FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)
FEDERAL INSURANCE MITIGATION ADMINISTRATION (FIMA)
APPEAL DECISION

FEMA Flood Insurance Appeal Decision #A1

SUMMARY

The policyholder appeals the flood insurance carrier's (hereinafter "insurer") denial of a claim under the Standard Flood Insurance Policy (SFIP)[1] for damages to his property arising from a flood event in September 2019.

The policyholder files this appeal under 44 C.F.R. § 62.20. The appeals process is available after the insurer issues a written denial, in whole or in part, of the policyholder's claim.[2]

After reviewing the issues, evidence, and relevant authorities, FEMA overturns the insurer's denial on the perimeter wall sheathing.

BACKGROUND

COVERAGE

The policyholder insures property under the SFIP Dwelling Form. At the time of loss, the policyholder had $250,000 of building coverage and $100,000 of personal property coverage.

EVENT AND CLAIM FACTS

Following the flood event, the policyholder reported the loss to the insurer and the insurer assigned an adjuster inspect the building. The adjuster inspected the building in September 2019, and documented flood water lines of 12 inches on the exterior of the building and six inches inside the building's interior. The insured building is a 1977, single-story dwelling, constructed over a slab-on-grade foundation with masonry brick veneer siding on all sides.

The adjuster prepared an estimate with allowances for flood cleanup, treatment and drying, and for flood-damaged finish floors, walls, doors, trim, insulation, kitchen and bath cabinetry, and building appliances and equipment. The insurer reviewed the adjuster's estimate and issued the policyholder payment totaling $61,383 for building damages and $28,387 for loss to personal property.

[1] *See* 44 C.F.R. § 61.13 (2019); Dwelling Form available at 44 C.F.R. pt. 61 App. A(1) [hereinafter "SFIP"].
[2] The policyholder's appeal and related documents concerning the appeal, claim, or policy are on file with FEMA, Federal Insurance and Mitigation Administration, Federal Insurance Directorate, Policyholder Services Division, Appeals Branch [hereinafter "Appeal File"].

Due to concerns with the building's structure, the adjuster requested the insurer retain an engineer to inspect and evaluate the structural condition of the building. The insurer retained an engineer who inspected the building in May 2020. The engineer concluded the building suffered no structural damage from flood water during the subject loss event.[3] The insurer reviewed the engineer's report and in a letter dated June 2020, denied coverage for structural damages citing no direct physical loss by or from flood.

Because the engineer did not address coverage for perimeter wall sheathing, the insurer requested the engineer issue an addendum. In their addendum, the engineer concluded because the interior walls were repaired, they could not provide an opinion on any damage or cause of damage to the sheathing unless destructive testing was performed. The engineer noted if the test revealed the sheathing was damaged by flood water during the subject loss event, the engineer would recommend repairing the sheathing by removing the masonry brick veneer siding.[4] The insurer reviewed the addendum and in a letter dated August 2020, the insurer denied coverage for the exterior perimeter sheathing because the policyholder needed to provide pictures showing flood damage.

The policyholder appeals the denial to FEMA. The policyholder contends while the interior was repaired and the sheathing was no longer viewable, the adjuster who inspected their home stated the sheathing was damaged. In support of his appeal, the policyholder provides a photograph.

ISSUE

The policyholder appeals the insurer's denial of coverage for exterior perimeter wall sheathing.

RULES

The insurer agrees to pay the policyholder for insured property damaged by direct physical loss by or from flood, provided the policyholder complies with all terms and conditions of the SFIP.[5]

The insurer will pay the policyholder to repair or replace the damaged dwelling after the application of the deductible and without deduction for depreciation, but not more than the least of the building limit of liability shown on the declaration page, the replacement cost of that part of the dwelling damaged, with materials of like kind and quality, and for like use, or the necessary amount actually spent to repair or replace the damaged part of the dwelling for like use.[6]

ANALYSIS

The policyholder appeals the denial of coverage for damage to the perimeter wall sheathing.

The insurer agrees to pay the policyholder for insured property damaged by or from flood. The insurer will pay the cost to repair or replace, but not more than the lesser than the policy limit, the estimated cost to repair or replace, or the cost actually spent to repair or replace flood damaged property.

[3] *See* Appeal File, Engineer's Report.
[4] *See* Appeal File, Engineer's Addendum Report.
[5] *See* SFIP (I).
[6] *See* SFIP (VII)(V)(2)(a).

Here, the adjuster documented six inches of flood water in the building's interior. The lower portion of the perimeter wall sheathing was inundated by flood water. The adjuster's photographs show interior wallboard and wall insulation was removed in some of the building's perimeter walls, exposing a black-colored paper product. This material is the paper that lines the sheathing. The sheathing installed at the building is paper-faced gypsum board.

Paper-faced gypsum used as perimeter wall sheathing is similar in material as gypsum wallboard used inside the building, however, gypsum board used for sheathing is designed to repel water. Under normal conditions, sheathing experiences the effects of water only when condensation develops on its exterior side.[7] The paper attached to the gypsum board is water-repellent and allows condensation to develop without water entering into the gypsum board. The paper-faced gypsum used for sheathing when the insured building was constructed was not designed to resist or repel the effects of water that could inundate the sheathing on all sides, such as during a flood. Because glue is used to attach the paper to the gypsum board, saturation of the paper or the gypsum board can cause the glue to detach from the paper or the gypsum board, causing the paper to *delaminate* from the gypsum board. If left installed in the building, the effects of flood water can lead to mold growth on the paper, which can deteriorate the paper or worsen any delamination. This in turn could allow water from condensation that occurs during normal conditions, to migrate into the sheathing, degrading the gypsum board and exposing wall framing studs, sill plates, and metal fasteners to the effects of long-term moisture. This can occur even if the sheathing appears undamaged from the interior after it has completely dried and returned to rigid form.

