

NFIP

Reauthorization Update

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August 9, 2017

Why is NFIP Important to REALTORS® ?

- Approximately 5 million homes in 22,000 communities rely on NFIP coverage
- Mortgage lenders require flood insurance if the property is in a special flood hazard area (SFHA).
- Authorization for the NFIP expires on September 30th without Congressional action
- NAR estimates past lapses in the program have delayed or cancelled 1400 transactions a day

A Quick Legislative History

- 2008: Disagreements in Congress over how to address NFIP debt resulted in 18 short-term extensions and 4 shut downs
- 2012: Biggert-Waters Act reauthorized NFIP for 5 years but point-of-sale trigger, ending grandfathering and rumors of \$30k flood insurance froze real estate markets
- 2014: Homeowner Affordability Act removed the trigger, restored grandfathering and phased-in full risk rates

The Latest Development

- Financial Services Committee passed seven bills expected to be combined into the 21st Century Flood Reform Package
- NAR supported six bills at mark up and reached agreement on seventh clearing way for endorsement
 - Removed Sec. 506 provisions ending all grandfathering
 - Amended Sec. 101 for 6.5% instead of 8% increases
 - Commitment to keep working on mapping reforms
- The NFIP shuts down on Sept. 30 without Congressional action and a floor vote has not been scheduled

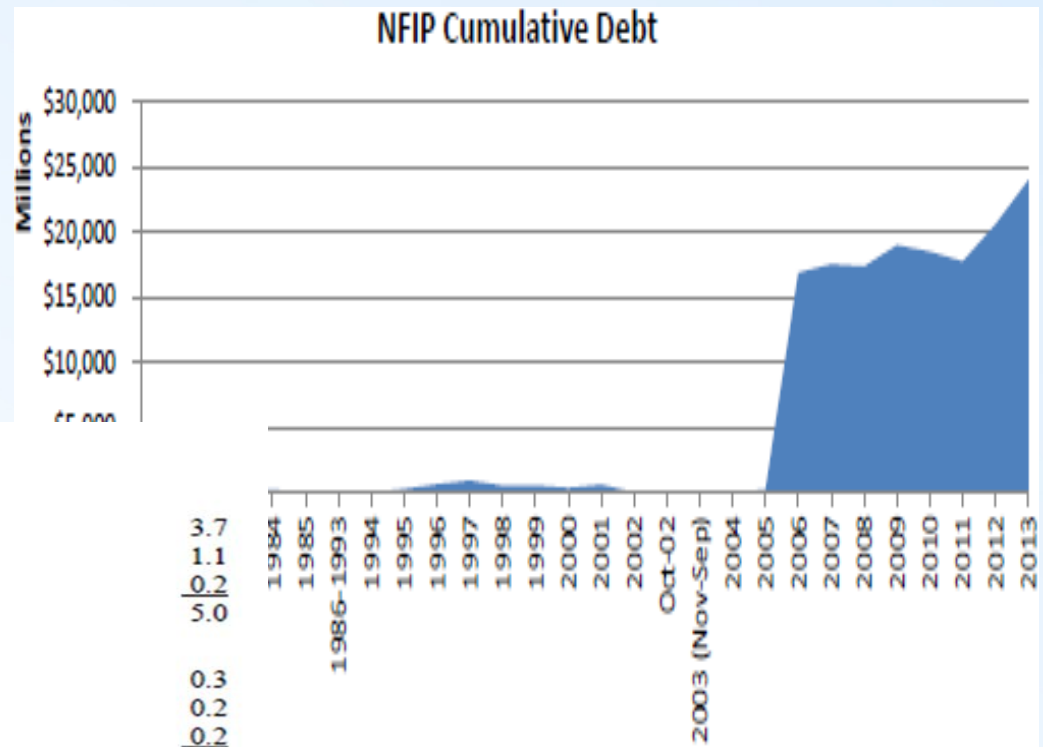
NAR Flood Insurance Reform Principles

1. **NFIP reauthorization** should be long term.
2. **Provide pre-disaster mitigation options** – including grants, loans and buyouts to build stronger or relocate to higher ground.
3. **Private flood insurance** options should also be encouraged where cost effective, provided that NFIP remains a viable option.
4. **Premiums should be accurately priced** to property specific risk, but any rate increases should be gradual and phased in.
5. **Flood mapping should be done at higher resolutions** with a streamlined and less expensive appeal process.
6. **Oversight & training of insurance companies**, and an adequately supported Homeowner's Advocate in NFIP

NAR Principle #1:

Long-term Reauthorization

Annual Premiums: \$3.3Bil



Expected Costs

Costs Associated With Writing and Servicing Policies

Expected claims	3.7
Payments to firms selling and servicing policies	1.1
Salaries and operating expenses	0.2
Subtotal	5.0

Additional Costs

Interest on debt	0.3
Mitigation action and assistance	0.2
Floodplain mapping and management	0.2
Subtotal	0.7

Total 5.7

Premiums

Receipts Based on Coverage 3.3

Additional Charges

Reserve fund assessment	0.5
Surcharges	0.4
Federal policy fee	0.2
Subtotal	1.1

Total 4.3

Expected Cost: \$5.0Bil
(without major catastrophe)

Source: Congressional Budget Office

Principle #2: Pre-Disaster Mitigation

Table 1.

