower exposure area than from the same point down along the coast around Florida to Brownsville, Tex. So we propose to put a higher surcharge on people whose property is located within areas abutting the coast, countywide, from that point south, and a lower differential on property located in counties abutting the ocean from that point north.

Further, there was considerable discussion among ourselves and the industry that you have a different exposure between frame buildings and masonry construction. And we propose a differential in that respect.

Further, it is the belief of all of us, including the industry, that unless you have a sharing of the risk, we may be exposing ourselves

to considerable losses that could otherwise be avoided. And so we are proposing, and have so provided in our rates, a coinsurance provision. Briefly, the coinsurance provision will be that if you purchase 80 percent to value, you will get a substantially lower rate. However, if you choose to purchase without coinsurance, you then will buy on a flat-rate basis.

Now, the theory of that, I think, is quite sound. People who have known exposure because of their traditional risk would be purchasing what they know to be their maximum loss, and we would be paying those losses without any compensatory income without the coinsurance provision. And so we are providing, on private dwellings, that you insure 80 percent to value or purchase flat.

However, as you gentlemen know, the statute has a top of \$10,000. So that if you had a \$50,000 home, you could not purchase 80 percent to value. So we are presuming that if you buy 80 percent to value up to the full \$10,000, you will have complied with the coinsurance provision.

With respect to commercial property, we are going to have a 50 percent coinsurance provision and an 80 percent coinsurance provision, on the theory that we again share the risk with those who can best share it with us, and those are the corporate buyers.

So, Mr. Chairman, that is rather generally what we have done, and we have projected these rates. I cannot tell you at this time that we have perfected them, because, quite frankly, we are attempting to refine them a bit more before we put the program into operation.

Now, as part of this whole rate matter, there are agreements that necessarily must be prepared. We must prepare an insurance contract. That has been done. That is, I would say, substantially completed, with perhaps some relatively minor changes that we will make before we finally announce our rates and the other things that go with it.

Secondly, we have had considerable negotiations with the insurance industry, because under the statute, as you know, it is a mandatory provision that we use their services and facilities to the maximum practicable extent. We have concluded our negotiations with them concerning the type of an agreement that they would enter into. That again is in our final processing.

We have had to prepare underwriting rules and regulations, and that is about completed.

We have had to prepare accounting and statistical rules and regulations, and that again has presented very difficult problems, because we have attempted to develop accounting and statistical procedures that would lend themselves as nearly as practicable to the normal operations of the insurance industry. And we have had some difficult problems with the General Accounting Office, both in interpreting the statute and in attempting to evolve a program consistent with their overall supervisions and procedures.

Further, we have had to develop loss adjustment rules and regulations. And we have done this—because to do it properly, all of these forms must be correlated, they must be agreed upon with industry, and they must be put together in a package. It is much like a series of units in a machine. They must all work together. And as you change one, you necessarily must change another. And until we know

how much money we are going to have to put this program into operation, we cannot deal with the problem with finality, because a change in our budget submittal or in our justification may very well change a great many other things.

Senator LAUSCHIE. By that you mean that until you know what money this Congress will give you, you will not be able to proceed with finality.

Mr. MEISTRELL. When I say "with finality," Mr. Chairman, I mean that, that if we were to be substantially reduced in our budget request, then I would think that it would be advisable for us to determine whether we would reduce the face amount of our policy from \$10,000 to \$5,000, and perhaps from \$250,000 on commercial to some lesser figure.

Senator LAUSCHIE. Then your answer is that your final action does have a direct relationship with the quantity of money that you will receive from this Congress.

Mr. MEISTRELL. That is correct.

Senator BUSH. Mr. Chairman, that applies not only to the supplemental appropriation which you discussed yesterday, but what may be done for the whole of 1958.

Mr. MEISTRELL. That is correct.

Senator BUSH. You requested \$50 million yesterday.

Mr. MEISTRELL. That is correct.

Senator BUSH. As a supplemental appropriation.

Mr. MEISTRELL. As a supplemental.

Senator BUSH. In order to get the program started.

Mr. MEISTRELL. That is correct.

Senator BUSH. What are you going to request in 1958?

Mr. MEISTRELL. We have not as yet put in a request for 1958.

Senator BUSH. You have not prepared your request?

Mr. COLE. Senator Bush, the Federal Flood Indemnity Administration will be able to put into effect the operation of this program within a very short time after the supplemental which is now being considered by the House. After that is passed by the Congress, we will be able to put the program into effect.

Now, of course, any new budget—1958, 1959, 1960—will have some effect upon the operations.

But assuming that the Congress approves the budget which we have submitted, the program will go into effect almost immediately thereafter. Assuming they curtail it substantially—and we do not expect them to do that—then Mr. Meistrell will have to relate the substantial cuts to their impact upon the program.

But because we expect Congress to approve the appropriation, we are expecting to put this program into effect very soon after the Congress approves the supplemental.

Mr. MEISTRELL. That is correct.

Senator BUSH. May I make another inquiry, Mr. Chairman?

Mr. COLE. And, Senator, may I add one more thing, because it has an implication with respect to the chairman's comment. This putting of the program into effect will not have any relation to any amendments which may be submitted by the administration to this subcommittee.

Mr. MEISTRELL. That is correct.

Senator BUSH. This is what I wanted to ask, Mr. Chairman. I thought originally you had intended to put in for a \$100 million supplemental appropriation, and you changed that to \$50 million.

Mr. COLE. That is correct.

Senator BUSH. May I ask you this. In changing that request from \$100 million to \$50 million, would it have any effect whatever on getting this program into operation as soon as possible. In other words, you concluded that you did not need the \$100 million to do all you could in this fiscal year with the program, and therefore reduced it to \$50 million.

Mr. MEISTRELL. That is correct.

Senator BUSH. So that it is not a question of attempting to economize. It is just a question of trying to find out exactly what you do need to get this program as far advanced in fiscal 1957 as possible.

Mr. MEISTRELL. That is correct.

Now, we had, I think, one question that was raised, Mr. Chairman, at the last meeting, when I intimated that we were attempting to evaluate whether we would put the program into effect nationwide or on a piecemeal basis. We have concluded that we would put it in nationwide. We had discussions on the loan contract program which I will advert to later in the morning. But I should like to sum up by saying that we have worked, I believe—and this is not a self-serving declaration—with dispatch and are prepared to put this program into effect shortly after we get the necessary funds appropriated. The forms are ready.

Senator LAUSCHE. Let us keep our minds directed to the subject under discussion as started—rates. You have finished with that, have you?

Mr. MEISTRELL. No, we have not.

Senator LAUSCHE. Proceed.

Mr. MEISTRELL. Now, there are two other aspects of the program which I would like to refer to. One is State participation and the other is zoning.

Mr. McKENNA. The question was, Mr. Meistrell, whether you had finished your discussion of the present status of your ratemaking procedures. Is there any range of rates you want to give us now as compared to those you gave in February.

Mr. MEISTRELL. Well, I think I said in February that there would be a range from \$1 to \$12 per \$100, if I recall correctly.

Mr. McKENNA. I might say there was some question on that whether that was before or after the application of the subsidy.

Mr. MEISTRELL. That was after the application of the subsidy. And I reaffirm that that will be the range of our rates.

