

October 29, 2014

**RECOMMENDATIONS OF THE PRESIDENTIAL ADVISORY GROUP
FOR AN AFFORDABLE NATIONAL FLOOD INSURANCE PROGRAM (NFIP)**

The L-Team's Charge to the Presidential Advisory Group (PAG):

- Ensure timely and effective implementation of recent legislative reforms to the NFIP.
- Identify how these changes impact properties, property owners and surrounding communities.
- Identify and evaluate additional options and any changes to NAR policy needed to maintain access to affordable flood insurance in the long run.

The PAG recommends that NAR build on the current NFIP system rather than replacing it. The PAG members agree that no changes to NAR policy would be required in order to pursue one or more of the following recommendations.

Recommendation 1: Improve Flood Insurance Accuracy

- Conduct a full actuarial review of NFIP.
- Work with insurers, lenders, surveyors, and others on a broader quality assurance program for the NFIP's rates.
- Advocate for differentiating the rates where appropriate so that fewer less-risky properties are lumped together with riskier ones across two nationwide flood zones (A and AE).
- Advocate for developing flood maps by property, not community to improve flood insurance rate map accuracy.
- Work with FEMA and Congress to maximize and strengthen authorities for the flood insurance advocate, created by the new law to ensure accurate rates and quotes.
- Keep up pressure on FEMA to complete the statutorily required affordability study in time for Congress to use that data when making decisions during the next NFIP reauthorization.

Rationale: There are legitimate questions about current NFIP rating practices, the need for better maps, and whether insurance companies are properly trained and exercising due diligence when developing rates and quotes.

Recommendation 2: Preserve and Expand Grandfathering

Definition: Grandfathering is a provision in which a property continues to be rated in the flood zone in effect at the time of construction despite future zone changes when the area is re-mapped.

Rationale: Property owners should not be penalized for building to standards in place at the time of construction, i.e., "playing by the rules." FEMA should not be able to tell homeowners to build to one standard and then raise the standard by remapping them later. Grandfathering protects law abiding homeowners from this by preventing FEMA from re-zoning properties after the owner has

built to the standard FEMA told them was sufficient. The property owner still pays the full cost for flood insurance but in the original flood zone in which the property was built. This does not add to NFIP's debt but will address concerns over properties built before the first flood map (pre-FIRM) and outside the flood zone.

Recommendation 3: Increase Mitigation Assistance -- NAR should advocate to:

- Provide increased federal resources for grants or tax incentives for property owners to rebuild higher and stronger or relocate.
- Create an optional federal "Buy out" program for properties for which it is impractical or cost prohibitive to retrofit, so owners will have the option to re-locate to higher ground.
- Promote and strengthen the Community Rating System (CRS) which offers insurance discounts to communities that strengthen floodplain regulations; advocate for measures to streamline the program so there is less paperwork and red tape for more communities to join.
- Provide communities with the option to buy and administer flood insurance on behalf of property owners within their political jurisdictions.

Rationale: The vast majority of older properties cannot easily be raised on stilts or even a higher foundation. If such properties are not given special consideration, they will be devalued and the owners will be forced to sell at a loss, and the communities' tax bases and local economies will suffer as a result. These measures will provide alternatives that will provide needed resources for mitigation, thus lessening the negative impact on properties, communities and the NFIP fund itself.

The PAG considered other options ranging from A) restoring the old system of **taxpayer subsidies** to B) a complete overhaul to a new federal system for **natural disaster insurance** covering "all perils" (including floods).

However, the PAG met with the Congressional Budget Office and Property Casualty Insurers Association and agreed with their professional assessments:

- Neither expert believed that Option A (i.e., returning to the old system) nor Option B (i.e., a new "all perils" disaster insurance system) will improve access to affordable flood insurance.
- Both options, on the other hand, will threaten and could erode congressional support for NFIP.

What the Experts told the PAG:

- Based on historic data, NFIP has not charged enough to cover costs and break-even over the long run.
- If this practice continues, NFIP will go further into debt to taxpayers, placing more pressure on Congress to return to month-to-month extensions, increase rates, or terminate the program.