Estimated Reduction in Disaster Losses Attributable to Projects Funded by the Pre-Disaster Mitigation Program

Type of Project (By disaster targeted)	Number of PDM Grants	Total Project Costs (Millions of dollars) ^a	Estimated Ratio of Loss Reduction to Cost	Estimated Present Value of Reduction in Future Disaster Losses (Millions of dollars) ^b
Floods (Including coastal storms)	134	219	4.6	1,010
Earthquakes	64	180	0.9	170
Wind Storms (Including hurricanes, tornadoes, and typhoons)	91	66	4.7	310
Severe Storms ^c	13	10	2.7	30
Mudslides and Landslides	4	9	5.6	50
Fires	9	7	5.1	30
Severe Ice Storms	2	4	2.4	10
Total	317	494	3.2	1,610

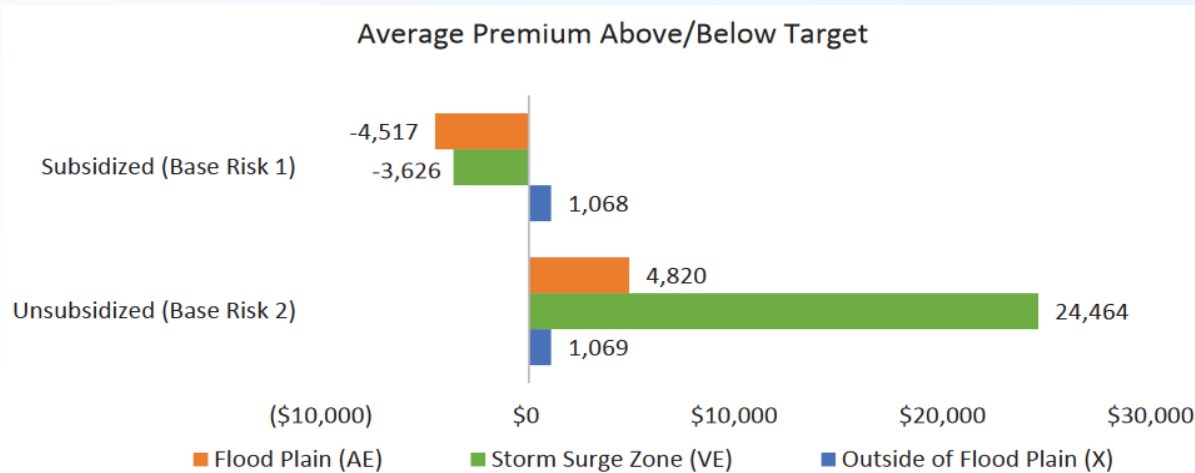
Source: Congressional Budget Office based on Multihazard Mitigation Council, *Natural Hazard Mitigation Saves: An Independent Study to Assess the Future Savings from Mitigation Activities* (Washington, D.C.: National Institute of Building Sciences, 2005), and data from the Federal Emergency Management Agency.

NAR Principle #1: Long-Term Reauthorization

Principle #2: Pre-Disaster Risk Mitigation

- Reauthorizes NFIP for 5 years (Sec. 110)
- Provides \$1 billion over 5 years for flood mitigation grant assistance (Sec. 504)
- Doubles increased cost of compliance (ICC) and provides pre-flood mitigation grants for high future risks (Sec. 2 of HR 2875)

Principle #3: Private Flood Insurance



STATE	SINGLE FAMILY NFIP POLICIES	ESTIMATED SINGLE FAMILY DWELLINGS	% OF RISKS W/ TARGET PREMIUM < NFIP PREMIUM
FLORIDA	958,764	4,300,000	77%
LOUISIANA	410,216	1,200,000	69%
TEXAS	527,249	6,100,000	92%

Principle #3: Private Flood Insurance

- Clarifies that private policies meet coverage requirements (HR1422).
- Eliminates non-compete clause for WYO companies (Sec. 201).
- Releases NFIP historic claims data to the private market (Sec. 202).
- Provides refunds midterm if cancel NFIP to replace with a private plan (Sec. 203).