Mr. McKENNA. Although it will, of course, vary by river basins.

Mr. MEISTRELL. It will vary on river basins related to the element of exposure, as we have indicated, and the coastal areas, and some other adjustments which I do not think are relevant here this morning for discussion.

Mr. McKENNA. You indicated the last time that you were hopeful of getting the rates lower by considering more details on the deductibles to be allowed.

Mr. MEISTRELL. That is correct.

Mr. McKENNA. What range of deductibles does this range of rates contemplate?

Mr. MEISTRELL. That will contemplate a \$500 deductible, plus 5 per cent of the remainder of the loss. We found that when you attempt to relate a rate to deductibles—and we had in mind multiple deductibles, that the amount of rate reduction would be far disproportionate to the amount of the deductible that we would put into effect. So that we have abandoned for the moment the multiple deductible table.

Mr. McKENNA. May I clarify one other thing. In going along here, you mentioned the surcharge for the east coast. What is the situation as to the west coast?

Mr. MEISTRELL. The surcharge on the east coast, as you know, Mr. McKenna, is due largely to wave wash and the water component of hurricane damage. That does not exist on the west coast. So we do not intend to put a surcharge on coastal exposure on the Pacific Ocean.

Mr. McKENNA. The same thing would be true of the gulf coast, then, I assume.

Mr. MEISTRELL. No, the gulf coast is quite different, as you know.

Senator LAUSCHIE. So the record will be clear, these are your present plans, but they will be subject to change based upon your experience and further studies that you make.

Mr. MEISTRELL. Of course, that is a continuing process, Mr. Chairman.

Mr. McKENNA. Mr. Meistrell, may I clarify the record on that. Will there be a surcharge for the gulf coast?

Mr. MEISTRELL. Yes.

Mr. McKENNA. All right.

Senator LAUSCHIE. Does that conclude your discussion of the rate-making work that you have done?

Mr. MEISTRELL. Yes, sir.

Senator LAUSCHIE. Now let us go into the subject of the amendments which you contemplated submitting to us. What is the status of that?

Mr. MEISTRELL. We contemplated, Mr. Chairman, as you recall, an amendment dealing with the loan-contract program. I think Mr. Cole perhaps could be more specific as to when that was done.

Mr. COLE. If I may interrupt, that amendment has been sent up to the vice president. It came up the day before yesterday. And I assume that in due process it has been delivered to your committee.

Senator LAUSCHIE. If the amendment is received in time it will be inserted in the record.

(The following was subsequently received for the record:)

HOUSING AND HOME FINANCE AGENCY,
Washington, D. C., April 3, 1957.

HON. RICHARD M. NIXON,
President of the Senate,
Washington, D. C.

DEAR MR. PRESIDENT: The Housing and Home Finance Agency recommends the enactment of the enclosed draft bill to amend the Federal Flood Insurance Act of 1956 to remove authority for loan contracts. An explanatory statement on the proposed bill is also enclosed.

I have been advised by the Bureau of the Budget that there would be no objection to the submission of this bill to the Congress for its consideration.

Sincerely yours,

ALBERT M. COLE, Administrator.

A BILL To amend the Federal Flood Insurance Act of 1956 to remove authority for loan contracts

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Flood Insurance Act of 1956 (Public Law 1016, 84th Congress) is amended—

- (1) by striking paragraph (3) of section 2 (b);
- (2) by striking in section (3) (c) “, the making of reinsurance agreements, and making and guaranteeing of loans,” and inserting in lieu thereof “and the making of reinsurance agreements”;
- (3) by striking sections 5 and 6;
- (4) by striking in section 12 (a) “, or loan contract.”;
- (5) by amending section 15 (a) to read as follows: “(a) To carry out the purposes of this Act, the Administrator is authorized to establish two funds to be known as the (1) Disaster Insurance Fund and (2) Disaster Reinsurance Fund.”;
- (6) by striking the last sentence of section 15 (b);
- (7) by amending the last sentence of section 15 (e) to read as follows: “Funds borrowed under this section shall be deposited, in such proportions as the Administrator deems advisable, in the Disaster Insurance Fund and the Disaster Reinsurance Fund.”;
- (8) by striking in section 15 (f) “, the Disaster Reinsurance Fund, and the Disaster Loan Fund” and inserting in lieu thereof “and the Disaster Reinsurance Fund”;
- (9) by inserting the word “and” at the end of clause (2) of section 15 (f);
- (10) by striking clause (3) of section 15 (f) and redesignating clause (4) thereof as clause (3); and
- (11) by striking in the first sentence of section 21 “, reinsurance, and loan” and inserting in lieu thereof “and reinsurance”.

EXPLANATORY STATEMENT

The “Federal Flood Insurance Act of 1956” (Public Law 1016, 84th Congress), approved by the President on August 7, 1956, provides for the establishment of three programs designed to aid those whose property is exposed to damage from floods. The act establishes a direct insurance program, a reinsurance program and a loan contract program. The attached draft bill would, if enacted, repeal the provisions relating to the establishment and administration of the loan-contract program.

Under the loan contract program the Housing Administrator is authorized to make loan commitments providing that if the applicant incurs a subsequent loss to his property resulting from flood the Administrator will guarantee a loan obtained by the applicant from a public or private financing institution and that if such a loan is not available on reasonable terms the Administrator will make a direct loan. The interest rate on such guaranteed or direct loans may not exceed 4 percent and the loans, to the maximum extent practicable, are to be on a long-term basis if requested by the borrower. No person or corporation may hold loan contracts in excess of \$250,000 at any one time. The loan-contract limitation on dwelling units is \$10,000. Loan-contract obligations are limited to \$2 billion outstanding at any one time, which amount may be increased with the approval of the President by \$500 million each fiscal year. The act authorizes the Administrator to combine direct insurance and loans to give the greatest variety and amount of protection.

Based on studies of the Federal Flood Indemnity Administration and consultation with representatives of financial institutions and insurance companies, it is strongly urged that the loan contract provisions be repealed.

National representatives of commercial and savings banks, savings and loan associations, and life insurance companies informed the FFIA that they would be reluctant to make loans under this program due to the maximum 4 percent interest rate and the questionable credit risks in loans of this type. It is a reasonable assumption that private capital will not be available to any substantial extent and consequently the program would become a direct Federal lending program.

Direct Federal lending under this program to flood victims is unnecessary. The act makes provision for direct insurance and reinsurance. Potential flood

victims may buy Federal flood insurance where it is unavailable from private insurance companies and Federal reinsurance will be provided to encourage private carriers to write flood insurance. Also, facilities for making direct loans to flood victims are available through the Small Business Administration at 3 percent interest and rehabilitation loans are available through the Federal Housing Administration. Moreover, disaster victims who are good credit risks may obtain conventional loans from private sources.

Further, the loan contract program is basically unsound. It provides for a type of advance loan commitment, contrary to sound banking practices. It requires the Administrator to issue a commitment to make a loan in the future in the event of flood damage. At the time the commitment is made the Administrator will not know nor can he anticipate what the applicant's credit status and financial ability will be when the loan is made. The legislative history of this provision indicates that the loan contract is to be an assured line of credit (H. R. No. 2746, 84th Cong., p. 6) and would be a legal obligation to be performed regardless of the change in circumstances of the applicant. The applicant at the time of the loss may be left with nothing but debts; he may be unable to provide any security or assurance of repayment—in fact, he may be facing bankruptcy.

