Flood Insurance
Our Latest Challenge

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History:

- Congress created the National Flood Insurance Program (NFIP) in 1960's after Hurricane Betsy hit New Orleans (damage $1 billion)
- Disaster related agencies were merged into FEMA by an Executive Order under President Carter in 1979

History:

- Disasters follow disasters, and the string of storms beginning in 2005 (Katrina, Rita, Wilma etc) put NFIP $24 BILLION in debt
- 5.6 million policyholders depend upon NFIP
- Long term sustainability was in question

Pre-FIRM

- FIRM stands for "Flood Insurance Maps"
- Pre-FIRM refers to a property built before flood plain maps were drawn
- Some of these buildings can be insured using a "grandfather" clause which will make the insurance more affordable

History:

- Biggert-Waters Flood Insurance Reform Act of 2012
- Extended NFIP for 5 years
- Requires significant program reform

Components to be Changed:

- Flood insurance
- Flood hazard mapping
- Grants
- Management of floodplains

Goal:

- Make NFIP financially stable
- Ensure that flood insurance rates more accurately reflect the real risk of flooding

Highlights of Law*:

- Removes subsidized rates (pre-FIRM) and allows rates to increase by 25% per year until actuarial rates are achieved for:
- Any residential property that is not a primary residence
- Any severe repetitive loss property
- Any property that has incurred flood related damages that cumulatively exceed the fair market value of the property
- *courtesy of Summary of Contents, complied by ASFPM

Exclusions to Pre-FIRM (cont)

- Any business property
- Any property that after the date of the bill has incurred substantial damage or has experienced "substantial improvement exceeding 30% of the fair market value of the property"
- Any new policy or lapsed policy, or any policy for a newly purchased property

Exclusions to Pre-FIRM (cont)

- Any policy for which the owner has refused a FEMA mitigation offer under HMGP (Hazard Mitigation Grant Program) or for a repetitive loss property or severe repetitive loss property
  - Severe Repetitive Loss means four or more claims payments of over $5,000 or two claims that exceed the value of the property

RSPS

- Strongly affected by terms
  - Second homes
  - Repetitive loss
  - Substantial improvement (over 30% of market value)

Rates

- Must be set to cover the average historical loss year, including catastrophic loss years, in accordance with generally accepted actuarial principles
- Means an increase because current premiums do not cover historical average loss per year

Reserves

- Requires FEMA to establish a National Flood Insurance Reserve Fund of at least 1% of the total potential loss exposure. This fund would be built by 7.5% of the reserve ratio required each year.

Payback

- Requires a ten-year repayment plan for the current insurance fund debt and also requires a report and repayment plan whenever FEMA has to borrow funds to pay NFIP claims

Private Insurance

- Private flood insurance may satisfy flood insurance coverage requirements if it meets certain standards.

Mapping

- Establishes a Technical Mapping Advisory Council
- Establishes an on-going National Flood Mapping Program

RESPA

- Lenders must disclose the availability of flood insurance under NFIP
- Whether or not property is located in an area having special flood hazards

GAO (Government Accounting Office)

- Must report to Congress:
- 1) number of flood insurance policyholders currently insured
- 2) increased losses the NFIP would have sustained during the 2004 and 2005 hurricane seasons if the program had insured all policyholders up to $417,000

GAO Report (cont)

- 3) The availability in the private marketplace of flood insurance coverage in amounts that exceed the current coverage limits
- 4) the effect of either raising the current limits of coverage amounts or reducing the current limits of coverage on the ability of private insurers to provide sufficient flood insurance coverage to effectively replace the current level of flood insurance being offered under the NFIP

Annual FEMA report on NFIP

- Report to Congress:
  - Financial conditions of NFIP: annual amount paid in premiums, losses, expenses, number of policies, insurance in force, estimate of average loss year and a description and amount of claims paid
  - Must be submitted 3 months following the end of each fiscal year

FEMA Reporting

- Congress mandated FEMA to report on the affordability of these rate changes
- Report is overdue
- Rate changes are *not* affordable

Goals & Consequences:

Goals

- Repay $24 Billion debt to FEMA
- Make flood insurance rates reflect actual risk
- Be fiscally responsible

Consequences

- Current property owners are paying TWICE—annual premium plus amount toward the $24 billion debt
- Rates have escalated beyond (apparently) anyone's expectations
- Insurance is unaffordable

Monstrous Increases!

- Horror stories abound:
- Increases from $400 per year to $15,500 per year (Louisiana resident)
- Annual premiums as high as $20,000 + reported in my area

Fallout

- Houses not selling due to high premiums
- Any that do sell will have value severely depressed
- Owners “walking away”, leaving lenders with unsaleable properties
- Congress is being flooded with emails, phone calls, etc .from unhappy consumers.

Two Sides of the Issue

PRO

- As painful as it is, the law begins to solve the huge deficit surrounding flood insurance
- Makes buyers more aware of the true risk
- Makes owners financially responsible for the risk

CON

- Current property owners are repaying a deficit they did not create
- "Affordability" study was never done—premiums of $20,000/yr on a property worth $100,000 are untenable
- Should pool be enlarged for all catastrophes?

Two Sides of the Issue

PRO

- Federally subsidized flood insurance premiums keep insurance rates too low
- Undercut private insurance market
- Encourage development in flood-prone areas

CON

- If insurance is too high, property owners will not carry it
- Taxpayers will "bail them out" after disasters
- Uninsured owners with mortgages may default on their loans

Another Issue/Solution?

- By ONLY placing flood prone properties into the pool, you are guaranteeing that everyone in the pool will eventually have a claim
- Some have suggested a “catastrophe surcharge” on every homeowner’s policy of $25/year to cover: floods, tornadoes, hurricanes, cyclones, mudslides, forest fires, etc.

Can We Fix This?

- NAR supports:
- "Homeowner Flood Insurance Affordability Act"
- Delays implementation of rate increases until an affordability study is completed

Fixing This, (cont).

- Senate Bill 1610, sponsored by Senators Robert Menendez (D-NJ) and Johnny Isakson (R-GA)
- HR Bill 3370 (identical)
- Sponsored by Michael Grimm (R-NY)
- Maxine Waters (D-CA_

Fixing This

- Rate increases would be deferred until FEMA complete the affordability study and a draft regulatory solution
- Creates an office of the Advocate to investigate flood insurance rate and mapping concerns to address concerns from property owners and real estate professionals regarding flood insurance rating errors and discrepancies

What Can YOU do?

- Answer the upcoming NAR "Call to Action"
- Contact your elected federal representatives and tell them how this is affecting buyers, sellers, and you
- Give your clients information and talking points and urge them to contact their elected officials, as well.

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