- There is no statistical evidence that some states are cross subsidizing others.
 - Example: Florida.
 - On the one hand, it would appear that, over the period 1978-2008, the state has paid four times more in premiums than it has received in claims reimbursement.
 - On the other,
 - According to CoreLogic, \$490 billion of Florida's properties are exposed to storm surge, constituting one-third of the national total, and 40% are at "extreme risk."
 - And the most damaging storm in U.S. history was the 1926 Great Miami Storm which, had it happened in 2005, would cost \$140-\$160 billion – dwarfing Katrina's \$80-billion cost. If it happened once, it could again.
- **Taxpayer subsidies will add more than \$1 billion each year to the NFIP's deficit.** These subsidies:
 - Effectively withhold property information from buyers needed to make informed decisions about risk.
 - Discourage current owners from rebuilding stronger/higher or moving out of harm's way.
- **Expanding NFIP to include "all perils" (wind, earthquakes, etc.) or creating a natural disaster program will not improve flood insurance affordability** unless a) the new program stops undercharging some for flood insurance or b) starts overcharging others to make-up the difference.
- The same is true of expanding the mandatory purchase requirement to a broader geographic area.
- However, improving flood insurance rate accuracy, expanding grandfathering and mitigation assistance – all will improve flood insurance affordability without adding to the deficit.

NAR Policy: Supports the "promotion of available and affordable insurance." However, a 2007 motion approved by the Board of Directors struck the word "subsidies" from the policy statement on the recommendation of the Land Use, Property Rights, and Environment Committee:

*"The federal flood insurance program should continue to include **subsidies comprehensive coverage** for second homes, vacation homes and rental properties."*

The Committee has since reaffirmed this policy statement, as is. However, the PAG, as well as the membership, has been divided over whether to support the continuation of taxpayer subsidies even for primary home owners, or if "grandfathering" (restored by the new legislation) would address the issue but in a more politically sensitive manner. If the decision is made to advocate for a return to taxpayer subsidies, new policy will be required. (A copy of the full policy statement, as currently written, is appended to this report.)

ADDITIONAL PAG ACHIEVEMENTS AND HIGHLIGHTS

Since April, the PAG has met a total of ten (10) times, of which three were with the Federal Emergency Management Agency (FEMA) that administers the NFIP. In that time, FEMA has:

- Stopped further rate hikes and rolled back the rates to Oct. 2013 levels.
- Extended the rate relief to all property owners, not just buyers, and held those rates constant or reduced them through April 1, 2015.
- Begun refunding property owners for flood insurance overcharges in excess of 2013 rates.
- However, FEMA has yet to set up the office of the flood insurance advocate, and the PAG is concerned that FEMA is headed in the wrong direction with the office.
- The new law also does not address the long-term affordability of flood insurance once the full-cost (actuarial) rates phase-in.

The PAG also:

- Testified before Congress on the effective and timely implementation of the recent NFIP reforms.
- Recommended that NAR nominate Lisa Jones, a flood insurance expert and consultant, to become the first Flood Insurance Advocate for homeowners within FEMA.
- Explored the creation of a flood insurance app (like the RAC app) and provided direction to NAR Staff regarding its implementation.
- Surveyed NAR's membership to surface on-going issues and **found no reports or major concerns since May of 2014.**
- Met with FEMA, the Congressional Budget Office, insurance companies, state floodplain managers, and Milliman, an independent actuarial firm, to learn more about NFIP's rates and how to keep them affordable.
- Revamped NAR's Flood Webpage (realtor.org/floodinsurance) to educate the membership.
- Also recommended that NAR develop: 1) a "Train the trainer" education tool kit; 2) process flow chart and glossary of key terms; and 3) "Flood Insurance 101" document.

PAG MEETING SUMMARY

April 25 – Conference call to review the charge, organize, and plan work meetings.

May 15 – Met with Lisa Jones, a flood insurance consultant, to come up to speed on the NFIP's implementation issues that led to the inaccurate rate hikes and recent legislative reforms.