The act provides that the Administrator shall fix the monetary consideration for such loan contracts "at the lowest practicable amount, following generally the same principles as apply * * * with respect to the establishment of fees for insurance." In establishing charges for loan contracts therefor, the Administrator is not only required to consider the financial risk of such loans but must also assess the flood risk and establish a rate which has no relation to the credit of the applicant and his ability to repay.

The loan contract program further provides for long-term loans at the request of the applicant. The term of the loan is an important risk element and cannot be ascertained at the time the commitment is issued because the purpose of the loan cannot be determined until after the event, namely flood damage.

For the foregoing reasons, it is strongly urged that the loan contract provisions of the act be repealed.

MR. MEISTRELL. Mr. Chairman, it is our position that that section of the statute dealing with the loan contract should be repealed. At the last hearing I think I went into some detail as to why. If the chairman would choose to have me reiterate our position, I would be very happy to do so.

Senator LAUSCHE. I think it is in the earlier record. Unless Senator Bush desires to have it reiterated, I do not.

Senator BUSH. I quite agree with the chairman.

Mr. COLE. Mr. Chairman, while I am here—and the chairman has graciously permitted me to leave shortly—I would like to discuss the question of the presentation of legislative proposals. In your statement, sir, you indicated that a definite time should be set for legislative proposals to be presented. It is quite possible, sir, that for this session the Administration may not present any other legislative proposals than the one which we have sent up. We have submitted—Mr. Meistrell has submitted certain legal questions to the GAO. If perhaps those legal questions fall one way or the other, it is possible that at some time the Administration may suggest additional amendments. But as of today, we do not anticipate the submission this year of any other amendments than the one which we sent up the day before yesterday.

Now, of course, Mr. Chairman, we are at your service to assist in any amendments in which the committee is interested. But from the point of view of the Administration, we think we can put this program into effect, assuming, of course, that our appropriation will be approved by the Congress, our appropriation recommendation.

Senator LAUSCHE. While we are speaking on amendments, have you studied the Kennedy proposal?

Mr. MEISTRELL. Yes, we have.

Senator LAUSCHE. Are you prepared at this time to make any comments upon it?

Mr. MEISTRELL. I would like, Mr. Chairman, to make some comments, reserving, of course, with your permission, the privilege to make further ones when we are able to study them in more detail.

Senator LAUSCHE. Proceed.

Mr. MEISTRELL. Senator Kennedy has, I believe, submitted S. 1656. And in substance it provides for three things.

First, that there be priority given in the processing of applications; secondly, that State participation not be made effective; and third, that the paying of the subsidy into the disaster fund be made only when needed to pay losses. And I will comment on all three of these.

Senator LAUSCHE. Take them up in this order, will you please. One, the provisions which contemplate the elimination of the requirement that States match the Federal contribution of policy premium subsidy.

Mr. MEISTRELL. Senator Kennedy proposes that States be relieved of contributing equally with the Federal Government to the subsidy. The reason I believe that Congress put that in the act initially stems from the fact that flood losses vary considerably, State by State. But when floods arise and do the damage that we are all generally familiar with, they have the effect, State by State, of seriously affecting the economy of those States. There is a substantial loss of tax revenue. In many instances, the tax base is destroyed. There is a loss of wages and frequently serious unemployment. There is a loss of use and occupancy of buildings, loss of income from unfulfilled contracts. There is considerable damage done to buildings and highways and public works of various kinds. But more important, perhaps, than any of these things, is the fact that in most States hard cash is needed to relieve the sufferings of people and for rehabilitation.

And so the Congress, I believe, had in mind that the States be made more fully aware of the need for preventing or minimizing flood damage, and that they not put the whole load on the back of the Federal Government. And so it was provided that commencing in July of 1959, to the extent it is necessary to subsidize this program State by State, each contribute its equal share with the Federal Government.

Now, Mr. Chairman, I think that was the rationale behind the act, and I do not find any reason today for changing it.

Yet Senator Kennedy proposes that that be done. And I can only tell you that my opinion today is the same as it was when I testified on this bill initially. And I think there is a further fact which perhaps was not in our minds at that time.

We are becoming increasingly budget-minded in the Federal Government. And I think that if we do not place some responsibility on the States for contributing equally with the Federal Government on benefits that are being made to the citizens within those States, then we are perhaps dealing with this program on an inequitable basis. Because in addition to the subsidy, the Federal Government is footing the bill for the entire cost of the administration of it. And that is a substantial item.

I think, Mr. Chairman, that with the provision that States contribute equally with us, it will put some awareness and, I think, stimu-

late the States to do what can be done with respect to minimizing and preventing damage by floods. Because ultimately the insurance is not the answer so much as prevention. I think that in substance is the reasoning that led to the enactment of this provision in the statute. And it is not unusual, because this theory of matching funds has been used in other programs.

Mr. McKENNA. Mr. Meistrell, is it not true that when this act was passed, a delay in the operation of that State participation requirement was inserted. As I recall, it was not to become effective until June 30, 1959—on the theory that that would give States ample time to adopt such legislative or constitutional, state constitutional changes, as might be needed to enable them to conform to the requirements of the Federal Flood Insurance Act.

Mr. MEISTRELL. That is correct.

Mr. McKENNA. Do you have any idea so far how many States have moved in the direction of taking the necessary legislative or constitutional action?

Mr. MEISTRELL. I cannot give you that specifically, Mr. McKenna. I think 43 States are now in session, and I can only report that there has been considerable interest on the part of the States, not only with respect to the State participation in the subsidy, but with respect to the zoning requirements.

Mr. McKENNA. Let's stay on the subsidy provision for a while, if we can, now. I may say that we have received a rather pessimistic report as the result of surveys made by the Council of State Governments.

Mr. MEISTRELL. Well, that is not to be unexpected.

Mr. McKENNA. Except that the time is passing, and if the legislatures that are now in session are making no more to adopt the necessary legislation, or constitutional amendments, there is some question as to whether they are going to be able to accomplish it by the deadline of June 30, 1959. Our information, incidentally, was that on the basis of their survey in the 48 States, they had an indication that only one State had indicated it was thinking about the possibility of cooperating in the State participation requirement.

Mr. MEISTRELL. Well, of course, you have been in touch with the Council of State Governments, and we have, too. And we work rather closely with them.

Senator LAUSCHIE. I think that what has just been reported is in conformity with the opinion which I expressed at the February meeting. Do not be too optimistic about the States' willingness to have forced upon them by the Federal Government a program which in the end they might not deem acceptable.

Mr. MEISTRELL. I think that is a very accurate statement.

Senator LAUSCHIE. In time they may see the wisdom of adopting it. But they will not act with dispatch in the matter, I am quite certain.

May I ask this: Are the States being told about the problem?

Mr. MEISTRELL. Oh, yes, we have had very close workings with the Council of State Governments. We have communicated with the States directly. We have been in communication with the attorneys general of the States, through the Council of State Governments. And we have had meetings with the—well, for example, we had a meeting in Raleigh a few weeks ago at which I appeared. Governor

Hodges of that State had called together some 14 State governors, and their staffs, to go over the problem. We have had meetings with the Northeastern States on a similar arrangement. Governor Pyle met with the governors in their executive committee, and as a result of that meeting, the committee appointed an advisory committee of State officials, of which Governor Hodges of North Carolina is chairman, and I am meeting with that committee on May 3, I believe, if my memory serves me.

