NAR Talking Point

"Preserve FHA and Ensure Secondary Mortgage Market Finance"

ASK:

HOUSE OF REPRESENTATIVES

- Oppose H.R. 2767 "The Protecting American Taxpayers and Homeowners (PATH) Act."

U.S. SENATE

- Request that the Chairman of the Senate Banking Committee hold hearings on S. 1217 the "Housing Finance Reform and Taxpayer Act" and restructuring the secondary mortgage market.
- Co-sponsor S. 1376, the "FHA Solvency Act of 2013", which provides common sense reforms of the FHA mortgage insurance program, ensuring its financial solvency without disenfranchising American families.

ISSUE BACKGROUND:

HOUSE OF REPRESENTATIVES

House Financial Services Committee Chairman Jeb Hensarling (R-TX) introduced H.R. 2767 the "Protecting American Taxpayers and Homeowners Act" (PATH Act). The House Financial Services Committee held a July 23rd markup of the PATH Act and approved the bill along an almost party line vote of 30-27; 30 Republicans voted yes, 25 Democrats voted no along with two Republicans (Miller, R-CA; Fitzpatrick, R-PA).

The PATH Act is a comprehensive restructuring of mortgage markets. The bill has two major goals: 1) dissolve Fannie Mae and Freddie Mac and replace them with a new secondary mortgage market structure that does not include a government guarantee; and 2) restructure and limit the FHA Mortgage Insurance Program. There are numerous problematic provisions in the Act that would limit access to mortgage credit, increase the cost of that credit and prevent many credit-worthy and responsible families from purchasing a home. Most significantly, 1) NAR strongly opposes the PATH Act's elimination of a federal guarantee for the secondary mortgage market which ensures the availability of the 30 year fixed-rate mortgage; and 2) NAR believes that FHA has been making significant changes to address problems and does not need to be restructured in the manner proposed by the Act. The proposed FHA provisions will disenfranchise families by increasing downpayments, lowering loan limits, and limiting the program to low income households or a very narrow definition of first-time homebuyers. Instead, FHA needs the authority to undertake reforms already identified to strengthen its financial footing.

U.S. SENATE

Senators Bob Corker (R-TN) and Mark Warner (D-VA) introduced S. 1217, the "Housing Finance Reform and Taxpayer Act" with six other bipartisan co-sponsors. No hearing has been held to date on this bill. This bill offers comprehensive reform to the secondary mortgage market that includes a catastrophic government guarantee. Though there are issues that remain to be addressed, this bipartisan legislation will accelerate the conversation necessary to reform our housing finance system.

At the same time, Senators Johnson (D-SD) and Crapo (R-ID) have introduced S. 1376, the "FHA Solvency Act of 2013", and the Senate Banking Committee held a hearing on this bill. The bill provides common sense reforms to ensure the continued solvency of FHA without disenfranchising qualified borrowers. It provides increased enforcement and oversight of the FHA fund, and flexibility to FHA to better manage its programs. NAR supports this bipartisan approach

WHY IS THIS IMPORTANT?

Freddie Mac/Fannie Mae:

- The PATH Act does not include a federal guarantee that ensures the continued availability of a 30-year fixed rate mortgage.
- A government's guarantee is needed to provide the capital to fund and ensure a wide range of safe, reliable mortgage products for creditworthy consumers.

- Without the federal government clearly, and explicitly, offering a guarantee of some mortgage instruments, affordable mortgage financing will not be consistently available in all market conditions.

FHA:

- FHA’s single-family mortgage insurance programs helps preserve private financing options for all credit-worthy homebuyers regardless of local, regional or national economic conditions.
- Targeting FHA in the manner prescribed by the PATH Act completely changes the role of FHA and will make many borrowers ineligible for FHA financing, regardless of their creditworthiness or the availability of alternative financing.
- Higher downpayment requirements could make 345,000 borrowers a year ineligible for FHA financing.
- Lowering FHA loan limits nationwide will limit liquidity and borrower’s access to credit.
- Without FHA, our nation’s housing recovery would not have been possible.
- Congress must do no harm to that recovery, nor enact FHA reform legislation that unfairly restricts homebuyer access to safe, affordable mortgage credit.

