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HEARING BEFORE THE

HOUSE FINANCIAL SERVICES COMMITTEE

ENTITLED

"PREPARING FOR THE STORM: REAUTHORIZATION OF THE NATIONAL FLOOD INSURANCE PROGRAM"

TESTIMONY OF

Mabél Guzmán

ON BEHALF OF

THE NATIONAL ASSOCIATION OF REALTORS®

MARCH 13, 2019

Introduction

Chairwoman Waters, Ranking Member McHenry, and members of the Committee, on behalf of 1.3 million members of the National Association of REALTORS®, thank you for inviting me to testify regarding draft legislation to reauthorize and reform the National Flood Insurance Program (NFIP).

My name is Mabél Guzmán. I am a real estate advocate and broker for @properties in Chicago, IL, and have been a REALTOR® for 21 years. I have been President of the Chicago Association of REALTORS® and commended multiple times by the Illinois REALTORS®, including as "2012 REALTOR® of the Year". I have also served on the board of directors and chaired public policy committees both for NAR and the state association. In 2020, I will become NAR's Vice President.

REALTORS® thank this Committee for your continued leadership on long-term reauthorization and reform. Many provisions of the draft legislation will provide critical reforms to NFIP's flood mapping and mitigation programs. NAR urges the Committee to work together and build on these provisions to open the door to private flood insurance and develop a bipartisan reauthorization package.

America is NOT Prepared for the Coming Storm

By every measure, floods are getting worse.[1] The U.S. recently weathered several record-breaking hurricane seasons in a row and witnessed the total destruction of places like Mexico Beach, FL, and much of the island of Puerto Rico. Hurricanes Harvey, Irma, Maria, Florence, Michael – most of us lost track of all the names. It seemed like every time we turned on the nightly news, there was yet another storm and more devastation. 500-year and 1,000-year floods became the new normal.

This is not just a coastal issue. Harvey's landfall and storm surge did not cause most of the flooding in Houston. It was the over 4 feet and 27 trillion gallons of rain dumped on Eastern Texas over six days. That, combined with inadequate infrastructure and mapping contributed to the destruction, which extended well beyond FEMA's flood zones.

Inland flooding is not unique to Houston. My home town of Chicago, for instance, has struggled with flooding due to an inability to drain heavy rainfall. Our maps currently do not account for urban or future flooding, which makes it a challenge for property buyers, owners, renters and others to know where and how high to build or locate safely.

As the following chart shows, roughly half of all the flood disaster declarations since 1990 occurred in landlocked states. In the past year alone, disasters were declared in Kentucky, Indiana, Michigan, Wisconsin, Minnesota and Montana.[2]

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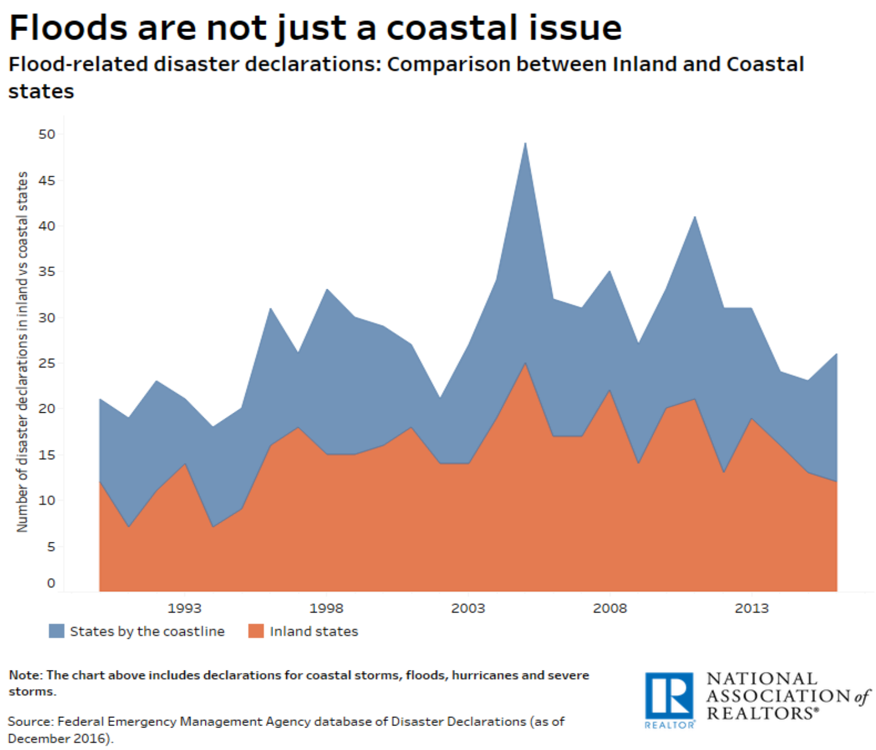
[1] For example, you can see billion dollar floods are on the rise if you go to NOAA's website and select "Flooding", "Severe Storm," and "Tropical Cyclone."