So we have been rather active with the State governments on this problem.

Senator BUSH. Mr. Chairman, right there, if the witness would permit, I wonder what the chairman would think of this suggestion: That the chairman write a letter to each of the governors, calling attention to the provisions of the law respecting their participation after June 30, 1959, and possibly enclosing a copy of the amendment that we have under consideration here, and asking them to advise the committee of their views on this particular matter.

Senator LAUSCHE. The chairman of—

Senator BUSH. I was thinking of the Senator from Ohio, on behalf of the committee. I would be glad to move, if the chairman thinks favorably of the suggestion, that the chairman take that action for this committee.

Senator LAUSCHE. The letter ought to go not only to the governor, but to the majority and minority leaders of the legislatures.

Senator BUSH. In the various States.

Senator LAUSCHE. In the various States. It ought either to be sent out by Mr. Meistrell, or by myself, as chairman of this committee.

Mr. MEISTRELL. Mr. Chairman, that has already been done.

Senator LAUSCHE. It has gone to the majority and minority leaders?

Mr. SAUER. There were three issuances by the Council of State Governments in cooperation with the Commissioner. One was on flood plain zoning and participation in this act. Then there was another one on the entire participation under the Flood Insurance Act. And then there was a third questionnaire which was sent to each of the attorneys general, and on the basis of the survey that was made of the replies, a further memorandum was sent to all the State governments pertaining to the zoning problem.

So they have been fully alerted over a period of about 4 months, or more than that—6 months—to the requirements for participation.

Senator LAUSCHE. We will act on your suggestion later, Senator Bush.

Senator BUSH. I will withdraw the suggestion, for the record.

Mr. MEISTRELL. Mr. Chairman, the committee appointed by the Council of State Governments is composed of Governor Hodges of North Carolina as the chairman, and then representatives from Kansas, California, Missouri, Texas, Michigan, Pennsylvania, Oregon, and Vermont. I said before I was meeting with them on the 3d, but I am informed now that the meeting is on the 6th. But I think I can state for the record that the State governments have been fully informed of the statute and what action may be deemed appropriate by them to conform.

Senator LAUSCHE. You do know that I had intimate relationship with the Council of State Governments.

Mr. MEISTRELL. Yes, I do.

Senator LAUSCHE. And I respectfully and deferentially suggest that when those official stereotyped communications come through, they are likely not to be given the consideration which a direct communication from you would get addressed to the leader of the majority and minority Houses.

Mr. MEISTRELL. Mr. Chairman, we will proceed according to this suggestion.

Senator LAUSCHE. All right, let us proceed to the next subject—granting processing preference to applications from those having no outstanding Federal flood insurance. We are not going to go into detail on that until Senator Kennedy arrives.

Mr. MEISTRELL. With respect to that proposal, Mr. Chairman, we think it would be extremely difficult, if not impossible, to police and administer that aspect of the proposal. And I should like to comment on that in more detail when you have your hearing dealing with this.

Senator LAUSCHE. All right. The third proposal makes it unnecessary for Federal subsidy contributions to be paid into the disaster insurance fund until actually needed to pay approved claims under policies.

Mr. MEISTRELL. That proposal, Mr. Chairman, is closely related to the State participation portion of the proposed amendment. In substance, it would provide that the subsidy be paid into the disaster fund when needed for losses.

Obviously, if the States are going to participate on a matching basis, then good fiscal policy would seem to indicate that both the State contribution and the Federal contribution be applied to the reserve fund at the one time.

Secondly, under this proposal we would not call upon the Treasury for the subsidy until such time as we needed the money to pay losses. But I believe it is the position of the administration that these matters should be kept on a current basis and not permitted to accumulate over some indefinite period of time.

But again, with your permission, I would rather that we cover this in more detail when you have your hearing.

Senator LAUSCHE. Is it correct to summarize, then, the testimony given by you, that when the appropriation is made by this Congress, you will be prepared to put into operation, by sale of insurance policies covering flood damage, this Federal Flood Insurance Act?

Mr. MEISTRELL. That is correct—with the limitation, of course, which I have commented on before, that that would not apply to the reinsurance program which we are not putting in immediately—but on the direct insurance, yes.

Senator LAUSCHE. Are there any further questions?

Senator BUSH. I don't think so, Mr. Chairman. I just would like to ask this: Where did this third item, making it unnecessary for Federal subsidy contributions to be paid into the disaster insurance fund until actually needed, come from? Do you know?

Mr. MEISTRELL. Are you referring to Senator Kennedy's bill?

Senator BUSH. Yes, that section.

Mr. MEISTRELL. S. 1656.

Senator BUSH. I had not heard of that before, and I wonder from what source this suggestion originated, that prompted the Senator to make that suggested amendment.

Mr. McKenna. I think the distinction, Senator, is that in the bill as it was finally passed last year, my recollection is the administration advanced the proposal that they thought it would be more businesslike to place the Federal portion of what I like to call the admitted subsidy into the insurance fund at the same time that the rest of the premium was collected from the policyholder. But obviously that requires, in a deficit period, borrowing by the Federal Government at an earlier period than would be necessary if they waited and put that in only when, as, and if it were needed to pay approved claims. What the magnitude of that saving would be, I do not know. We have not had any testimony on it. But I am sure that that is the point that is involved in Senator Kennedy's proposal.

Senator Bush. I'm afraid I did not get your comment on that particular one. You have not supported that suggestion.

Mr. Meistrell. No, sir.

Senator Bush. You opposed that.

Mr. Meistrell. Yes, sir.

Senator Bush. I have no other questions.

Senator Lausche. That is the comment which you made, that the money ought to be paid in when it becomes due. It is in accord with your judgment that that is good business policy, and there ought not to be a deficiency permitted to accumulate.

Mr. Meistrell. That is correct.

Senator Lausche. And that deficiency is subjected to the hazard that when the time to pay it comes, the money may not be available.

Mr. Meistrell. That is correct.

Senator Bush. Mr. Chairman, I would like to go back to one more question, and that is a suggestion that you may reduce the amount of insurance you are going to write from the maximum of \$5 billion to a maximum of \$3 billion. Would you care to comment on that at this time, Mr. Meistrell?

Mr. Meistrell. Well, Senator Bush, on our original calculations, we attempted to determine whether we would write the \$5 billion within the fiscal year. That would mean \$3 billion authorized by the statute and \$2 billion on Presidential approval. And after we had given it a great deal more study and consideration, and after going into the matter in more detail with the insurance industry, we concluded that for the first year we would be well advised to undertake a \$3 billion limitation on our total capacity, develop some experience, and if the program appears to be going better than we had anticipated, we would then come back to the Congress, assuming that it were in session, and ask for additional funds.

Senator Lausche. What funds have thus far been expended in the aggregate in getting ready for the initiation of the program?

Mr. Meistrell. Mr. Chairman, we had appropriated by the Congress, \$50,000. I think we have to date expended—and I would like to correct this if the figure is wrong—but I think about \$170,000 to date, and at the expiration of June of this year, \$350,000, exclusive of the printing of any of these documents. And we have had estimates on printing ranging from some \$150,000 to some \$325,000.