WHAT IS THE OTHER SIDE OF THE ARGUMENT?

Those on the other side of the issue believe that: the federal government needs to “get out of the way” and let the private market function. Current practices have crowded private lenders out of the marketplace, and resulted in loans to individuals who don’t have the resources to be successful at homeownership. Taxpayers shouldn’t be on the hook for a government guarantee, and the role of FHA should be very limited to lower income and first-time homebuyer households

THE BOTTOM LINE

Freddie Mac/Fannie Mae and Secondary Market Reform: NAR strongly supports restructuring the secondary mortgage market. However, the PATH Act does not include a government guarantee. **NAR cannot support any new entity that does not have a clear and explicit government guarantee that will ensure the continued availability of affordable mortgage credit.**

FHA: FHA has been making significant changes to address problems and does not need to be restructured in the manner proposed by the PATH Act. Instead, FHA needs the authority to undertake reforms to strengthen its financial footing which the Senate’s “FHA Solvency Act of 2013” provides.

NAR Debating the Issue

FHA, Fannie Mae & Freddie Mac Reform

Introduced in the House, H.R. 2767, the "Protecting American Taxpayers and Homeowners (PATH) Act" (Hensarling R-TX) is a comprehensive restructuring of mortgage markets. The bill has two major goals: 1) dissolve Fannie Mae and Freddie Mac and replace them with a new secondary mortgage market structure that does not include a government guarantee, and 2) restructure the mission of the FHA Mortgage Insurance Program. There are numerous problematic provisions in the Act that would limit access to mortgage credit, increase the cost of that credit and prevent many credit-worthy and responsible families from purchasing a home. NAR opposes the PATH Act.

In the Senate, S. 1217, the "Housing Finance Reform and Taxpayer Act" (Corker R-TN; Warner D-VA) offers comprehensive reform of the secondary mortgage market but maintains a government guarantee. Though there are issues that remain to be addressed, NAR is supportive of this bipartisan approach which will accelerate the conversation necessary to reform our housing finance system.

Also in the Senate, S. 1376, the "FHA Solvency Act of 2013" (Johnson D-SD; Crapo R-ID) provides common sense reforms to ensure the continued solvency of FHA without disenfranchising qualified borrowers. It provides increased enforcement and oversight of the FHA fund, and flexibility to FHA to better manage its programs. NAR supports this bipartisan approach

When meeting with your Member of Congress, they may reference statements that have been made in the media or by other associations and organizations that go against NAR's position on this issue. To help prepare your response, NAR has highlighted below some of these opposing statements and how you can respond if asked.

<u>**NEED FOR A FEDERALGOVERNMENT GUARANTEE**</u>

Other countries' governments don't provide a guarantee and homeownership rates in those nations are high.

- Unlike the U.S., many countries have highly consolidated banking systems that by U.S. standards would be consider "too big to fail".
- Investors who purchase mortgage-back securities and covered bonds understand this fact and believe that they will be 'covered' should the bank falter as its ultimate failure would cause irreparable economic damage.
- This structure creates an implicit, if not explicit, government guarantee.

Why is a government guarantee needed?

- In down-markets, as was the case in 2007-8, private lenders have regularly chosen to pull out of mortgage markets. These decisions have brought housing markets to a standstill in some parts of the country. These contractions have affected the nation's overall economic stability.
- Even when most private financing markets shut down, government support allowed Fannie Mae, Freddie Mac and FHA to continue to purchase or insure loans made by private mortgage lenders to keep housing markets going.

The PATH Act does include a federal guarantee for housing through the FHA program.

- This is true, but the bill also narrowly targets FHA's mission to first time homebuyers and low and moderate households that meet certain income requirements.
- As a result, the guarantee is only available to a select group that leaves many well-qualified middle income families without access to affordable long-term mortgages.

FHA, Fannie Mae & Freddie Mac Reform

The PATH Act gives FHA the ability to expand during times of market disruption.

- The bill does allow an expansion of FHA to a wider array of households during demonstrated market disruptions. However, it is not clear that there is an appropriate leading indicator that will reflect a future downturn in time to allow steps to be taken to avoid any downturn.
- If forced to wait until data shows the nation is in a housing downturn, the market will likely be so far into it that it will be very difficult to effect change and avoid a downturn.

