

**April 19, 2021**

**Charlie Oppler**  
2021 President

**Bob Goldberg**  
Chief Executive Officer

**ADVOCACY GROUP**

**Shannon McGahn**  
Chief Advocacy Officer

The Honorable Mark Calabria  
Director  
Federal Housing Finance Agency  
400 7th Street SW, 10th Floor  
Washington, DC 20219

**RE: Request for Input on Climate and Natural Disaster Risk Management  
at the Regulated Entities (January 19, 2021)**

Dear Director Calabria:

On behalf of our 1.4 million members, the National Association of REALTORS® appreciates the opportunity to respond to the above captioned request for input. REALTORS® commend the Federal Housing Finance Agency (FHFA) for taking this step to increase its capacity to understand and manage natural disaster risks while seeking guidance from its regulated entities and the broader real estate finance community.

Flooding is the most common and costly natural disaster, posing a clear, widespread, and growing threat to the real estate financing system. According to the National Oceanic and Atmospheric Administration, 2020 set a new record of 20 flood disasters that each resulted in at least \$1 billion in damages.<sup>1</sup> It was also the fifth consecutive year with 10 or more of these events impacting the United States. If this trend continues, the cost of flooding will continue to grow and spread to more of the country while the number of incremental and cost-effective public policy options dwindle. REALTORS® agree that it is better to face this risk sooner rather than later.

At the same time, the real estate finance system does not yet appear equipped to handle the growing risk. There is little evidence that housing markets fully price or respond to information about flood risk.<sup>2</sup> The standard home insurance policy does not cover flooding, and only 3% of U.S. households have flood insurance from the National Flood Insurance Program (NFIP).<sup>3</sup> There is also evidence that primary markets are shifting some of this risk to the Government Sponsored Enterprises as well as the U.S. Treasury, which were not designed to become de facto flood insurance programs.<sup>4</sup>

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<sup>1</sup> To reproduce the billion-dollar flood count, please select “flooding,” “tropical cyclones” and “severe storms” here: <https://www.ncdc.noaa.gov/billions/time-series/US>

<sup>2</sup> Hino and Burke (2020) has produced the most authoritative study; see: <https://www.nber.org/papers/w26807>

<sup>3</sup> NAR’s calculation using Table 2.3 of FEMA (2018) found at [https://www.fema.gov/sites/default/files/2020-05/Affordability\\_april\\_2018.pdf](https://www.fema.gov/sites/default/files/2020-05/Affordability_april_2018.pdf)

<sup>4</sup> For example, please see Ouazad and Kahn (2021) at <https://www.nber.org/papers/w26322>

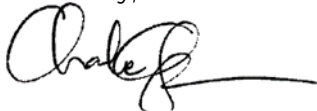


As the FHFA explores its climate risk management options, NAR encourages the agency to consider taking the following steps:

1. Develop a framework for managing the residual impact of natural hazards like flooding, where there is a clear failure of the primary insurance markets to address the risk and as state and local governments typically do not have the capacity to respond after major events.
2. Base any decisions on sound catastrophe modeling approaches like the one recently used by the Society of Actuaries.<sup>5</sup> Because floods are low-probability, high-cost events, one may not simply rely on historic data or assumptions alone in order to manage flood risk. Also, FEMA flood maps by themselves are not a sufficient basis for FHFA decision making as they cover only a portion of the U.S. and are typically out of date within at least 5-10 years.
3. Engage outside actuarial experts with experience addressing the sensitivities inherent in catastrophe modeling. While any one of the major catastrophe models can dramatically augment the FEMA maps, no one model is without its own variance, uncertainties, and assumptions so it would be important to have experts who are not only familiar with the models but can average across and smooth out any differences in modeling output.
4. Leverage and harmonize the FHFA's approach with the actions of other government agencies. For example, FEMA is in the process of rolling out a new pricing system called Risk Rating 2.0 which augments the maps with catastrophe modeling. Any pricing decisions should be consistent across the federal government.
5. Provide for full transparency, disclosure, and opportunities to comment on the agency's decisions at every major point in the process. Because of the scale, scope, and nature of the risk, no single entity or approach can solve this problem and it will take the collective support and wisdom of the financial services industry to mitigate this risk.

Again, thank you for the opportunity to respond to this important initiative. REALTORS® stand ready to assist in your efforts to increase secondary market capacity to manage disaster risks.

Sincerely,



Charlie Oppler  
2021 President, National Association of REALTORS®

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<sup>5</sup> Evans et al. (2020) accessible at <https://www.soa.org/resources/research-reports/2020/soa-flood-report/>