Senator Lausche. That is for printing of the official papers?

Mr. Meistrell. Yes; the application, the policy, and the agreements, the rules and the regulations, and the rate manuals.

Senator LAUSCHIE. How have you progressed in the disposition of the question about commissions to agents?

Mr. MEISTRELL. We provided in the budget, Mr. Chairman, for a figure that would approximate roughly 9 percent on the amount the purchaser pays, and not on the total. But that is a variable, because we are putting a maximum and a minimum. And in that respect, there will be a flat commission with a coping and a floor.

Senator LAUSCHIE. What have you used as a yardstick in determining the rates that you would fix—general practices?

Mr. MEISTRELL. Yes; general practices. And we have a study that was submitted to us by the agents' organization, in which there is broken down all of the items of expense, and we eliminated those which we did not believe to be applicable to this program, and attempted to arrive at a figure that we thought was fair and reasonable. We have dealt with the representatives of all of the agent and broker organizations.

Mr. McKENNA. Can you give us any estimate of the range involved there?

Mr. MEISTRELL. You mean the bottom and top? Well, I could give you my ideas. I do not know whether they will be generally acceptable. We have in mind perhaps a \$5 minimum and a \$500 maximum.

Mr. McKENNA. We sort of left hanging in the air, I think, the question of your consultation with the State governments on the question of flood zoning. Mr. Sauer, I believe, mentioned the fact that you, through the Council of State Governments, had been in touch with them on that point, and I wondered whether or not you have been able to progress to the stage where you can give some guide as to what general type of legislation is going to be required or what general type of action they must take to conform to that particular requirement of the act.

You recall that after June 30 of 1958 no Federal flood insurance would be available in any geographical location that does not have effective flood zoning in accord with that which you as Commissioner, as the agent of Mr. Cole, as the Administrator, deem necessary. I understand some States have inquired as to what particular type of action will be required of them in that respect. Can you enlighten us a little bit on that?

Mr. MEISTRELL. Yes, I can. I think we have been in touch with perhaps all of the States, and I have spoken before meetings of State officials on this problem, as well as people from other agencies or State governments.

The problem is a difficult one. It is the attitude of some States, and I think ill-advised, that we tell them what to do. They want to look to Washington for guidance. It isn't quite that easy.

We have told them what the statute provides, and we have recommended that the first step is to amend their enabling laws so that they authorize local cities, towns and communities or villages to adopt appropriate flood planning zoning.

And we have gone beyond that. I have said in the States that I want some responsible authority in the State who would certify to us that there has been compliance in areas where action has been taken and in their judgment it is appropriate and also to tell us where they haven't done it but they should.

Now you can't sit here in Washington and hope to tell every city, town and village in the United States what they ought to do with respect to the use of their land, what kind of buildings they ought to put on it, or what things they should do or not do.

What would be good for Hartford, Conn., might be quite inappropriate for Torrington. What would be good for Zanesville, Ohio, might be quite inappropriate for St. Louis. For us to sit here in Washington and attempt to tell a State and through that State every political subdivision, that may have some degree of flood exposure and that they ought to amend their building codes or they should prohibit this land to be used for this or that purpose or that they should mark encroachment lines on rivers, and if they fail to do so we are not going to make insurance available, to me is perfectly stupid.

And I have said to the States that so far as I am concerned Washington is not going to tell you what to do. What we are saying is this:

This statute says that unless you take appropriate action, insurance will not be available, and it is for you to determine whether or not what you have done or failed to do is appropriate.

Now conceivably an area may be subjected to 20-year exposures or 10-year exposures and the officials of that local community may say that they think in their judgment revenue from taxation, use of lands for certain proper purposes is quite all right, and I think I would be usurping local authority to tell them that I thought they were wrong.

Mr. McKENNA. What bothers me, Mr. Meistrell, though, is the language of the statute, which I will read verbatim so we will have no doubts, says this:

Section 12 (c). After June 30, 1958, no insurance or reinsurance shall be issued under the provisions of this Act in any geographical location unless an appropriate public body shall have adopted and shall keep in effect such flood zoning restrictions, if any, as may be deemed necessary by the Administrator to reduce within practicable limits damages from flood in such location.

Mr. MEISTRELL. Right.

Mr. McKENNA. As far as the statute goes, the duty is on the Administrator, not the localities.

Mr. MEISTRELL. No, it isn't. The duty of the Administrator, if you will read that statute carefully, is satisfied if I say to a State or a locality that you advise me whether in your judgment appropriate zoning legislation has been taken to reduce or minimize the flood damage, and I think I could properly construe the opinion of a responsible State agency as compliance with that section in the statute if they so certified.

Mr. McKENNA. I think what you are saying is you can be guided by recommendations from the States.

Mr. MEISTRELL. That is correct.

Mr. McKENNA. There isn't any argument on that.

Mr. MEISTRELL. That is correct.

Mr. McKENNA. But I think the responsibility is the Administrator's.

Mr. MEISTRELL. Well now, we have got two other things we can do if it gets to that point: We can put the rates up so high that they will have to do it, and that might be bad, or we can under the statute mark out areas where the exposure is so high and the people in those areas don't care to do anything about zoning that we will not underwrite.

Mr. McKENNA. Well, as you appreciate, Mr. Meistrell, the purpose

of this particular provision was to dissuade people from constructing buildings in areas that were extremely exposed to flood risk.

Mr. MEISTRELL. Correct.

Mr. McKENNA. And we gave them a period of 2 years, approximately 2 years in this case, to work out the difficulty. What bothers me is that if we have 43 legislatures in session this year that may not be in session next year—many of them—then our time is running on this problem also, as well as on the other problems.

Mr. MEISTRELL. No, that isn't an accurate statement. Time isn't running at all. If they want to do anything they might find the prices higher than their people would pay.

Mr. McKENNA. Again, on the basis of our own inquiries, we understand about 14 of the States have indicated they think they now have adequate legislation to take care of it.

Mr. MEISTRELL. That is correct.

Mr. McKENNA. And we were told that about seven others have indicated they would like a little further guidance on what type of legislation is needed.

Mr. MEISTRELL. Well now, Mr. McKenna, let's be practicable. We have had States send in proposed drafts of zoning ordinances for Pipsqueak, Idaho, or some such place as that, and ask us if we will review that ordinance and tell them whether or not it conforms to our requirements. Now, it may be an ordinance that says you have to have a certain type of foundation or the grade of the first floor must be so many feet above the ground, or you must have reinforced wire around the windows, or the windows must be locked so water can't get in, and you reduce the things to a perfectly ridiculous situation because how can we here in Washington hope to pass on a building code or an ordinance and say we are going to prohibit people from building frame houses in this particular area or we will permit them to put up concrete constructed factories or some such thing as that?

We would have to have an army of engineers that would fill the Pentagon Building to go out and look at every city, town, and village in the United States and say, "Well, we don't think you should do it this way. You better do it that way."

Now let's be practicable about it, and I think my suggestion is practicable, and I think it conforms to the statute.

Mr. McKENNA. All I am saying is ultimately the decision and responsibility is in the Administrator.