AVAILABILITY OF 30-YEAR MORTGAGE

The PATH Act includes language supportive of 30-year mortgages.

- The PATH Act's replacement to Fannie Mae and Freddie Mac, the "Utility", is not a lender.
- It is lenders who will have to choose to offer a 30-year product.
- History has shown that they will be hesitant to do so, particularly in times of economic instability, if there isn't a readily available secondary market for this product.
- Without a guarantee, there will be considerably less private interest in offering a long term, fixed rate mortgage product. As a result, 30-year mortgages will be available to only those with sterling credit histories and less available to tax-paying moderate income homeowners.

30-year mortgages are available in the private market right now in the "jumbo market' that has no government guarantee.

- Only the wealthiest Americans with high incomes, large down payments and pristine credit scores have access to a 30-year mortgage in the private market. First time buyers buying a condominium have no financing options if their loan cannot be purchased or insured by Fannie Mae, Freddie Mac, or FHA.

30-year mortgages may not be the best option for homeowners in the long run.

- Reliable mortgage payments should be an option available to consumers, especially in times of economic volatility.
- Rising interest rates on adjustable rate mortgages reduce affordability over the life of a loan and make it more difficult for consumers to deal with future financial challenges or budget for long-term priorities like saving for a child's education or retirement.
- We have major concerns that reduction in the availability of the 30-year fixed rate mortgage would harm consumers and leave the burden and instability of rising interest rates on middle class Americans. Many middle-class and older Americans on fixed incomes will be left without the ability to responsibly plan for the future.

People stay in their homes for 5-7 years, so why continue to push for 30-years loans being backed by the government?

- Median tenure has risen to 9 years. In 2012, 25% of all home sellers had been in their home for more than 15 years.
- As interest rates increase, we can expect that the average holding period will also increase as owners choose to hold on to their more affordable, lower rate mortgage.
- For some individuals, a 30-year mortgage with its stable payments <u>does</u> work best for their individual circumstances. Having this option is a consumer choice that should be available.

Interest rates are lower for adjustable rate mortgages.

- As rates move up from all-time historical lows, the lack of a long term, fixed-rate product will leave many middle class Americans at the mercy of those rising rates and larger mortgage payments.

THE DODD FRANK PROVISIONS WORSE FOR THE MARKET THAN PATH ACT

Dodd-Frank's mortgage provisions are much more likely to "reduce access to mortgage credit" than the PATH Act.

- Regulators have modified the most onerous proposed mortgage provisions to ensure mortgage finance is affordable and accessible.
- The PATH Act's restrictions on FHA usage and elimination of a guarantee for the secondary mortgage market will significantly restrict middle class access to mortgage finance and steer investors towards high cost, quick profit mortgage products.

CHANGES TO FHA ARE NEEDED

FHA was always intended to serve underserved low-income and first time homebuyers.

- This is not true. From the beginning, there was no requirement limiting participation to first time buyers or "low income households". In fact, the original loan limit was 330% higher than the average home.
- First time and low and moderate borrowers are not the only underserved populations – more than 25% of FHA borrowers in 2013 had incomes above 120% of area median income.

Repeat buyers and those with additional financial resources are adequately served by the private market.

- The PATH Act limits FHA's use to repeat buyers who have incomes less than 115% of area median income.

More than 78% of FHA borrowers are first-time buyers, so this bill won't impact many.

- While 78% of FHA borrowers are first-time buyers, the bill uses a much stricter definition of first-time buyer that does NOT align with HUD's traditional definition.
- The biggest difference in the traditional and PATH first-time buyer definitions is that the HUD definition includes someone who has not owned a home in the last 3 years, while the PATH Act restricts it to those who have never owned a home – with only a few exceptions for divorce.

Most of FHA buyers are low-moderate income households, so the bill doesn't change anything.

- The bill limits access to FHA loans for repeat buyers to those who make less than 115% of area median income.
- Families with incomes above that would be ineligible for FHA loans unless they meet the new and very limited definition of first-time buyers.
- There are currently NO restrictions on the use of FHA based on income or first-time homebuyer status.
- You can look up your area's median income at: http://www.huduser.org/portal/datasets/il/il2013/select_Geography_mfi.odn

The PATH Act does not eliminate low FHA downpayments.

