

Lapses of the National Flood Insurance Program Jeopardize Home Sales

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The National Flood Insurance Program (NFIP) is essential to successfully completing half a million home sales annually. When NFIP lapsed from May 31 to July 2 in 2010, REALTORS® Confidence Index showed 6 percent of REALTORS® had at least one delayed or cancelled home sale, amounting to 46,886 transactions during that 33-day period or 1,421 per day. Because the survey was conducted in June, one of the busiest home-sales months, and the first time homebuyer tax credit influenced the 2010 June activity, the National Association of REALTORS® (NAR) conducted further analysis to evaluate the survey result's sensitivity; NAR found that its initial estimate was robust to additional analysis.

Based on more generalized analysis, NAR estimates that each day that NFIP lapses results in the delay or cancellation of 1,332 home sale closings nationwide. This provides additional support for NAR's earlier estimate that each lapse would jeopardize closings across the nation on the order of 40,000 per month. To arrive at the refined estimate, NAR calculated the average sales throughout the year using the 2008 through 2010 sales activity as the basis. Nationwide, about 8 percent of the housing units, or over 10 million homes, are located in FEMA's 100-year floodplains, called Special Flood Hazard Areas (SFHAs). Some regions have a larger share of the housing stock located in SFHAs and account for a greater share of the home sales activity; thus we aggregated at the regional level before reducing the combined annual figure to its daily equivalent. The following table summarizes the estimated daily impact of NFIP lapses on home sales by Census region.

CENSUS REGION	A Annual Existing Home Sales (2008-2010 Average) ¹	B Percent in SFHAs ²	C Daily Number of Transactions Impacted ((A x B) ÷ 365 Days)
South			
Existing Residential Sales	1,899,800	14.1%	732
New Residential Sales ³	187,500	14.1%	72
SUBTOTAL			804
Midwest			
Existing Residential Sales	1,118,075	5.0%	155
New Residential Sales	49,500	5.0%	7
SUBTOTAL			161
West			
Existing Residential Sales	1,104,600	6.0%	181
New Residential Sales	80,500	6.0%	13
SUBTOTAL			194
Northeast			
Existing Residential Sales	758,058	8.0%	166
New Residential Sales	31,000	8.0%	7
SUBTOTAL			172
TOTAL			1,332

¹ Using the data since 2008 ensures that any year-to-year and event-specific variability (such as the first-time home buyer credit) is smoothed out and also avoids the elevated activity of the circa-2002 housing boom. The 2008-2010 market activity has been generally consistent with the activity prior to the year 2000.

² To estimate this number in the SFHAs, NAR used GIS software to overlay spatial layers containing block-level data from the latest American Housing Survey (ACS 2005-2009) with the map of SFHAs from FEMA.

³ New residential sales data is available by region only. Assuming the new homes are similarly located in the SFHAs as the existing homes are, the share of homes located in the flood zone is multiplied by the total number of new sales by region.