May 16 – Met with FEMA to reinforce the urgent need for implementation of the immediate rate relief provisions in the new law. FEMA implemented those provisions shortly afterward.

June 11 – Conference call with FEMA to identify communication methods and partner on educating consumers on the new law, including:

- A mobile phone app with flood insurance information,
- NFIP explanatory material and webinar for REALTORS[®], and
- Public Service Announcements and better education materials.

July 22 – Conference call to discuss PAG Chair Smith's testimony before the Senate Appropriations Committee on NFIP implementation. Also to provide NAR staff with direction on three options: (1) a flood insurance App"; (2) an actuarial review of FEMA's methodology for determining flood insurance rates; and (3) FEMA's establishment of the Office of Flood Insurance Advocate.

July 23 – Donna Smith, PAG chair, testified before a Senate Appropriations Committee delivering the PAG's report on the first four months of FEMA's implementation. Chair Smith also met with the insurance companies and state floodplain managers to work together on educating consumers about NFIP reform.

July 29-30 – Several members of the PAG participated in NAR's "Environmental Summit" and shared their knowledge and experiences about natural disasters including floods, and as a result, this issue was identified as one of the Summit's highest priorities. These PAG members also met with NFIP's chief (who spoke at the Summit) and reinforced the critical importance of these issues to the REALTOR[®] community and property owners nationwide.

Sept. 10 – Conference call to discuss new PAG charge seeking input on a broader natural disaster insurance program as one of a number of possible additional solutions to affordable flood insurance.

Oct. 2 – Conference call with FEMA to describe the PAG's vision for a successful Flood Insurance Advocate created by the new affordability law.

Oct. 7 – Conference call with the Congressional Budget Office and Property Casualty Insurance Association to explore additional options for flood insurance affordability.

Oct. 15 – Conference call to consider expert testimony, discuss options, make recommendations and provide direction to NAR staff.

Oct. 29 – Conference call with Milliman, an independent actuarial firm, to explore the possibility of conducting a full actuarial review of NFIP rates. Also approve PAG report. PAG members believe that an actuarial review could go a long way a) to soothe member concerns or b) surface additional issues for future NAR action, but could be very expensive.

PAG COMPOSITION

Donna Smith, SC – Chair

Greg Herb, PA

Daryl Braham, ND

Debra Chamberlain, CT

Allan Dechert, NJ

Frank Dickens, AZ

Steven Fischer, GA

Steve Franks, WA

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Stephanie Walker, NC

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Ex Officio Members

Pres. Steve Brown, OH

Cynthia Shelton, Government Affairs Liaison

JoAnne Poole, Vice-President

Dale Stinton, CEO

CURRENT NAR POLICY ON NATURAL DISASTER AND FLOOD INSURANCE

The primary emphasis of federal disaster programs should be the development of a highly coordinated system for prevention and for remedial assistance.

The goal of any federal natural disaster program should be the promotion of available and affordable insurance for residential and commercial properties in disaster-prone areas.

A uniform policy for administering the flood insurance program should be adopted, eliminating the existing double standard which denies insurance coverage for certain flood prone areas, such as coastal barriers, wetlands, and other environmentally sensitive areas, yet retains coverage for the remainder of the United States subject to flooding. Administrative and legislative actions to alter the federal flood insurance program or disaster prevention regulations must ensure legitimate property rights and reasonable development opportunities are not abridged.

The federal flood insurance program should continue to include comprehensive coverage for second homes, vacation homes and rental properties.

The federal flood insurance program should impose "full risk" premiums for flood insurance on repetitive loss structures that have repeatedly (i.e., more than two occurrences) suffered insured flood losses and have declined a reasonable offer of mitigation funding from FEMA, except in states which have been granted a federal exemption.

Funding should be appropriated to FEMA's flood hazard mapping program that is sufficient to provide for the updating and modernization of FEMA's flood hazard mapping system. NAR will work in conjunction with FEMA to develop a funding plan.

We support the use of sound science and collaboration with local governments in defining appropriate flood hazard areas.

We support the development, promotion, and dissemination of information on insurance and risk management to property owners.