- While the bill does retain the 3.5% downpayment for FHA borrowers who meet the first-time homebuyer definition, the downpayment for other borrowers goes up to 5%. Furthermore, if FHA experiences another financial crisis, the downpayment for ALL borrowers is required to go 10% and even 20%.

FHA, Fannie Mae & Freddie Mac Reform

GENERAL

The federal government shouldn't be involved in housing at all.

- The housing market accounts for 15-20% of the entire economy and is systemically important to the entire financial sector.
- Home sales in this country generate more than 2.5 million private-sector jobs in an average year. For every two homes sold, a job is created.
- The government has been involved in and promoted homeownership since the 1930's. Part of the American dream is the access to homeownership and providing for one's family and self.

Taxpayers have had to bail Fannie and Freddie out and now FHA is on the brink of needing a similar handout.

- Though the government did take Fannie Mae and Freddie Mac into conservatorship, a number of large financial institutions that issued private mortgage backed securities were also bailed out or failed completely.
- While FHA currently has less than required cash reserves, it is not bankrupt. FHA's recent audit indicates that it has sufficient resources to pay 7-10 years' worth of claims right now – even with no future business.

The federal government's market share is so large that it is crowding out the private market.

- Private investors have moved away from investing in mortgage markets after Wall Street firms sold investors toxic securities to get them off their books.
- It was this loss of trust on the part of these private investors and the uncertain economy that has driven the private market securities market to a standstill, and resulted in a greater market share for Fannie Mae, Freddie Mac and FHA mortgage products.
- Private capital does need to come back, but it is also key that we ensure that any new system provides taxpayers with mortgage options that fit their needs of homeownership, not just investors' needs for profits.

NAR Talking Point

"Tax Reform Must Preserve Policies that Encourage Homeownership & Investment in Real Estate"

ASK FOR HOUSE and SENATE:

- **Mortgage Interest Deduction (MID) and Deduction for Property Taxes:** For 100 years now, these two provisions have helped make homeownership more affordable for middle-class families and strengthened our communities. Oppose efforts to change or eliminate the MID for primary and second homes. Congress should not double-tax real estate owners by eliminating or limiting the deduction for property taxes.
- **Capital Gains Exclusion for Sale of Principal Residence:** Individuals can exclude the first $250,000 (and married couples the first $500,000) of gain from the sale of their principal residence from capital gains tax. This provision simplifies tax compliance and allows homeowners to build equity and save for retirement. Congress should maintain the exclusion and index the limits for inflation.
- **Exclusion of "Phantom Income" from Mortgage Cancellation:** Millions of homeowners are still "underwater" on their home loans and will face devastating tax bills on income never received in cash as they sell short or participate in "workouts" with their lender to lower their mortgage amounts. The temporary exclusion of income from discharge of mortgage debt should be made permanent.
- **Depreciation of Real Property:** The current depreciation periods of commercial and residential buildings are unreasonably long and should be shortened to reflect the true useful lives of these assets. In addition, the temporary provision allowing faster write-off for leasehold improvements should be made permanent.
- **Tax-Deferred Like-Kind Exchanges:** Our tax system has long recognized that when an investor in real estate exchanges one property for another of like kind, economically, nothing has changed. The current-law like-kind exchange provision promotes job creation and economic growth by allowing capital to flow more freely, and Congress should maintain it.

ISSUE BACKGROUND:

Both the House and Senate are considering options to reform the federal tax system. While no detailed proposals have yet emerged from the tax-writing committees (Ways and Means in House, Finance in Senate), lawmakers of both parties in both chambers have indicated strong interest in passing a tax reform measure this year.

In the House, Ways and Means Chairman Dave Camp (R-MI) is pursuing "revenue-neutral" tax reform that would lower the tax rates by eliminating various tax deductions and credits. Senate Finance Chairman Max Baucus (D-MT) has endorsed a "blank slate" approach that would eliminate all deductions, exemptions, and credits and start with the lowest rates as possible. Both chairmen have set goals to have their respective committees pass tax reform bills this fall.

While few believe every deduction will be eliminated in tax reform, all are on the table for discussion and tax provisions affecting homeownership and real estate investment are particularly vulnerable.