[2] Check out FEMA's website and select "floods" and "major disaster declaration" beginning January 2018



Most Americans are under-insured

While flood risk is rising, take-up rates of flood insurance are not following (see table 1 below).

As REALTORS®, we talk with our clients about buying flood insurance even where not required. We tell them "X is a flood zone;" flooding is not covered by the standard homeowners policy; and disaster relief typically means a $5k FEMA check and an SBA loan to be repaid with the mortgage.[3]

Unfortunately, too many believe that Congress will pass another multi-billion-dollar supplemental and make them whole, again. We can point our clients to information and follow the laws,[4] but if they choose not to buy flood insurance, ultimately it is their decision. All we can do is hope and pray for the best.

While REALTORS® are not risk experts, we are trying to do our part to close the insurance gap. NAR and FEMA recently signed a memorandum of agreement and are working together to better educate consumers and help ready the nation for disasters, but there is still more to do.

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[3] For a comparison of the typical individual assistance payment vs. the average NFIP claim payment, click here.

[4] Every state in the U.S. has a real estate disclosure requirement either in statute or common law. Read NAR's state-by-state summary.

Table 1: Homes in Special Flood Hazard Areas (SFHAs) versus Flood Insurance

	A	B	C
CENSUS REGION	**Homes in SFHAs**[1]	**NFIP Policies in force**[2]	**Percentage of Homes with Insurance ((B ÷ A) x 100)**
Northeast	1,652,754	589,987	36%
Midwest	1,388,768	198,499	14%
South	6,724,563	3,721,828	55%
West	1,283,263	447,117	35%

Source: NAR calculations of data from Federal Emergency Management Agency (FEMA) and U.S. Census.

[1] NAR estimated the percentage of these in SFHAs by overlaying the block-level data from 2010 Decennial Census with the map of SFHAs from FEMA. Then, NAR multiplied the floodplain weights with the 2017 American Community Survey (ACS) housing estimates for each region.
[2] NAR calculations of the FEMA data about NFIP policies in force (as of Sep 2018)

REALTORS® Support a Reformed NFIP and Robust Private Market

The embattled National Flood Insurance Program is central to U.S. disaster preparedness efforts. According to NAR research, the program is also essential to completing half-a-million home sales per year[5] while each sale contributes two jobs and $80,000 to the economy.[6] However, the NFIP is not sustainable as currently structured. The program was not designed nor intended to address the catastrophic loss years we have seen since 2005, as this snap shot of NFIP's financials illustrates.

NFIP by the numbers

($1.4Bil)	The shortfall between NFIP's annual revenue and expected costs[1]
$36,000,000,000	The amount borrowed (including $16Bil forgiven) since 2005[1]
300 million/year	Annual spending on interest that is not available for maps or claims
One-third	Fraction of U.S. stream miles mapped, of which 42% are "adequate"[1]
∞	How long it would take for NFIP to repay the full Treasury loan
2007	The last time that NFIP made a payment toward the loan's principal
2 percent	Fraction of NFIP properties responsible for 25 percent of claims

[5] Using various methods, NAR research has consistently found over time that 40,000 home sales stall each month that NFIP lapses. 40,000 sales/month x 12 months = 480,000 sales/year with NFIP insurance. Click here and here for more about the 40,000-sales figure and methods.
[6] Each home sale provides jobs and income to real estate agents, construction workers, building contractors, mortgage service providers, home inspectors, appraisers, and many others. There is an annual impact to the community as there is less income to spend on goods and services. Read more about the total economic impact of home sale at this link.

NAR agrees that Congress should reauthorize NFIP before its insurance writing authority expires on May 31. Ten straight month-to-month extensions are ten too many, and each lapse risks 1,300 home sales per day. However, we need long-term reauthorization and reform.

1. **Long-Term Reauthorization coupled with Meaningful Reforms.** NAR supports extending the NFIP but that alone will not help with inaccurate maps, unfair insurance rates, or the lack of resources for property owners to reduce or mitigate their risk. We support these bill provisions:
   - **Extend the NFIP through September 30, 2024.**
   - **Include bipartisan mapping and mitigation reforms.**

2. **Strengthen the NFIP while Encouraging Private Flood Insurance.** REALTORS® support both a reformed NFIP and robust market. To close the insurance gap, we need 'both/and,' not 'either/or.'

