



**STATEMENT OF
THE NATIONAL ASSOCIATION of REALTORS®
Submitted to
The House Financial Services Committee
Housing and Community Opportunity Subcommittee
On
The National Flood Insurance Program
April 1, 2003**

Thank you for the opportunity to submit a statement presenting the views of the NATIONAL ASSOCIATION of REALTORS® (NAR) on the National Flood Insurance Program (NFIP) and related repetitive flood loss legislation.

The more than 880,000 members of NAR wish to thank Chairman Ney for holding this hearing on a subject that is of great importance to REALTORS®. We also wish to recognize Representatives Doug Bereuter, Richard Baker and Earl Blumenauer for their ongoing efforts to improve the NFIP.

It is often said that REALTORS® don't sell homes, we sell communities. The members of the NATIONAL ASSOCIATION of REALTORS® are concerned and active members of our communities. We recognize and support the important role that the National Flood Insurance Program plays in managing the risk of flooding which affects so many of our communities.

The NFIP is a unique partnership between our three levels of government. It enables property owners in participating communities to purchase insurance as a protection against flood losses in exchange for State and community floodplain management regulations that reduce future flood damages. As a result, federal expenditures for disaster assistance and flood control are reduced.

The National Flood Insurance Program partners with over 19,000 communities nationwide and holds 4.4 million policies representing \$623 billion in insurance coverage. It provides over 90% of all flood insurance nationwide and close to 100% of flood insurance coverage for individually-owned properties and small- to mid-size commercial properties. Ninety-one insurance companies write flood insurance, either under the Write Your Own program or through direct sales. In FY 2002, the program generated \$1.4 billion in written premiums, with an average premium of \$393, average coverage of \$142,204, and an average pay out of \$24,551. By providing affordable flood insurance that is unavailable in the private market, the NFIP helps our citizens achieve the American dream of homeownership.

There are three issues concerning the National Flood Insurance Program that are important to the real estate industry. First, the costly impact of repetitive loss properties. Second, the importance of accurate and dependable floodplain maps. Third, Congressional reauthorization of the program.

Currently, 45,000 insured properties nationwide have incurred two or more flood losses over a ten-year period. These properties cost the flood insurance program over \$200 million annually. The top 10,000 structures alone cost the program over \$65 million annually.

Repetitive loss properties inflict serious economic harm to the flood insurance program by driving up the premiums for all other policyholders, and by allowing the entire system to rest upon an unsustainable actuarial foundation. These properties are not paying premiums that

adequately reflect their exposure to the risk of flooding.

NAR believes that Congress must address the repetitive loss issue in order to place the flood insurance program on firmer financial ground.

We support an approach that has three main components: (1) repetitive loss properties remain eligible for federal flood insurance; (2) flood mitigation measures or buy-outs at fair market value are offered to the worst repetitive loss properties; and (3) if a mitigation or buy-out offer is refused, the owner of a repetitive loss property will be required to pay the highest allowable insurance premium. This win-win approach ensures that insurance payouts will be reduced by properly mitigating or buying out the worst repetitive loss properties. At the same time, it allows the property owner to remain in the program, while paying a premium that adequately reflects the property's flood risk.

There are several additional issues that we feel should be given consideration in repetitive loss legislation. First, we urge that properties acquired through buy-outs are put to appropriate uses and are well-maintained so that they do not decrease the value of adjacent properties. Second, we encourage the use of local appraisers in determining fair market value for property buy-outs. Local appraisal professionals have in-depth knowledge of local real estate markets and are well-equipped to render fair market value determinations.

Finally, it is critical that flood insurance remain accessible and equitable for all individuals who own property in a floodplain. NAR opposes a phase-out of subsidized flood insurance for second homes and rental properties. Non-primary residences should be given the same consideration as primary residences. These properties face a flooding risk which is identical to that of adjacent primary residences. For reasons of fundamental fairness, they should not be charged full risk premiums unless they fall under the definition of repetitive loss properties. Furthermore, charging full risk premiums for second homes and rental properties would significantly increase their insurance costs. Consequently, the purchase price of homes in resort and coastal areas would increase, their affordability and marketability would decrease, and local economies would suffer. Owners of rental properties would be forced to pass on the increased costs of flood insurance through rent increases to their tenants, placing additional strain on the budgets of low- and fixed-income renters.

Our second area of concern is FEMA's Flood Insurance Rate Maps. Flood maps determine whether a property is located in a floodplain, and thus whether flood insurance is required in order to secure a mortgage. When maps are inaccurate, properties incorrectly included in a floodplain are unnecessarily required to have flood insurance coverage. Similarly, properties incorrectly excluded from a floodplain are exposed to flood risk without the benefit of insurance coverage. During a property transaction, correction of an inadvertent inclusion - through FEMA's Letter of Map Amendment process - adds unnecessary cost and delay to the transaction.

Flood maps serve a number of other important functions. The National Oceanographic and Atmospheric Administration estimates that the cost of flood damage in the 1990s exceeded \$5 billion annually, with an average of 100 deaths per year due to flooding. To limit the costly impact of floods, flood maps help communities develop flood management strategies, implement more effective land use and building codes, develop disaster preparedness plans, and incorporate disaster planning into regional economic development strategies.

FEMA plans to modernize its floodplain maps by replacing the existing paper maps with computerized maps that are more accurate, more accessible, and easier to keep current. FEMA's map modernization program goes beyond simple replacement of paper maps with digital ones. Digital technology will allow FEMA to collect new and better data.

NAR was pleased that Congress recognized the importance of accurate and dependable floodplain maps and provided FEMA with an additional \$150 million in FY 2003 to begin its map modernization program. That is just the beginning, however, and additional funds are needed. For FY 2004, FEMA has requested \$200 million to continue its map modernization

program. We strongly encourage Congress to appropriate the full amount so that FEMA can complete this important project.

Last, but not least, is the issue of NFIP reauthorization. In November 2002, the 107th Congress adjourned without extending FEMA's statutory authority to issue flood insurance policies beyond December 31, 2002. Thankfully, Congress and the President acted quickly in the early days of this Congress to pass and sign retroactive reauthorization. In the interim, FEMA and a coalition of public and private sector organizations worked hard to provide guidance to private industry and the public and prevent disruptions in the real estate, insurance and lending industries.

Although disruptions were largely averted, such a lapse of authority could have severe repercussions for an industry that was one of the few bright spots in the 2002 economy. Last year set a record for existing home sales, and the housing market is projected to remain strong in 2003. An absence of authorization raises compliance and legal questions for lenders and insurers. In such an uncertain climate, home purchases and insurance policy renewals are jeopardized. For prospective home buyers, this can mean an opportunity delayed or – at worst - lost entirely. FEMA estimates that a short lapse in authority could affect approximately 400,000 households seeking to obtain or maintain flood insurance.

This situation should not be allowed to re-occur. NAR encourages Congress to reauthorize the NFIP in a timely manner each year. As an alternative, we encourage Congress to consider a multi-year reauthorization in order to provide program continuity and prevent a re-occurrence of last year's situation.

Thank you for allowing the NATIONAL ASSOCIATION of REALTORS® an opportunity to share our views on the National Flood Insurance Program. We urge the Subcommittee to undertake a bi-partisan effort and pursue improvements that will strengthen the program and make it even more effective. We look forward to working with you in support of this effort.

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