Mr. MEISTRELL. That is correct. But I want to make this clear: We have called this to the attention of all of the State governments. We have suggested the approach through enabling legislation. Some have appointed commissions to study the problem and they are fully informed, and I am not going to impose my judgment on that of a State legislature as to what in their judgment they think ought to be done.

Mr. McKENNA. Well, I think you have the negative duty, really, of saying unless things are done which we deem necessary for the proper administration of the Federal flood program, the insurance will not be available.

Mr. MEISTRELL. That is correct, and I have so told them, and I say what I deem necessary is appropriate legislation which in the judgment of your public officials is adequate to conform to the concept of

this statute, and if you do that, I will construe that per se conformance certainly until we can get around to a more detailed study of the problem.

Mr. McKenna. I might say I don't think our problem in this field is as great as it is in the field of the State sharing the subsidy. I don't think you have as many constitutional problems involved in the flood zoning area.

Mr. MEISTRELL. That is quite right.

Senator LAUSCHE. Now then, I want included in the record a letter addressed to the Honorable J. W. Fulbright by Randolph Burgess, Acting Secretary of the Treasury, dated April 4.

The letter of Mr. Burgess gives his opinion concerning the proposal to eliminate from the Federal Flood Insurance Act the requirements for States to participate in providing the funds. He opposes the elimination of that requirement.

(The letter referred to follows:)

TREASURY DEPARTMENT,
Washington, D. C., April 4, 1957.

HON. J. W. FULBRIGHT,
*Chairman, Committee on Banking and Currency,
United States Senate, Washington, D. C.*

MY DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on S. 1656, a bill to amend the Federal Flood Insurance Act of 1956, to eliminate certain requirements with respect to State participation, to provide certain priorities in the processing of applications for insurance, and for other purposes.

The proposed bill would eliminate the direct participation by the States in financing the flood-insurance program established by the Federal Flood Insurance Act of 1956 by removing the requirement for State and Federal payments into the disaster insurance fund. The Federal Flood Insurance Act at the present time requires that at least 60 percent of the estimated rates on flood-insurance protection be paid by those being insured, the remaining portion to be made up by payments by the Federal and State Governments so that the insurance fund has sufficient income to maintain its loss expectancy.

The proposed legislation would in effect shift the State obligation for premium payments to the Federal Government since, if losses exceeded the assets of the fund at any time, it would be necessary for the Federal Government to make up the difference out of budget expenditures. The proposal, therefore, would appear to be in violation not only of the insurance fund principle, but also the principle of more equitable sharing of fiscal responsibility between State and Federal Governments.

The Department has been advised by the Bureau of the Budget that there is no objection to the submission of this report to your committee.

Very truly yours,

(Signed) W. RANDOLPH BURGESS,
Acting Secretary of the Treasury.

Senator LAUSCHE. Do you have some statistics that you want put in the record dealing with the damage suffered last year and the first 2 months of this?

Mr. McKenna. Yes, Senator, I do, and I think they are submitted in the record. They are in the form of a memorandum to you from me as counsel of the committee, bringing up to date a roundup of figures from the several agencies that testified before our subcommittee in 1956.

(The material referred to follows:)

APRIL 4, 1957.

Memorandum to: Senator Lausche.
From: William F. McKenna, counsel.
Subject: Flood-damage estimates.

During hearings held by this subcommittee in February 1956, evidence was gathered to indicate the extent of flood damage caused up to the latest date for

which estimates were available. For the most part, these estimates covered the period ending with December 31, 1955, although in some cases they included damage from the west coast floods early in 1956.

The staff has arranged to have these flood-damage estimates brought forward by collecting the statistics available for the calendar year 1956 and the first 2 months of 1957.

All agencies that had previously submitted estimates were again invited to take part in this roundup of flood-damage figures.

The results indicate that, fortunately, 1956 was a year of a comparatively small amount of flood damage. However, they also indicate that flood damage during the first 2 months of 1957 has already exceeded the total flood damage for 1956.

Estimates of the Office of Chief of Engineers, United States Army, set forth in appendix A, indicate total flood damage of \$78,369,000 during the year 1956 and total flood damage of \$87,576,000 during the months of January and February 1957. These estimates are given on a State-by-State basis. It should be noted that they include indirect damages as well as direct flood damage. It should also be noted they do not include estimates for the Tennessee River Basin, which is under the jurisdiction of the Tennessee Valley Authority, as distinguished from the Office of the Chief of Engineers, United States Army.

Appendix B, being a report received from TVA, indicates actual flood damage in this area was negligible. The report notes, however, that potential damage was of considerable magnitude, having been averted by the flood control protective works installed by TVA. It is understood flood damage in this area for 1956 was negligible, although the TVA report deals primarily with the January-February 1957 period.

For the calendar year 1956, the United States Weather Bureau estimated total flood damage of \$50 million and a loss of 58 lives. That agency had no precise estimates of the flood damage in the January-February 1957 floods that afflicted the four-State area of Kentucky, West Virginia, Tennessee, and Virginia. Its preliminary estimates indicated a flood loss running into the tens of millions, which is consistent with the estimates of the Chief of Engineers. It is of interest to note that the comparable estimates made by the Weather Bureau for calendar year 1955 were \$995,500,000 and 302 lives lost.

The Soil Conservation Service of the United States Department of Agriculture received reports during 1956 on flood damage in a three-State area covering a watershed of 250,000 acres in Colorado, Florida, and Texas. These indicated total flood damage of \$313,547, primarily to roads, bridges, and railroads, as well as some farm fencing.

The American Red Cross figures for the period from January 1956 to February 28, 1957, indicate the following number of buildings involved in flood damage:

	Dwellings	Farm buildings	Other	Total
Destroyed.....	700	550	150	1,400
Major damage.....	2,000	500	650	3,150
Minor damage.....	19,000	1,400	2,900	24,400
Total.....	21,700	2,450	3,700	28,850

In this compilation dwellings include single family homes and farmhouses; farm buildings include barns or other detached structures; and other buildings include multifamily units; such as apartment houses, and also business structures, public buildings, boats, and house trailers.

To alleviate the difficulties of these flood victims, the American Red Cross spent \$625,000 during calendar 1956 and has spent about \$3 million to date in 1957.

The United States Department of Commerce has had no later occasion to collect statistics on flood damage similar to those it collected with reference to the New England floods in 1955. It notes, however, that none of the damage caused by the January-February 1957 floods directly affected industrial installations forming a direct part of the Nation's economic mobilization base.

The Federal Civil Defense Administration is still in the process of gathering information in response to the subcommittee staff's inquiry. That agency did note that about \$2 million had been allocated to the Kentucky-Tennessee-Vir-

ginia-West Virginia area, mainly devoted to removing debris and cleaning up flood damage to public property.

The Small Business Administration during the calendar year 1956 received 1,923 applications from flood victims for a total of \$23,001,398, of which it approved 1,531 to flood victims for a total of \$17,743,033. Of the approved loans, 704 were for homes and 827 for business properties. To date in 1957, SBA estimates it will process applications totaling \$4½ million for about 1,000 applications due to floods occurring so far in 1957.

The foregoing statistics, although preliminary in nature for the January-February 1957 period, indicate it would have been a desirable period to have placed in operation the Federal flood-insurance program from the standpoint of accumulating insurance reserves before the impact of heavy insured flood losses would make its demands on those reserves to meet payment of approved claims for loss.