WHY IS THIS IMPORTANT?

- Tax reform carries high stakes for real estate professionals and those who own real estate. Changes to the current system would change the economics of home ownership and real estate investment.
- Any modification of the real estate-related tax provisions in the current fragile economy could cause serious damage and could smother the housing recovery that is now finally leading the economy to recovery.
- When homeowners and real estate investors purchased their properties, they relied on long-standing tax rules remaining in place throughout the course of their ownership. Changing these rules in the middle of the game is unfair and can cause great harm, not only to individuals and families, but to businesses and entire industries.
- Even if tax reform is successful in lowering tax rates and creating growth and simplicity, tax rates are likely to go back up when Congress needs more revenue, and the reinstatement of the lost tax provisions is very unlikely.

"Tax Reform Must Preserve Policies that Encourage Homeownership & Investment in Real Estate"

WHAT IS THE OTHER SIDE OF THE ARGUMENT?

Our current tax system is a nightmare of complexity and is riddled with special interest loopholes and unwarranted provisions that are poorly targeted or ineffective. In the real estate area, most of these provisions are too rich and benefit mostly higher-income taxpayers. The provisions specifically designed to help increase homeownership (the MID and property tax deduction) are available only to the roughly one-third of taxpayers who itemize (who happen to be those with the highest incomes), and there is little evidence they are effective in achieving the goal.

THE BOTTOM LINE

Current-law real estate tax provisions are vital to the health of the economy and to homeownership. Ninety percent of taxpayers claiming the mortgage interest and property tax deductions earned less than $200,000 per year. Also, more than 75 percent of homeowners utilize the mortgage interest deduction over the period they own their home. Commercial and investment real estate plays a critical role in virtually every facet of our economy. Tax reform that negatively alters the fundamentals of real estate investment and ownership could halt our current economic recovery.

NAR Debating the Issue
Tax Reform

Both the House and Senate are considering options to reform the federal tax system using approaches that would broaden the tax base by eliminating undetermined tax deductions, exemptions, and credits, and using at least part of the revenue saved to lower tax rates. While not every tax provision is likely to be eliminated, those benefitting homeownership and real estate investment are particularly vulnerable because they are among the largest "tax expenditures."

Current-law real estate tax provisions are vital to the health of the economy and to homeownership... Tax reform that negatively alters the fundamentals of real estate investment and ownership could halt our current economic recovery.

When meeting with your Member of Congress, they may reference statements that have been made in the media or by others that run counter to NAR's position on this issue. To help you, NAR has highlighted below some of these opposing statements and how you can respond if asked.

Economists tell us that only 25% of tax filers claim the MID. That is a very low utilization rate for the third largest tax expenditure that is estimated to cost the Treasury $379 billion over the next five years.

- The MID is highly utilized among its intended users – homeowners with a mortgage. Among this group, about 75% utilize the MID in any given year.
- About three-quarters of households with a head under age 65 have a mortgage, and about 90% of these claim the MID. Among homeowners age 65 and older, only 25% still have a mortgage, but about 85% of those who do claim the MID.
- NAR estimates that over 70% of homeowners will utilize the MID over their lifetimes, regardless of whether they own or rent in a particular year.

Only about a third of taxpayers are able to itemize, and these are generally in the highest one-third of income levels. This makes it so the MID is greatly skewed in favor of the rich and really does very little for the working poor.

- The data show that the MID is not skewed to the wealthy at all. Of those claiming the MID in 2010, 63% earned less than $100,000 and 91% earned less than $200,000.
- Our income tax system is very progressive. Because of this, it is true that those earning more are able to take more in tax deductions. However, the reason for this is that higher-income earners pay a great deal more of the income tax in the U.S. By definition, those who pay no income tax can get no benefit from a tax deduction.
- A fact that is largely ignored is that anyone who claims the standard deduction is also getting a benefit from the MID, whether they have a mortgage or not. Congress created the standard deduction in 1944 as a simplification tool. It was based on a basket of common deductions, including the MID and the deduction for property taxes. If the standard deduction were not in place, the utilization of the MID would be a great deal higher.