The engineer noted a destructive investigation into the wall assembly was necessary to confirm the extent of any damage to the sheathing. Such a test would not be valid until the sheathing performs under normal conditions to allow for the development of condensation. This can only occur after the wall was repaired with new wall insulation and interior wallboard and climate-control was returned to the building. For these reasons, testing the sheathing is not practical. Because of the unknown levels of pollutants contained in flood water and the inability to access the exterior side of paper-faced gypsum sheathing, the building industry recommends when paper-faced gypsum is flooded, it should be removed and replaced.[8]

The policyholder requests replacement of the sheathing by removing and replacing the masonry brick veneer. The policyholder does not provide an explanation or other documentation that justifies this repair approach. If the sheathing is found to be damaged by the flood, the engineer also recommended an exterior repair method because the interior walls were already repaired.[9] The SFIP does not condition the insurer's agreement to pay based on the status of flood repairs, therefore, the engineer's recommendation is not valid.

FEMA's review finds the masonry veneer siding is undamaged.[10] The building industry identifies masonry brick veneer used for exterior siding as a flood-damage resistant building assembly.[11] Due to the

[7] Building paper is installed over sheathing as a weather guard, which among other purposes, helps to prevent the migration of water from precipitation, wind, or air or vapor pressure. See Building Science Corporation, "Drainage Planes and Air Spaces" (Sept. 9, 1999), *available at* www.buildingscience.com.
[8] *See* Gypsum Association, "Assessing Water Damage to Gypsum Board" (2019), *available at* https://gypsum.org/2019/04/ga-231-2015-assessing-water-damage-to-gypsum-board/, FEMA Technical Bulletin 2, "Flood Damage-Resistant Materials Requirements" (Aug. 2008).
[9] *See* Appeal File, Engineer's Addendum Report.
[10] *See* Appeal File, Engineer's Report.
[11] *See* FEMA Technical Bulletin 2 "Flood Damage-Resistant Materials Requirements" (Aug. 2008).

quality, replacing masonry brick veneer is costly. The insurer will pay the lesser of the cost to repair or replace, therefore, consideration of an alternative method to repair is reasonable and customary.

FEMA understands the building industry developed several new products and methods to repair *non-structural* sheathing[12] from the interior without the need to remove the masonry veneer.[13] If any such method is effective and cheaper than an exterior method, the insurer will pay the cost of an interior method because it is the cost-effective method of repair.

While the policyholder has already performed interior wall repairs, the insurer can only pay the policyholder the lesser of the policy limit, the estimated cost to repair or replace, or the actual price spent to repair flood damaged property. The SFIP does not condition the insurer's level of payment based on the status of flood repairs. Therefore, FEMA directs the insurer to cover the sheathing damaged by direct physical loss by or from flood during the subject loss event. Because the policy limit has not been reached and the sheathing is not repaired, FEMA directs the insurer to estimate the cost to repair the sheathing from an interior method. This method should include the costs to maintain an air gap and a continuous drainage plane within the wall assembly. If a contractor or the building official requires additional information in support of the repair method, the insurer should retain a qualified state licensed engineer to provide written repair specifications in support of the method's feasibility to the insured building.

CONCLUSION

Based on the facts and analysis above, FEMA overturns the insurer's decision to deny coverage to repair perimeter wall sheathing. FEMA directs the insurer to cover the portion of sheathing affected by the subject flood based on the parameters provided. The scope to repair should be based on the estimated price using an interior method.

If any portion of the affected sheathing was inundated during a previous flood event, this portion is not considered damaged by flood from the subject event and is not covered under the claim. If a building construction flaw exists within a perimeter wall, such as excavation of soil covering weepholes in the veneer or if the veneer lacks sufficient weepholes, the building flaw is the cause of damage to the sheathing and the claim of damage is not covered under the claim.

If the policyholder's actual cost spent to repair the sheathing from an interior method is more than the amount estimated or paid by the insurer, the insurer will cover the additional cost that are reasonable and customary. However, the insurer can only reimburse the policyholder the additional dollar amount actually spent to repair or replace the damaged part of the building and may not reimburse the cost replace to the removal of undamaged parts of the building, such as masonry brick veneer or drywall and wall insulation that has already been repaired.

[12] Gypsum board sheathing does not have properties that provide structural support or lateral resistance to the structural wall. *See* Gypsum Association, "Gypsum Board Typical Mechanical and Physical Properties" (2019), *available at* https://gypsum.org/2019/04/ga-235-2019-gypsum-board-typical-mechanical-and-physical-properties/.
[13] *See* Building Science Corporation, "BSI-101: Rebuilding Houston," (Nov. 26, 2017), *available at* https://www.buildingscience.com/documents/building-science-insights-newsletters/bsi-101-rebuilding-houston.