The Federal Flood Insurance Act of 1956 became law on August 7, 1956. Unfortunately, to date, the Federal Flood Indemnity Administration has not gained the advantage of the period of comparatively light flood losses by inaugurating its issuance of Federal flood-insurance policies.

Flood damages in the United States, year 1956 and January-February 1957 (exclusive of Tennessee River Basin), as estimated by the Corps of Engineers

State	Total damages (in thousands of dollars)		State	Total damages (in thousands of dollars)	
	Calendar year 1956	January to February 1957		Calendar year 1956	January to February 1957
Alabama.....	544	201	Nevada.....	335	(1)
Arizona.....	(1)	(1)	New Hampshire.....	(1)	(1)
Arkansas.....	478	66	New Jersey.....	4	(1)
California.....	10,277	116	New Mexico.....	35	(1)
Colorado.....	5,166	(1)	New York.....	2,769	473
Connecticut.....	(1)	(1)	North Carolina.....	110	534
Delaware.....	(1)	(1)	North Dakota.....	3,091	(1)
District of Columbia.....	(1)	(1)	Ohio.....	1,120	2
Florida.....	1,800	9,025	Oklahoma.....	81	(1)
Georgia.....	302	333	Oregon.....	9,235	3,870
Idaho.....	6,715	200	Pennsylvania.....	6,002	1,020
Illinois.....	1,606	100	Rhode Island.....	(1)	(1)
Indiana.....	6,083	80	South Carolina.....	(1)	(1)
Iowa.....	5	(1)	South Dakota.....	(1)	(1)
Kansas.....	29	(1)	Tennessee.....	525	261
Kentucky.....	3,858	48,364	Texas.....	5,769	1,040
Louisiana.....	250	68	Utah.....	100	(1)
Maine.....	(1)	(1)	Vermont.....	(1)	(1)
Maryland.....	1,389	(1)	Virginia.....	250	(1)
Massachusetts.....	(1)	(1)	Washington.....	5,430	10,878
Michigan.....	335	(1)	West Virginia.....	820	10,410
Minnesota.....	684	(1)	Wisconsin.....	635	(1)
Mississippi.....	730	450	Wyoming.....	165	(1)
Missouri.....	39	23			
Montana.....	484	2			
Nebraska.....	1,093	(1)	Total.....	78,369	87,576

¹ Negligible

TENNESSEE VALLEY FLOOD OF JANUARY-FEBRUARY 1957

I. SYNOPSIS

The Tennessee Valley has experienced a valleywide, flood-producing storm of near-record proportions over a period of some 2 weeks beginning late in January. Regulation by the TVA water-control system has lowered flood flows on the major tributary streams below storage reservoirs, and on the Tennessee River to the extent that damage has been light.

At Chattanooga, Tenn., the river stage was held to about 32 feet, only 2 feet above flood stage. Early preliminary estimates made independently by the United States Weather Bureau and by TVA show that the natural flood would have reached a crest stage of at least 52 feet without control by the TVA system. For a 52-foot stage, the damages averted within the city were estimated to be more than \$50 million on the basis of 1953 property values and improvements.

Present indications are that this estimate is conservative, and that the natural stage would have been near 54 feet, in which case the recent flood ranks as the second largest in history at Chattanooga, exceeded only by the flood of 1867 at a crest stage of 57.9 feet. Damages averted for a flood that would have reached 54 feet would be in excess of \$65 million.

In the valley of the Clinch River, the city of Clinton was spared damages in the order of \$250,000. This does not include damages averted at the AEC facilities which were successfully protected against damage and the interruption of vital operations.

While there has been a slackening off of rainfall over the Valley region with dropping streamflow, the storm-producing weather conditions still exist. Thus, a final account cannot be made at this time.

The capacity of the TVA system to regulate floods has by no means been exhausted. However, the valleywide flood season extends into April, and it is now necessary to restore and preserve the flood regulating capacity of the system. At present the flood-control operation continues in the form of relieving the system of stored water by means of controlled releases from both main-river and tributary projects. Good progress in this phase of the operation has been made to date.

II. TVA SYSTEM—CHATTANOOGA LEVEE

The TVA water-control system deals with a drainage area of some 41,000 square miles. It includes reservoirs located on headwater streams in Virginia, North Carolina, Tennessee, and Georgia, and main-river developments located along the Tennessee River from Knoxville downstream to Paducah, Ky., where the Tennessee River enters the Ohio River.

In flood-control operations, there are two principal focal points. Within the valley the main focal point is the city of Chattanooga. The other principal focus of operating concern is the lower Ohio and Mississippi Rivers. Approximately half the 41,000 square-mile drainage area lies upstream from Chattanooga. In this area the water-control system comprises 10 multiple-purpose storage projects on major tributary rivers and 3 multiple-purposes projects along the Tennessee River between Knoxville and Chattanooga. In each of the 10 tributary projects substantial storage capacity is reserved for flood-control operations, and facilities are included for power generation. Each of the three main-river projects above Chattanooga also provides storage capacity for flood control, power installations, and navigation locks. Downstream from Chattanooga, the river is developed by six additional multiple-purpose projects equipped with navigation locks and power facilities. Five of these six reservoirs provide further flood storage capacity. The key project for the regulation of Ohio and Mississippi River floods is the Kentucky Dam and Reservoir where 4 million acre-feet of flood storage is available.

This far-flung system provides substantial flood protection along the tributaries below the storage dams and at communities along the main river. It also has the capacity to effectively reduce flood crests on the lower Ohio and Mississippi. While flood protection afforded to the city of Chattanooga is substantial for most great floods that may be expected, full protection will require the construction of a levee system. Plans for such a levee system were prepared some 20 years ago presuming that such facilities would be constructed if the city of Chattanooga would furnish the necessary right of way and satisfy other requirements. These levees have not yet been built, and the city of Chattanooga remains vulnerable to damage in the event of great floods.

III. THE JANUARY-FEBRUARY FLOOD OF 1957

Storm conditions

The recent valleywide flood in the Tennessee watershed resulted from an extended period of almost continuous rainfall from January 24 until February 5. The rainfall above Chattanooga averaged near 9 inches. At many points in tributary streams, the total rainfall for the period approached 10 inches. High points along the eastern valley rim received greater amounts as at Clingmans Dome in the Smoky Mountains where over 14 inches was recorded. In the early stages of the flood-producing storm, the rainfall was heaviest over the northern portion of the valley, particularly in the northwest and northeast portions. This heavy rainfall also produced flash floods on the headwaters of the Cumberland River and Kentucky River in the State of Kentucky and also on streams tributary to the Ohio having their headwaters in Kentucky, Virginia, and West Virginia. In

this area notable floods occurred at Barbourville, Pineville, and Hazard, Ky., and at Pound, W. Va. Similar flash floods on small tributary streams were also experienced in the headwaters of the Tennessee River. Big Stone Gap and other communities along the upper Powell and Clinch Rivers upstream from the control afforded by the major tributary reservoirs were affected. In the later stages of the storm, the rainfall spread over the southern portions of the Tennessee Valley, and the heavy precipitation became valleywide.