It is unlikely Congress will eliminate the MID, but we can get lower tax rates or reduce the deficit if we simply cap the amount of the deduction or eliminate the deduction for people owning second homes.

- Capping the MID at an arbitrary dollar amount unfairly increases taxes on those living in high cost housing markets. If Congress creates a new cap, won't they just lower it again when they need more revenue? The amount may not affect my market much now, but if it's lowered further it will.
- Most second homes are not mansions on the beach; they are modest lake houses and cabins where people retreat with their families. Often they are in areas where vacation homes drive the local economies and budgets. Eliminating the deduction on second homes would not just hit homeowners, but the communities that depend on second homes.

- Many Americans at one point are second homeowners whether they know it or not. If a person owns two homes in the same calendar year because they move, they by definition have owned two homes in that tax year. Do we want to create a tax on moving or encourage people to only move at the end of December?

Converting the MID to a tax credit would be more fair because it would deliver the same benefit to all taxpayers, regardless of their income.

- The MID is not biased in favor of high-income taxpayers. Depending on what percentage level a credit were set, converting the deduction to a credit would likely take away the deduction from some homeowners who by no reasonable standard could be called wealthy.
- Unless the credit was refundable, it would not provide the same benefit to everyone. About half of Americans pay no income tax, so a credit would not deliver any benefits to this group. And for those who do pay income tax but who claim the standard deduction, a credit would deliver a double benefit because part of the standard deduction is a proxy for the MID.
- Converting the MID to a credit could have other negative effects on many taxpayers. For example, taxpayers who are currently able to itemize their deductions could find themselves short of the itemization threshold once mortgage interest is taken out of the total. This could have implications on their incentives for making more charitable contributions for the year.

As with the mortgage interest deduction, the lion's share of the real property tax deduction is claimed by higher-income taxpayers.

- Not really. The data show that 75% of the value of property tax deductions in 2012 went to people with cash incomes of less than $200,000. The typical real estate tax deduction beneficiary has an adjusted gross income slightly less than $81,000.
- Taxes paid to state and local governments benefit the general public and are similar in nature to the federal income tax in that they both fund essential government services. Allowing a deduction for these taxes is essential to avoiding double taxation on the same income (or a tax on a tax).

The capital gains exclusion for sale of a home is too generous.

- Congress created the exclusion of gain from the sale of a principal residence to pursue several important public policy goals. First the rule replaced an extremely confusing and burdensome set of rules that required taxpayers to keep extensive records of most major expenditures for their home, often for decades, thus creating a great deal of simplicity for the tax system. Second, the rule encourages saving for retirement through equity in what for most people, is the most significant asset they will own in their lifetime. Finally, the rule encourages a mobile workforce, which is important for economic growth.
- The limits for the exclusion were not indexed for inflation and are already only about half the amount they were when first enacted, on an inflation-adjusted basis.

The current-law tax treatment of like-kind exchanges is a loophole that should be closed in tax reform.

- From almost its beginning, our income tax system has recognized that when an investor in real estate exchanges one property for another of like kind, economically, nothing has changed. Allowing capital to flow more freely among investments is critical to economic growth and job creation.
- Like-kind exchanges are widely used by a broad spectrum of taxpayers ranging from farmers, small businesses, and individuals of modest means to larger firms and successful investors, and they remain a vehicle for economic growth.

NAR Talking Point
"Delay Flood Insurance Rate Increases"

ASK:

Senate

Support efforts to delay NFIP rate increases for grandfathered and newly-purchased properties pending FEMA's report to Congress on the results of the affordability study required by the "Biggert Waters" NFIP reform act..

House

- Thank members of the House for approving a delay in NFIP grandfathered rate increases for another year.
- Encourage them to expand the delay to include newly purchased properties as well.

ISSUE BACKGROUND:

In addition to reauthorizing the National Flood Insurance Program (NFIP), the "Biggert Waters" Act phases-out subsidized flood insurance rates for properties purchased after July 2012, and "grandfathered" properties which are allowed to keep lower rates based upon older flood maps when new maps are issued. The law also directed FEMA to report on the affordability of these reforms so Congress could consider the impact as they took effect. That congressionally mandated report is now overdue.

