



NATIONAL ASSOCIATION OF REALTORS®

The Voice For Real Estate®

500 New Jersey Avenue, N.W.
Washington, DC 20001-2020
202.383.1194 Fax 202.383.7580
www.realtors.org/governmentaffairs

Thomas M. Stevens, CRB, CRS, GRI
President

Dale A. Stinton
EVP/CEO

GOVERNMENT AFFAIRS
Jerry Giovaniello, Senior Vice President
Walter J. Witek, Jr., Vice President

**STATEMENT OF
THE NATIONAL ASSOCIATION OF REALTORS®
THE SUBCOMMITTEE ON CAPITAL MARKETS,
INSURANCE, AND GOVERNMENT SPONSORED
ENTERPRISES
OF THE
HOUSE COMMITTEE ON FINANCIAL SERVICES
“STABILIZING INSURANCE MARKETS FOR
COASTAL CONSUMERS”**

Wednesday, September 13, 2006

Thank you for the opportunity to present the views of the NATIONAL ASSOCIATION OF REALTORS® (NAR) on the topic of insurance markets for coastal consumers. NAR applauds Chairman Baker for holding this hearing and thanks him for his leadership on this important issue. Homeowners and commercial property owners are increasingly being put at risk because options for obtaining and maintaining insurance coverage are dwindling.

Homeowners and commercial property owners need insurance to cover themselves in cases of emergencies and disasters. Events of the past few years have left many homeowners and commercial property owners with inadequate or, in some cases, no insurance for a variety of reasons: high 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 real estate 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 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, or a tenant is unable to lease space because insurance is too difficult or too costly to obtain, we all suffer the

consequences. We cannot emphasize enough that the ultimate victims of this insurance 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 insurance availability and affordability crisis in the Gulf Coast region extends beyond homeowners' insurance and touches virtually every aspect of the real estate market. Many of NAR's commercial members have reported problems obtaining commercial property and casualty insurance during the brokerage of commercial real estate. Insurance is a key component to financing the purchase real estate. The lack of availability of insurance threatens to slow the investment in commercial real estate in these areas -- which is so crucial to rebuilding our storm ravaged coasts.

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. Others 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 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, 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 insurance for homeowners and commercial property owners.

This issue is an extremely important one to NAR, REALTORS®, homeowners, commercial property owners, 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.