Pre-flood conditions

The reservoirs of the Tennessee Valley system were low and, therefore, in good condition in late January to enter a flood-control operation. Main-river reservoirs extending from Knoxville to the mouth of the river at Kentucky Dam were being held at the scheduled low seasonal levels thus providing the planned amount of flood-control storage capacity. Tributary storage reservoirs were at levels lower than those required for flood operations as the result of an extended dry fall and early winter and heavy demands for hydro use in supplying power loads in the service area. It is notable in this particular storm that streamflow in the Tennessee Valley changed in less than a week from a subnormal state to major flood proportions.

Flood-control operation

Operations for flood control in the Tennessee Valley system involve more than simply the impoundment of water in reservoirs. The operation is actually a dynamic one involving three principal steps or stages that blend together. The first stage is one of accelerating flood threatening flows through the main-river reservoirs to preserve flood-control storage capacity. The second stage involves the impoundment of water thus reducing the crest of the flood. The third stage in the operation requires the relief of the system from the accumulated floodwaters as rapidly as possible to regain and preserve the storage space essential for the regulation of new floods that may follow. The valleywide flood season in the Tennessee Valley extends from December into mid-April. Therefore, reservations in the reservoirs for flood control must be preserved into the spring months.

Actual operations in the recent flood involved these basic steps. As streamflow built up along the main stem of the Tennessee River, discharges were increased at each of the three main-river projects above Chattanooga and also at the downstream projects, passing the early higher flows through the system. Tributary storage projects impounded practically all of the inflow with a minimum release to supply the basic power requirements. For example, in the case of Norris Reservoir, the inflow reached a rate of 86,000 cubic feet per second early in the flood while at the same time the discharge was held to a level of about 7,000 cubic feet per second. At Douglas Reservoir, the inflow reached a rate of 110,000 cubic feet per second with a discharge at that time of 15,000 cubic feet per second. At other main tributary reservoirs the same pattern was followed. As the storm inflow into the system increased, discharges at main-river dams were further increased to the highest safe levels downstream and were held at these levels of discharge, passing the greatest amount of water through the system that could be handled at the various critical points. In the operation, thus far, there were two points of principal concern on the Tennessee River. The first, which is always a target point for TVA, was the city of Chattanooga. The second point was at Florence, Ala., where TVA has under construction an additional navigation lock for the Wilson project. Here the construction work is proceeding behind a massive cofferdam. Taking into account the effect at other downstream locations, discharges from Wilson spillway were so regulated that they did not overtop the cofferdam. Taking into account the effect at other downstream locations, the hazard of flooding the cofferdam existed, however, and construction equipment was removed from the cofferdam area as a prudent operation, in anticipation of the possible need of deliberately flooding it. It has been possible, thus far, to prevent the flooding of the work with a considerable saving in cost of construction.

Results to date

At Chattanooga, Tenn., the river stage has been held to about 32 feet, only some 2 feet above flood stage. Preliminary estimates of the flood stage that would have been experienced under natural conditions have been prepared by the United States Weather Bureau and by TVA. These estimates made before the crest would have occurred agree and showed that the natural flood without regulation by the existing water control system would have reached a crest stage of at least 52 feet. Subsequent estimates using more complete data show that these

preliminary estimates were conservative, and that a crest stage near 54 feet would have been reached.

Estimates by TVA of the damage averted within the city of Chattanooga show that a reduction from a 52-foot stage to 32 feet would amount to more than \$50 million on the basis of 1953 conditions. If a complete appraisal of the flood crest that would have been reached under natural conditions show that a 54-foot stage would have been reached as compared with the 32-foot stage that was experienced, the estimated damage averted would increase to in the order of \$65 million or \$66 million, on the basis described above.

The above appraisals include damages averted to physical property and also the indirect damages averted including loss of payroll, disruption of communications and transportation facilities. The great variety of intangible losses that would be experienced at Chattanooga as a result of such great floods is not included. Damage estimates are based on a survey conducted by TVA in connection with the proposal for construction of a levee at Chattanooga. These estimates were made by a detailed inspection and evaluation of the damage that would be experienced at the various flood levels in the range to be expected at this location. Thus, the estimates are not generalizations but have a sound basis of careful inspection and appraisal of the losses that would be involved at each building and business establishment. They have not, however, been extended to the 1957 status of development in the city nor to the 1957 dollar values. Furthermore, they do not include the damages that would be experienced in areas adjacent to the city limits in the general vicinity of Chattanooga.

Extensive damages were also averted at communities and locations on the tributary streams below the tributary storage projects and also at locations on the lower river. On the Clinch River below Norris Dam, it is estimated that the natural flood crest would have exceeded flood stage by approximately 10 feet. Had the river reached this stage, damages of about \$250,000 would have resulted in the Clinton vicinity and in the areas immediately downstream. The production facilities of the Atomic Energy Commission are also located in the lower portion of the Clinch River Valley. Here the reduction in stage prevented the overtopping of the main water supply pumping station which supplies Oak Ridge and the AEC production facilities. Protection was also afforded installations farther downstream where power supply and pumping facilities would also have been affected in the form of interruptions or direct damage. Appraisals of damage averted at other locations within the valley are incomplete at this time.

Total accumulated direct damage averted at Chattanooga since the completion of the Tennessee Valley water-control system amounted to approximately \$53 million prior to this flood. Adding the preliminary estimate of damages averted at Chattanooga in the recent flood, and including damages averted from prior floods on the lower Ohio and Mississippi, the total damage averted to date in some 20 years of operation, but including only 12 years of operation with all major projects completed, amounts to more than \$125 million.

Of the total investment in the Tennessee Valley water-control system, approximately \$180 million has been allocated to flood control. Thus, the accumulated damages averted to date at Chattanooga alone represent substantially more than one-half of the investment that has been so allocated.

Effect on power generation

On the other side of the ledger, large quantities of water are being discharged from the tributary projects at the present time to relieve the system of the floodwaters accumulated and to prepare for future floods. Most of this water being discharged is passing through sluiceways at the tributary projects and over spillways at the main-river projects downstream, and thus is lost for power generation. This loss is a part of flood-control operation. However, there is a brighter side of the picture with respect to lost power generation in that some of the water might otherwise have been spilled in a strictly power system, and also in that flood-control operations, by lowering main-river stages, preserved the operating capacity at main-river plants to a degree that would not be possible in a power-only system.

IV. OUTLOOK

The valleywide flood season extends from December into April. Some of the greatest floods of history in the region have occurred in March. Thus, it is necessary, following a large flood early in the flood season, to regain and preserve the regulating capacity of the system. Weather conditions that can pro-

duce heavy rainfall have not entirely dissipated. However, good progress is now being made in disposing of surplus floodwaters and returning the reservoirs to scheduled seasonal levels.

Mr. MEISTRELL. Mr. Chairman, I think you indicated that we could have those figures available to us, and if possible I would like Mr. McKenna to let us have a copy promptly because we could use it.

Mr. McKENNA. Yes.

Senator LAUSCHE. Anything further?

The hearing is recessed.

(Whereupon, at 11:25 a. m., the subcommittee was recessed.)

HG Floods
9970 U.S. Congress. Banking and Currency Committee (s)
.F6U5 Progress report on federal flood insurance, hear-
1957 ing before a subcommittee on Securities, ..to re-
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