

**STATEMENT OF
CHARLES J. BONFIGLIO, Sr.**

**ON BEHALF OF
THE FLORIDA ASSOCIATION OF REALTORS[®]**

Before a hearing of

**The Subcommittee on Oversight and Investigations of the
House Committee on Financial Services**

**“The Homeowners’ Insurance Crisis and its Impact on Communities, Homeowners and the
Economy.”**

February 11, 2008

Introduction

Thank you, Chairman Watt, Congressman Wexler, Congressman Klein and Congressman Mahoney for inviting me to present the views of the Florida Association of REALTORS® on “The Homeowners’ Insurance Crisis and its Impact on Communities, Homeowners and the Economy.”

My name is Chuck Bonfiglio. I am Broker-owner of Century 21 AAA Realty Inc. in Cooper City, Florida, and I am the 2008 President of the Florida Association of REALTORS®. The Florida Association of REALTORS® is the largest trade association in the state with more than 150,000 members and more than 17,000 member firms. The mission of the Florida Association of REALTORS® is to advance Florida’s real estate industry by shaping public policy on real property issues; encouraging, promoting and teaching consistent standards for ethical practice and professionalism; and building on the efforts of local Boards/Associations to provide the information and tools members need to succeed.

I must begin with a public thank you to Congressman Klein and Congressman Mahoney for their efforts to address the problem of availability and affordability of property insurance. Your bill that you managed to get passed in the United States House of Representatives, The Homeowners’ Defense Act of 2007, H.R. 3355, defines a process for supporting reinsurance markets nationwide, and as such, marks a solid first step in ensuring the availability and affordability of homeowners insurance in at-risk markets. More importantly, the legislation allows private markets to work effectively where they are already working and allows states to actively participate in assessing and customizing their catastrophe bond needs depending upon the kinds of risks their citizens face. On behalf of all REALTORS® and homeowners in Florida, we thank you.

Overview

The availability and affordability of property insurance is, at its core, a consumer issue. The importance of available and affordable insurance to homeowners, commercial property owners and those who would like to own their own home or place of business cannot be overstated. Unfortunately, it is also something that consumers nationwide – even those who are not in what have traditionally been considered “disaster-prone” areas – now know all too well.

The Florida Association of REALTORS® strongly encourages Congress to enact a comprehensive natural disaster policy to help property owners prepare for and protect against losses from future catastrophic events. Such a policy would recognize the respective responsibilities of property owners, private insurance markets, and all levels of government in preparing for and recovering from future catastrophic events. My testimony today offers suggestions for what REALTORS® believe must be included in a comprehensive approach to addressing future catastrophic natural disasters.

An unprecedented number of strong hurricanes, including the most powerful hurricane ever measured - Hurricane Wilma, caused unprecedented devastation in 2004 and 2005. Eight hurricanes rated Category 3 or higher blew through Florida in just two years.

The Florida Association of REALTORS® commissioned a study on “The Impact of Hurricanes on Housing and Economic Activity” which was completed in April 2006. I will just briefly mention some of the findings of this study.

After the devastating 2004 and 2005 hurricane seasons, private insurance companies sharply raised insurance premiums and/or drastically lowered their insurance coverage in Florida. The limited availability of private insurance, in turn, forced many homeowners to seek coverage through Florida’s public insurance system. But Florida’s CITIZENS Property Insurance Corporation, specifically set up to provide insurance in high-risk areas where private market insurance options are limited, has also come under great financial strain and been forced to significantly raise insurance premiums.

The current high cost and limited coverage of property insurance appear to be impacting the housing market. Unlike, past hurricanes, home sales in the storm impacted areas and other Florida regions have slowed significantly with no evident signs of pick-up. Declining housing activity often presages an economic slowdown. With Florida as the largest and most consistent top job generators in the country, a downfall in Florida will inevitably have national repercussions.

The 2004 and 2005 hurricane seasons were catastrophic and unpredictable. Hurricanes of such strength and frequency could not have been anticipated through normal historical actuarial analysis and, hence, cannot be considered as normal insurable losses. Nationwide federal catastrophic insurance coverage will permit insurance companies to better manage risk and widen insurance availability at reasonable costs. Just as with federal terrorism insurance, coverage on unknowable events allows the private insurance market to continue its presence.

A federal catastrophic insurance program will not only benefit Floridians, but also residents living near the Mississippi River (flooding), people in Kansas and Oklahoma (tornadoes), West Coast residents from San Diego to Alaska (earthquakes), Texans and Coloradoans (wildfires), and numerous other people in cases of unforeseen and “unpredictable” natural disasters - far more frequent and/or much more destructive than would be expected based on normal historical patterns.

Catastrophic Natural Disasters are a National Issue

The catastrophic events of 2004 and 2005 which I mentioned previously should serve as a wake up call that highlights not only the importance of having insurance, but also that individual property owners, insurance companies, all levels of government, and taxpayers have a role in preparing for and recovering from future catastrophic events. The ongoing recovery from these storms shows that all taxpayers in the country have a stake in a federal natural disaster policy because their tax dollars are funding recovery efforts.

