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January 12, 2016

The Honorable Blaine Luetkemeyer
Chairman
Subcommittee on Housing and Insurance
House Financial Services Committee

The Honorable Emanuel Cleaver
Ranking Member
Subcommittee on Housing and Insurance
House Financial Services Committee

Dear Chairman Luetkemeyer and Ranking Member Cleaver:

Thank you for holding this important hearing on the opportunities and challenges facing the National Flood Insurance Program (NFIP). Reauthorizing the NFIP is a top priority of our membership. NAR appreciates the opportunity to outline some of the challenges needed to be addressed as part of the 2017 reauthorization legislation.

Long-term Reauthorization – The September 30, 2017 deadline for Congress to reauthorize NFIP is fast approaching. Prior to the most recent reauthorization, Congress passed 18 month-to-month extensions and twice, the NFIP shut down, costing 40,000 home sales each month according to NAR research. The nation cannot afford to repeat that experience. The Association applauds the Subcommittee for beginning work on a critical issue.

A Stronger NFIP – The NFIP is currently billions of dollars in debt to the Treasury because of past claims. NAR supports strengthening the long term solvency of the NFIP and believes that a strong NFIP is integral to the success of any future flood insurance landscape. As we learned in the last reauthorization, any major reforms should be incremental, gradual and phased in over time to avoid major disruptions in communities or markets. The discussion should also include reforms that would improve the uptake in purchase of flood insurance; temporarily establish nominal surcharges, and allow the NFIP to buy reinsurance.

Private Market Options – REALTORS® believe that private insurance alternatives can provide a complement to a strong and vibrant NFIP. Because NFIP is over charging some property owners, especially in the low risk X zone, more opportunities exist for the private market to offer comparable coverage at lower cost. NAR supports the development of private market options. It is important, too, that consumers are allowed to move to and from the private flood insurance without the NFIP considering it a break in continuous coverage; such a break would trigger a rate increase, should the owner return to the NFIP. The combination of private market options and a strong NFIP will ensure that flood insurance remains available in all markets at all times.

Unaffordable Flood Insurance – Approximately one million properties in the NFIP were built before the first flood insurance rate map (or are "pre-FIRM"). NFIP does not collect elevation data for these pre-FIRM structures. Nevertheless, the NFIP believes that most are located below the base flood elevation (BFE) – i.e., the expected depth of the flood waters in a 100-year storm.[1] Depending on how far below BFE these structures sit, over the next 5-10 years, the owners could be facing rate increases until they reach the maximum rate of $62,500 per year.[2] Under these circumstances, owners would have limited options: They could not sell their property without taking a substantial loss. The private market will not insure them. There is only limited if any access to financing in order to mitigate, buy out, relocate or elevate the structure. And the longer we wait, the more expensive the problem becomes. NAR would like to work with the Subcommittee to add a strong mitigation financing section to the 2017 reauthorization legislation. Providing the property owners most at risk with the ability to help themselves is a "win-win" not only for the owner (who becomes able to mitigate and keep their NFIP rate down) but also for taxpayers who will spend less on mitigated properties' claims.

Cross Subsidization in the NFIP – Attached is the summary of a report on NFIP insurance rates conducted by independent actuaries with the Milliman Company**.** The study looked at NFIP rates in 5 counties – Pinellas, FL; Harris, TX; Ocean, NJ; Merced, CA; and Hancock, OH, and compared them with the way a private insurance company would price the risk. The study shows how many property owners are overcharged potentially by thousands of dollars under the NFIP. By having only one "A zone" rate table for most high risk properties, NFIP rates do not align well with the property's specific risk. In addition, the X zone rate table does not account for the property's elevation or other risk factors, so the low risk property owners may be charged more than high risk properties if they are elevated. This is a counterintuitive result. Moving toward more granular data and property specific hazard assessments, along with creating additional rate tables, would help to increase fairness in NFIP's rating structure. This in turn would encourage greater voluntary participation and help improve the program's solvency.

"Guilty until Proven Innocent" – If a property is incorrectly mapped into the flood zone, either the owner must buy flood insurance or prove that the map is incorrect. When the NFIP began flood mapping, there were not the technological innovations that now exist. NFIP should take advantage of advances in LIDAR and computer modeling in order to improve the accuracy of the flood maps upfront. Doing so will reduce the number of property owners who now have to appeal an incorrect map on the back end. At the same time, NAR does support streamlining the flood map appeal process and reimbursing homeowners when they win their appeal.

Thank you for considering the views of NAR's 1.1 million members. NAR looks forward to working with you and the rest of the Committee to develop a comprehensive reauthorization package that is timely, carefully considered, and fully deliberated in order to address as many of the challenges as possible.

Sincerely,

Tom Salomone
2016 President, National Association of REALTORS®

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[1] National Research Council. "Tying Flood Insurance to Flood Risk for Low-Lying Structures in the Floodplains," August 2015, page 1.

[2] The top rate in NFIP tables appears to be $25 per $100 of coverage; $250,000 is the maximum amount of structure-only coverage available under NFIP: $250,000 x $25/$100 = $62,500 per year. For NFIP's Specific Rating Guidelines: http://www.fema.gov/media-library-data/1450374017262-8d8a14ee8c48efb5356e9fb5b24ff2a1/SRG_April2016.pdf

NAR Brief
MILLIMAN FLOOD INSURANCE STUDY

Top Line Summary

- Independent actuaries studied National Flood Insurance Program (NFIP) rates in 5 counties.
- The study finds that many property owners are overcharged while others are undercharged.
- NAR recommends several changes to better align NFIP rates to the property-specific risk.

Key Study Findings

- NFIP rates are currently not well aligned with risk.
- NFIP rates do not track with other risk factors such as distance to coast/river.
- Doing so could increase NFIP participation and strengthen solvency.
- "A Zones" (high risk areas): NFIP uses one rate table to charge most high risk properties across the U.S.
    - As a result, two property owners facing different risks could pay the same premium rate.
        - For example, storm surge flooding in coastal areas causes more damage than riverine flooding – yet in the A zone, rates do not reflect this difference.
    - Also, because 20% of properties are subsidized, adjacent properties with identical risk profiles could pay dramatically different rates.
- "X Zones" (low risk): While the A zone table accounts for the relative elevation of the property, the X zone table does not; many will not voluntarily opt in as long as the average rate is so high.
    - Thus some low risk properties pay more than high risk properties that are elevated.

Recommendations

- Divide the A zone into coastal and inland subzones and calculate a rate table for each.
- Incorporate risk factors such as distance to river/coast, in addition to property elevation.
- Develop an X zone table that accounts for property elevation and other appropriate risk factors.

Methodology

- This is a case study, not a full actuarial study of FEMA's rate-making process.
- Selected 5 counties: Pinellas, FL; Harris, TX; Ocean, NJ; Merced, CA; and Hancock, Ohio.
- Identified a typical high risk property for each county (e.g., 1-story $175,000 masonry structure built in 1970) then varied one attribute (e.g., built in 1995 instead of 1970).
- Assumed that all properties in the county reflect these characteristics so only the location and elevation of the property would vary.
- Calculated the rate two ways: first as NFIP would then as a private insurance company would, and compared the results.
- Evaluated how the rates change with other risk factors including the distance to coast/river.

Complete Study & Results: Available upon Request

For more information: please contact Austin Perez, 202-383-1046 or aperez@realtors.org.