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**Statement of
The National Association of REALTORS®
The Subcommittee on Housing and
Community Opportunity
of the
House Committee on Financial Services**

**"IS AMERICA'S HOUSING MARKET PREPARED FOR THE NEXT NATURAL
CATASTROPHE?"**

Wednesday, June 28, 2006

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Thank you for the opportunity to present the views of the NATIONAL ASSOCIATION OF REALTORS (NAR) on the topic of natural catastrophes and the housing market. NAR applauds Chairman Ney for holding this hearing and thanks him for his leadership on this important issue. The question should not be whether the housing market is prepared for the next natural catastrophe so much as how the nation's homeowners can be prepared when the options for obtaining and maintaining insurance coverage are dwindling.

Homeowners need insurance to cover themselves in cases of emergencies and disasters. Events of the past few years have left many homeowners with inadequate or, in some cases, no insurance for a variety of reasons: cost of insurance, high deductibles, and lack of available insurance products in the competitive marketplace. Recent natural disasters have led a number of insurance companies to cancel policies, not renew policies, and pull out of markets because they fear that a significant event could severely impact them.

Recent research conducted by NAR in Florida concluded that the lack of affordable or available homeowners' insurance in that state contributed to a slowdown in Florida real estate markets, which can presage a slowdown in overall economic activity in the region. A strong housing market is a linchpin of a healthy economy, generating jobs, wages, tax revenues and a demand for goods and services. In order to maintain a strong economic climate, the vitality of residential and commercial real estate must be safeguarded.

This deterioration in the availability and affordability of homeowners insurance in disaster-prone areas is an issue of very real concern to NAR. NAR members specialize in the business of facilitating real estate transactions, but when a young family is precluded from owning a home because homeowners' insurance is too difficult or too costly to obtain, we all suffer the consequences. We cannot emphasize enough that the ultimate victims of this homeowners crisis – and let us assure you that in many states in the Southeast, it is a crisis – are consumers frustrated in their attempt to realize the American Dream of homeownership.

The inability to obtain affordable homeowners insurance is a serious threat to the residential real estate market. Not only does it imperil the market for single family detached homes, but condo, co-op and rental markets are affected as well. New home purchases, resale transactions and housing affordability are impacted 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, potential homebuyers are priced out of the market.
- **Homeowners' insurance is tied directly to the cost of owning a home.** If a homeowner is unable to maintain insurance required by a mortgage lender, the mortgage is in default. If disaster insurance coverage is optional, potential buyers may choose not to purchase a home because the insurance they need is too expensive.

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- **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 and buyers.

The National Association of Realtors® is pleased that Congress is discussing ways to address the need for a comprehensive natural disaster policy that will ensure that homeowners insurance is available and affordable to all who wish to purchase it. NAR encourages Congress to develop a comprehensive natural disaster policy that will help homeowners protect their most valued asset – their homes.

Congress has, with varying levels of interest, debated and voted on natural disaster policies during the past two decades. In this Congress, a number of bills have been introduced that take different approaches to addressing this problem. No one approach has emerged as a front-runner, but NAR is glad that the debate is beginning again. We applaud the efforts of those members of Congress who have introduced and co-sponsored legislation to address this critical issue.

NAR encourages this subcommittee to examine the several approaches that exist and contemplate those that have not yet been thought of. The issue for NAR is simple: homeowners need insurance to protect themselves, their families and their property in case of catastrophe. Unless insurance is available and affordable, many may choose to go without insurance – precisely the decision many Californians have made due to the high cost of earthquake insurance. If “the big one” hits, and people are not insured, then the American Taxpayer, that is to say everyone in the country, will pay. NAR believes that people who bear risk should pay a fair share – that is through insurance. However, if insurance is not available or affordable, people may decide to go without and rely on the federal government to assist them in their time of need.

In conclusion, to answer the question: “Is America’s housing market prepared for the next natural catastrophe?”, NAR believes that some markets are better prepared than others, but not a single one can handle the burden of a major catastrophe on their own. It is in the best interests of all Americans to have a comprehensive federal natural disaster policy that includes aggressive mitigation, assumption of risk, and affordable and available homeowners insurance.

This issue is an extremely important one to NAR, REALTORS® and homeowners across the country, and taxpayers. NAR looks forward to working with this subcommittee, the Committee on Financial Services, and all members of Congress to achieve this goal. Thank you.

- [NAR's Press Release - 6/28/2006](#)

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