



NATIONAL ASSOCIATION OF REALTORS®

The Voice For Real Estate®

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October 28, 2010

The Office of the Honorable Christopher J. Dodd
Chair, U.S. Senate Committee on Banking, Housing and Urban Affairs
534 Dirksen Senate Office Building
Washington, DC 20510
Attn: Dawn L. Ratliff

Dear Chairman Dodd:

I greatly appreciated the opportunity to testify on behalf of the National Association of REALTORS® before the Senate Committee on Banking, Housing and Urban Affairs regarding reauthorization of the National Flood Insurance Program (NFIP). The issue is an important one that affects many stakeholders, and the attention of Congress is valuable. Thousands of property owners, buyers, communities and real estate professionals all depend upon the continued existence and sound structure of the NFIP.

In reply to your letter of October 8, 2010, attached to this letter I submit NAR's responses to the follow-up questions you sent to complete the hearing record. Thank you again for the opportunity to share the REALTOR® community's perspective on this vital national program.

Sincerely,

J. Nicholas D'Ambrosia, CRB, CRS, GRI
Vice President of Training and Recruiting
Long and Foster

Enclosure: Responses to questions for the hearing on "Reauthorization of the National Flood Insurance Program"

Questions for the Hearing on "Reauthorization of the National Flood Insurance Program"

Questions for Mr. J. Nicholas D'Ambrosia, on behalf of the National Association of REALTORS[®], from Senator Reed:

September 22, 2010

- 1) **The House's proposed moratorium on the mandatory purchase of flood insurance will not prevent the adoption of new maps. As a result, the risks depicted on new maps will be known and disclosed.**
 - a. **With updated maps in hand, how do you believe lenders will react? Can and will lenders still require homeowners to purchase flood insurance, notwithstanding the moratorium, in order to limit their risk?**

The National Association of REALTORS[®] (NAR) supports provisions which help property owners adjust to rate increases when a property is newly mapped into the floodplain. While this would effectively delay the federal mandate, it would not prohibit the lender from requiring flood insurance. Once the property is mapped into the floodplain, lenders would still have a strong financial interest to limit their risk.

- b. **If new maps are not adopted or disclosed to the public, what are the consequences to public safety, property risk, etc.?**

It depends on the accuracy of the new flood maps. If the maps were accurate, adopting and disclosing them could reduce risks to property and public safety. However, there is also considerable evidence to the contrary. For example, during the hearing, Senator Schumer pointed to the example of Wheatfield, NY, where FEMA recently removed hundreds of properties from the new maps after the town challenged the findings. These are owners that were required to buy flood insurance when, in fact, the risk did not justify the cost. NAR supports improving the accuracy of flood mapping technology, to enhance public safety and reduce property risk.

- 2) **Despite mandatory participation requirements, many homeowners do not buy or maintain flood insurance. Can you describe the reasons for this and do you have any suggestions on how to improve participation in NFIP?**

Flood insurance is required to obtain a federally related mortgage loan. The requirement does not apply to cash purchasers (up to 28% of purchases according to a recent NAR survey) or those financing with a private lender which is not federally regulated nor sells to a GSE. NAR believes that an incentive-based approach would strengthen program participation. Adding types of coverage to include living expenses and business interruption and updating coverage limits (that have not been adjusted since 1994) would make the NFIP more attractive to voluntary participants. There could be more education and outreach to address common myths which get in the way of participation.

- 3) **Can you comment on how innovations such as group insurance and community insurance can increase participation? Can these measures help reduce costs? What obstacles prevent them from being adopted?**

As Resources for the Future describes this concept,

“One way to ensure that all homeowners will be covered when a flood strikes is for the NFIP to insure communities instead of individuals. As Leonard Shabman has discussed, local governments or flood risk management districts could purchase a policy from the NFIP that would cover all the structures in the jurisdiction, for all flood risk and not just 1 percent, up to the NFIP coverage limit (\$250,000 building coverage for residences and \$500,000 building coverage for businesses). The local entity would recover the cost by assessing each property, perhaps as an incremental increase to the property tax. The local jurisdiction could decide how to allocate costs, whether based on FEMA rates or otherwise. As a result, any cross-subsidization in prices would become a local issue, not a federal one.” Please see Carolyn Kousky, “Reforming the National Flood Insurance Program,” Issue Brief 10-01 (February 2010).

Requiring every property owner in a community to purchase flood insurance, even when the flood risk does not justify the cost, is not the answer. While this may broaden the rate base and reduce the cost per property, objections to expensive flood insurance which is not necessary, would present the most significant obstacle to widespread community adoption.

- 4) FEMA’s Community Rating System (CRS) provide localities with an opportunity to the reduce premiums for property owners if they adopt measures beyond what is required under NFIP in order to protect against flood damage. Can you comment on CRS as a tool to reduce risk as well as insurance premiums? How can it be improved to meet these goals?**

NAR supports voluntary, incentive-based approaches to mitigation such as CRS’s. However, only a fraction of NFIP communities participate and we have not received many comments from REALTORS[®], who could benefit from improving program participation. Lack of education about CRS benefits and requirements have been cited as contributing factors (www.ksda.gov/dwr/content/314/cid/1715). At least one expert has pointed to the link between the CRS and the Building Code Effectiveness Rating Schedule as a potential deterrent; for more, please see: sgccnetwork.ning.com/group/hazardresilience/forum/topics/flood-insurance-premium?commentId=3284163%3AComment%3A4397&groupId=3284163%3AGroup%3A4276