   Our members are finding increasingly that private insurance companies offer better flood coverage at lower costs than NFIP. However, private flood insurance accounts for only 4 percent of the residential market and 16 percent of the commercial market.[7]

   NAR urges the Committee to consider including provisions of the Flood Insurance Market Parity and Modernization Act, which would reduce barriers to the market. (Our understanding is that Reps. Castor (D-FL) and Luetkemeyer (R-MO) are working to reintroduce this bill.)
   - **Allow consumers to move back and forth freely while maintaining continuous coverage.**
   - **Clarify that FHA is subject to mandatory acceptance of private flood insurance requirements like other Federal agencies, the banking regulators, Fannie Mae and Freddie Mac.**

3. **Modernize Mapping for Better Risk Assessments.** Currently, when FEMA develops its maps, the agency does not consider the elevation of individual properties upfront. Instead, all properties within the flood zone are deemed "high risk" unless a property owner provides a $500-$2,000 elevation certificate to justify a letter of map amendment (LOMA).

   Instead, FEMA should use the most accurate and granular risk assessment tools to remove properties en masse automatically, so the burden is not on homeowners. FEMA should also account for additional risk factors such as future and urban risk, and map the entire country so property buyers and others will know where and how high to build and locate out of harm's way.

   NAR supports the following bill provisions:
   - **Expand Mapping to all areas and risks of the United States**
   - **Provide for a Digital Display & Property-Specific Mapping.**[8]

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[7] See the Wharton Risk Center's recent study on the emerging private flood insurance market.

[8] For more about North Carolina's Flood Risk Information System (FRIS) and "structure-specific flood frequency determinations and associated flood elevations," see Recommendation 14 of Technical Mapping Advisory Committee's 2015 annual report.

- **Remove Low-Risk Structures from Flood Hazard Areas (or "mass LOMAs")**[9]
- **Add a Real Estate Representative to the Technical Mapping Advisory Council**

4. **Ensure consumers are charged fair rates and enhance affordability through mitigation.** Currently, the NFIP sets national average insurance rates so many policyholders pay substantially more than their property-specific flood risk while others pay less.[10] NFIP should not only better align rates to risk but also proactively mitigate risk. Subsidizing premiums ultimately keeps homeowners in harm's way, but a mitigation-centered approach will ensure reasonable rates and prevent devastating flood losses.

   NAR supports the following Committee proposals:

   - **Double the Increased Cost of Compliance coverage (ICC) in the NFIP policy**
   - **Enable policyholders to use ICC to reduce their risk *before* the property floods.**
   - **Give Premium Credit for Additional Mitigated Properties**
   - **Create a State Revolving Loan Fund for Flood Mitigation**

   NAR would like to work with the Committee to modify or add the following provisions:

   - **Use replacement cost values in NFIP premium rates (HR 2874 Section 111)**
   - **Consider coastal vs. inland locations in premium rates (HR 2874 Section 105)**
   - **Incorporate a mitigation component into the Demonstration Program.** [11]

All of the above reforms have bipartisan support. Packaged together, we believe these provisions could help create a financially stable program. These provisions would also ensure that the NFIP better informs property owners of their risk, dedicate more to strengthening/mitigating properties against flooding and provide consumers choice in flood coverage, whether NFIP or the market.

Conclusion

Thank you again for the opportunity to share the REALTOR® viewpoint on NFIP reauthorization and reform. As we have seen, a never-ending string of short-term extensions only maintains an uncertain status quo while shut downs jeopardize homes, businesses, communities, and the U.S. economy. NAR stands ready to work the Committee to pass meaningful NFIP and private-market reforms that help property owners and renters prepare for and recover from future losses resulting from floods.

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[9] For more information about Mass LOMAs (Letters of Map Amendment), please see Recommendation 13 of Technical Mapping Advisory Committee's 2015 annual report.

[10] Read Congressional Budget Office's explanation about cross subsidization and "the role of broad categories in setting rates" (page 16). Bottom line: By charging the same rates but not accounting for storm surge in coastal A zones, NFIP is overcharging many policyholders while undercharging others.

[11] The Wharton Risk Center has proposed an innovative affordability approach of means-tested vouchers coupled with low-interest loans for loss reduction investments, which could serve as a model for the program.