As a result of the 2004 and 2005 hurricanes, attention has focused on Florida and the Gulf Coast

states, but other areas of the country are also susceptible to large-scale natural disasters. Any of the following events could cause damage as great as, if not greater than Hurricane Katrina: a repeat of the 1906 San Francisco earthquake, another 1938 “Long Island Express” hurricane, or a significant seismic event along the New Madrid fault, which extends from northeast Arkansas, through southeast Missouri, western Tennessee, and western Kentucky to southern Illinois. While it is true that not all areas of the country are susceptible to the large-scale disaster scenarios above, the effects of these disasters certainly would be felt by all taxpayers.

The Problem Defined: Residential and Commercial Properties at Risk

A strong real estate market is central to a healthy economy by generating jobs, wages, tax revenues and a demand for goods and services. In order to maintain a strong economy, the vitality of residential and commercial real estate must be safeguarded.

Today, insurance availability and affordability concerns are not limited to the Gulf Coast region. We have heard REALTORS® in numerous states, including New York, New Jersey, South Carolina and North Carolina, express concerns about the availability and affordability of property insurance. Their insurance concerns extend beyond homeowners’ insurance and include multifamily rental housing and commercial property insurance.

Insurance is a key component in financing the purchase of real estate since lenders will not lend without it. Additionally, owners who subsequently lose insurance coverage could be in violation of their mortgage terms. The limited availability and high cost of insurance, therefore, not only threatens the ability of current property owners to hold onto their properties, but also to slow the rate of housing and commercial investment in many communities. Either of these threats could, in turn, further delay the rebuilding of communities after catastrophic events.

The inability to obtain affordable insurance is a serious threat to the residential real estate market, impacting not only single family detached homes, but condominiums, co-operatives and rental units as well.

New home purchases, resale transactions and housing affordability are affected in the following ways:

Homeowners' insurance is a necessary component in securing a mortgage and buying and selling a home. If a potential homebuyer is unable to obtain or afford the required insurance, the sale will not be completed. As a result, otherwise able are excluded from the market.

The cost of owning a home is directly tied to insurance costs. Homeowners are required by their mortgage lenders to maintain homeowners insurance, regardless of its cost. If the homeowner is unable to afford the cost of that insurance, the mortgage is in default and the lender may foreclose. If disaster insurance coverage is required, potential buyers may choose not to purchase a home because their insurance costs would be too great.. If disaster coverage is optional, but too expensive, owners may choose to go unprotected.

Insurance costs impact rent levels. Insurance costs incurred by multi-family property owners are ultimately passed on to tenants through higher rents. This impacts housing affordability, particularly for low-income renters.

Many of our commercial members have reported problems with commercial insurance availability and affordability. Members have experienced large increases in premiums – in some cases more than four-fold with concurrent increases in deductibles and decreases in coverage – and in other cases, a complete lack of availability. These changes place property owners at greater financial risk to recover from losses, while also affecting property values since dramatic insurance increases often cannot be passed on to tenants. It is also likely that post storm event property values will also be impacted by such coverage damages.

Often it is the smaller property owner that suffers the greatest. Small owners cannot offset the increases in insurance costs for one property with lower insurance costs in other parts of the country; nor are they able to negotiate a lower multiple property rate. In commercial real estate, there is a point at which insurance becomes unaffordable – when insurance expenses are so high that the property no longer

generates sufficient income to cover expenses. This problem forces many owners to sell their property.

We believe that one of the biggest obstacles to sustained redevelopment in the Gulf Coast region has been the lack of available and affordable homeowners' insurance. One result of the storms of 2004 and 2005 has been a ripple effect in many coastal communities where insurance companies – in an effort to manage risk and decrease their financial liability – have increased premiums, cancelled existing policies, or declined to write new policies. This is happening not just in Florida or in communities that were directly impacted by Hurricane Katrina, but also in states that have not experienced a hurricane in many years (e.g., Delaware, New Jersey, and New York). Having the ability to tap into a readily available source of federally-backed loan funds will allow states to "smooth out" gaps in coverage, provide confidence to reinsurance and insurance markets, and allow FAIR and Windstorm Plans to offer limited insurance products as a last resort for those homeowners unable to obtain insurance from traditional sources.

The Importance of a Comprehensive Federal Natural Disaster Policy

States are the appropriate regulators of property insurance markets, but there is a proper role for the federal government in addressing mega-catastrophes. Some disasters are just too large or unpredictable for the private market to manage alone. As such, it is appropriate for the federal government to intervene in insurance markets and prevent market disruption and insolvencies among insurance companies. The level of intervention, however, must not interfere with normal market forces, and this is where the difficulty lies.