With only a few legislative days remaining in the fiscal year, the final outlook for a delay in NFIP rate increases is uncertain. To date, the House passed a 2014 Department of Homeland Security (DHS) Appropriations bill that would delay the phase-out of "grandfathered" insurance rates only for another year. However, the full Senate has to vote on the measure as reported by the Senate Appropriations Committee on July 18, 2013. While the extension is included in both draft versions, we must continue to press for inclusion in any short-term or final appropriations bill that is sent to the President. Also, despite the fact that both the House and Senate versions address grandfathered rates, neither addresses scheduled rate increases for properties that change ownership after passage of the Biggert-Waters law.

WHY IS THIS IMPORTANT?

- Approximately 5.6 million property owners in over 20,000 communities across the country rely on the NFIP for flood insurance.
- A delay in newly-mandated NFIP rate increases will allow FEMA to determine more accurately how these rates will impact property owners as Congress planned, and give affected property owners more time to respond to higher rates.
- If fewer homeowners can afford flood insurance, in the event of future floods, taxpayers will spend more on federal disaster relief to owners of uninsured properties.
- Without flood insurance, homeowners located in flood zones could default on their mortgages.

WHAT IS THE OTHER SIDE OF THE ARGUMENT?

Those who support increased NFIP rates argue that federally subsidized flood insurance premiums keep insurance rates too low, undercut the private market for flood insurance, encourage development in flood-prone areas, and force the NFIP to borrow from the federal government to cover flood claims. Without the increases, neither subsidized properties nor "grandfathered" properties pay rates that accurately reflect the risk of flooding.

THE BOTTOM LINE

Congress should not let the rate increases go into effect until FEMA can submit its report so that Congress understands the full impact of these reforms on homeowners.

NAR Debating the Issue
Flood Insurance Reform

In addition to reauthorizing the National Flood Insurance Program (NFIP), the "Biggert Waters" Act phases-out subsidized flood insurance rates for properties purchased after July 2012, and "grandfathered" properties which are allowed to keep lower rates based upon older flood maps when new maps are issued. The law also directed FEMA to report on the affordability of these reforms so Congress could consider the impact as they took effect. That congressionally mandated report is now overdue.

NAR believes Congress should not let the rate increases go into effect until FEMA can submit its report so that Congress understands the full impact of these reforms on homeowners.

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The flood program is nearly $30 billion in debt to the Treasury. Shouldn't premiums reflect that and help FEMA begin to pay this debt down?

- Premium dollars <u>are</u> used to repay any loans made to the NFIP.
- FEMA is required to pay back any loan with interest.
- Premium dollars that are paid into the NFIP lower the amount spent in direct federal disaster relief payments in the aftermath of any flooding disasters.

Shouldn't NFIP premiums reflect actual risk?

- We agree that NFIP premiums should be actuarially sound.
- However, if flood insurance becomes unaffordable, Congress will spend more on disaster relief for uninsured properties – all at taxpayer expense.
- FEMA has not yet completed the affordability study required by Congress to understand the full impact of these reforms.
- A July GAO report indicates that FEMA does not have the data necessary to estimate current subsidies or to establish the new actual risk rates.

Doesn't providing federally-backed flood insurance encourage development in risky areas?

- These areas are <u>already</u> developed or are coastal barrier areas that are already off limits to the NFIP.
- Historically, communities were built along the waterways that provided easy transportation. As a result, the historic core of older communities is often located in these areas.
- Other alternatives include remediation and relocation, which could prove costly and disruptive for property owners, neighborhoods and the communities in which these properties are located.

Why don't we let the private market handle flood insurance?

- Roughly 5.6 million property owners depend on flood insurance in over 20,000 communities nationwide.
- The federal government provides flood insurance precisely because the private market has been unwilling to write flood insurance at rates that average homeowners can afford

- When the private market has offered coverage, it has been limited to "high net worth" owners and high-value properties. The federal government provides coverage and rates that average homeowners can access and afford.
- All federally-backed mortgages require flood insurance for homes in flood zones; eliminating the one affordable program available to all would put the great majority of homeowners at risk of being in default on their mortgages.

Aren't floods coastal issues?

- Floods are not just a coastal issue.
- Flood zones exist along rivers, lakes, creeks, as well as the coasts.
- Flood disasters have been declared in every state.