NFIP	Projection: Year End 2016	Projection: 2020 Private Market Depopulation Similar to Florida Citizens & Reinsurance Purchase	Projection 2016 to 2020
Earned Premium (EP) in millions	3,500	3,161	-10%
Earned Exposures in millions	5.1	3.5	-31%
	<u>% of EP</u>	<u>% of EP</u>	
Expected Loss & ALAE Ratio	80%	63%	
Expense Ratio	38%	49%	
Combined Ratio	118%	112%	
Additional Financing Required from Taxpayers to Pay Losses in millions			
250 year	16,752	5,527	-67%
100 Year	9,952	865	-91%
50 Year	5,252	0	-100%

Principle #4: Accurate NFIP Premiums

- Caps NFIP premiums at \$10,000/year for residential properties (Sec. 2 of HR2868)
- Reduces rates for inland properties in coastal A zone while those subject to storm surge pay a rate closer to true risk (Sec. 104).
- Requires use of replacement cost by structure, rather than a national average, so lower value properties pay less while others more (HR2565)

Year	Insurance Rate***			Cost Savings		
	Affordability Act		Biggert-Waters	Annual		Cumulative
2017	\$	4,500	\$ 9,300	\$	4,800	\$ 4,800
2018	\$	5,625	\$ 9,579	\$	3,954	\$ 8,754
2019	\$	7,031	\$ 9,866	\$	2,835	\$ 11,589
2020	\$	8,789	\$ 10,162	\$	1,373	\$ 12,962
2021	\$	10,986	\$ 10,467	\$	(519)	\$ 12,443
2022	\$	13,733	\$ 10,781	\$	(2,952)	\$ 9,492
2023	\$	17,166	\$ 11,105	\$	(6,061)	\$ 3,430
2024	\$	21,458	\$ 11,438	\$	(10,020)	\$ (6,590)

Source: Author's calculations based on FEMA Manual (Effective April 1, 2017)



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Principle #5: Flood Map Reform

Principle #6: Oversight & Homeowner's Advocate

- Requires FEMA to adopt technical mapping council standards and approve alternative community maps (Sec. 4 of HR 2246).
- Codifies letter of map revision process, provides 90-day process and issues refunds for successful property owner appeals (Secs. 302-303)
- Sets a 90-day deadline on claims adjustment and establishes an enhanced appeals process for denials; and provides oversight and penalties for underpayment, fraud or tampering with engineering reports (Sec. 4-10, HR 2875)
- Requires that FEMA ensure that the Flood Insurance Advocate has sufficient staffing (Sec. 13)

Other Provisions & Trade offs

- Phases out subsidies (including grandfathering) for repeatedly flooded properties if make claim after bill signing and take no action to mitigate (sec. 504)
- Provides \$1B in grant dollars and resets a property's status if mitigate (Sec. 504).
- Requires FEMA to clearly communicate all this to property owners and disclose the claims history of a property upon the owner's request (Secs. 106-107)
- Disallows NFIP for repeated flooding if payments exceed twice the value of the building (Sec. 505) or the building is valued at \$1 million or more (Sec. 505-506).
- Gives states 5 years to update property seller flood disclosure requirements to include past property damage, claims, repeat loss or disaster payments (sec. 108).
- Increases the average NFIP rate by 1.5%, surcharge by \$15-\$25 and reserve fund assessment by 3% (Sec. 502-503); amounts to an \$11 increase per month.

NFIP By the Numbers

(\$1.5 Billion)	- Shortfall of NFIP Premiums vs. Expected Cost
2016	- Third highest payout year in NFIP history
50	- Number of states with flood disasters since 2005
(\$24,600,000,000)	- Amount borrowed so far to cover claims from catastrophic years 2005, 2008 & 2016
$\frac{1}{2}$	- Fraction of the debt from repeatedly flooded properties
30%	- As a percentage of NFIP payouts over 49 years
1-in-100	- Chance of flooding once in any given year
∞	- Number of years until NFIP retires the debt
\$0.4 Billion	- Annual interest payments until debt is retired

Summary

- NAR supports all seven bills in the 21st Century Reform Package and is urging full House consideration and passage
- Overall, the bill is a significant improvement over current law, e.g., caps NFIP premiums, private flood options, etc.
- NAR continues to keep pressure on the House to pass the bill but will not support a lapse of the program.
- While NAR supports these bills without further changes, House members continue to negotiate and NAR will not object if additional agreements are reached
- Call-for-Action is planned on Aug. 22

The Ask:

- FPCs talk with their MOC over August recess
- Ask MOCs to bring up and pass the 21st Century Flood Reform Act before Sept. 30
- Report back any intel to NAR Lobbyists/Political Directors
- NAR talking points:

<https://www.nar.realtor/topics/national-flood-insurance-program-nfip/2017-nar-nflp-august-recess-talking-points>

Questions?

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