As the catastrophic events of 2004 and 2005 showed, there is the potential at some point in the future that one or more catastrophic natural disasters will require governmental intervention to prevent a collapse of insurance markets. Perhaps it will be a hurricane that devastates Miami or New York City, an earthquake that rocks the Midwest along the New Madrid Fault Line, or some other catastrophic event. Markets would benefit from the knowledge that there is a backstop to prevent market failure.

The Florida Association of REALTORS® strongly encourages Congress to develop and enact a comprehensive natural disaster policy to mitigate exposure to the risks of natural disasters and foster the

availability and affordability of homeowners' insurance coverage. FAR supports the development of a comprehensive natural disaster policy that encourages personal responsibility, promotes mitigation measures, ensures insurance availability, and strengthens essential infrastructure (e.g., levees, dams, bridges, etc.).

A comprehensive federal natural disaster policy would promote the availability of affordable homeowners' insurance in disaster-prone areas. Conversely, the lack of a national natural disaster policy has had a direct measurable impact on the availability and affordability of property casualty insurance in many parts of the country. The inability to obtain affordable homeowners' insurance is a serious threat to the residential real estate market – and thus, our economy.

Homeowners and commercial property owners need insurance to protect themselves, their families and their property in case of a catastrophe. However, if insurance is not available or affordable, many make the unfortunate, but understandable, decision to purchase only the minimal amount or type of insurance required. The problem with this rational “fair-weather” economic decision is that if “the big one” hits, and people do have appropriate insurance coverage, then the American Taxpayer, that is to say everyone in the country, will pay through federal disaster assistance. Property owners who bear risk should pay a fair share – by obtaining and maintaining adequate insurance coverage.

They also should have confidence that their homes and businesses will survive future catastrophic events. Appropriate mitigation measures can help create that confidence. Federal and state governments can provide incentives (e.g., tax credits, insurance rate reductions) to property owners to undertake appropriate mitigation measures for their homes and businesses. We know that a dollar spent on mitigation saves society an average of nearly four dollars. Florida has a “My Safe Florida Home” mitigation program that provides matching grants to homeowners to “harden” or strengthen their homes and it is working. We would encourage Congress to look at tax credits to encourage mitigation as well.

FAR believes that it is in the best interests of all Americans to have a comprehensive federal natural

disaster policy that includes aggressive mitigation and appropriate assumption of risk so that affordable insurance for homeowners and commercial properties is available. Creating a comprehensive natural disaster policy is essential in the coming years. There is no guarantee that 2008 or any future years will be as benign for natural catastrophes as 2006 and 2007. The question is not whether there will be another Katrina-like event in size and scope of destruction, but when. As we have learned, it is far less costly to prepare ahead of time than to fund recovery efforts.

FAR encourages the consideration of additional proposals that would provide incentives for property owners to undertake mitigation measures, allow individuals to establish catastrophe savings accounts to pay for losses resulting from catastrophic events, strengthen the nation's infrastructure, and ensure the long-term viability of the National Flood Insurance Program. FAR believes that all reasonable proposals should be considered as part of a comprehensive solution to address future catastrophic events.

Elements of a Comprehensive Natural Disaster Policy

FAR encourages Congress to develop a comprehensive natural disaster policy that encourages personal responsibility, promotes mitigation measures, ensures insurance availability, and strengthens critical infrastructure (e.g., levees, dams, bridges, etc.). FAR supports the creation of a federal natural disaster policy that:

- 1) Protects property owners by ensuring that transparent and comprehensive insurance coverage is available and affordable, with premiums being reflective of the risk involved;
- 2) Acknowledges the importance of personal responsibility of those living in high-risk areas to undertake mitigation measures and purchase adequate insurance;
- 3) Provides property owners adequate incentives to undertake appropriate mitigation measures.
- 4) Acknowledges the importance of building codes and smart land-use decisions, while also recognizing that proper enforcement of both is best left in the hands of state and local governments;

- 5) Recognizes the role of States as the appropriate regulators of property insurance markets while identifying the proper role of federal government intervention in cases of mega-catastrophes; and
- 6) Reinforces the proper role of all levels of government for investing in and maintaining critical infrastructure including levees, dams, and bridges.

Conclusion

Thank you again for inviting me to present the views of the Florida Association of REALTORS® on “The Homeowners’ Insurance Crisis and its Impact on Communities, Homeowners and the Economy.” We hope that we will have this same opportunity to testify before the United States Senate at some point in the near future. The Florida Association of REALTORS® encourages Congress to develop a comprehensive approach to natural disaster preparedness that encourages personal responsibility, promotes mitigation measures, ensures insurance availability, and strengthens the nation’s infrastructure.

Passage of an appropriate comprehensive national disaster policy is a top legislative priority for REALTORS® in Florida and nationwide. We stand ready to work with you, Chairman Watt, and others in Congress to develop a responsible natural disaster policy that addresses the needs of consumers, the economy and the nation.