NATIONAL ASSOCIATION of REALTORS®
REALTOR®

Maurice "Moe" Veissi
2012 President

Dale A. Stinton
CAE, CPA, CMA, RCE
Chief Executive Officer

GOVERNMENT AFFAIRS
Jerry Giovaniello, Senior Vice President
Gary Weaver, Vice President
Joe Ventrone, Vice President
Jamie Gregory, Deputy Chief Lobbyist

500 New Jersey Avenue, N.W.
Washington, DC 20001-2020
202.383.1194 Fax 202.383.7580
www.realtors.org/governmentaffairs

TESTIMONY OF

MOE VEISSI

2012 PRESIDENT

NATIONAL ASSOCIATION OF REALTORS®

BEFORE THE

UNITED STATES SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS SUBCOMMITTEE FOR ECONOMIC POLICY

HEARING TITLED

THE NATIONAL FLOOD INSURANCE PROGRAM: THE NEED FOR LONG-TERM REAUTHORIZATION AND REFORM

MAY 9, 2012

Introduction

Chairman Tester, Senator Vitter, and members of the Economic Policy Subcommittee, the 1 million members of the National Association of REALTORS® (NAR) thank you for this opportunity to testify on the urgent need for long-term reauthorization and reform of the National Flood Insurance Program (NFIP).

My name is Moe Veissi, and I am NAR's 2012 President. I have been a REALTOR® for over 40 years, and am the broker-owner of Veissi & Associates, Inc. in Miami, FL. Since 1981, I have served the REALTOR® community in many capacities, from local association president, to state association president, to Regional Vice-President, and now on the national stage as NAR President. Based on numerous first-hand accounts over the years, as well as my direct personal experience as a practitioner in the field, I can assure you that there are few issues of greater importance to real estate markets than ensuring access to affordable flood insurance.

Thanks to your continued leadership, the Senate Banking, Housing, and Urban Affairs Committee has already taken a critical step toward providing that certainty, by unanimously approving the Flood Insurance Reform Act (S.1940) last year. One of the most important next steps the Senate could take right now is to pass this bill and keep the legislative process moving forward. The House has already passed similar legislation (H.R. 1309) by an overwhelming margin (406-22). This is a level of bipartisan support few bills have received in any Congress, and it is testament to the careful and painstaking work by you and many other members over multiple sessions. The bill would not only reauthorized but reform and strengthen NFIP long-term, and we are confident that any remaining issues can be resolved through the amendment process on the floor. This bill is ready for Senate consideration. It is a bipartisan opportunity. It deserves a vote.

As the Committee is well aware, for some time now, the NFIP has been operating under stopgap extensions of authority to issue flood insurance. The latest one is set to expire on May 31, 2012. There now have been a total of 17 extensions since 2008 (appended); twice, failure to act on an extension resulted in a multi-week lapse of NFIP authority. According to NAR research, this stalled more than 1,300 home sales per day during the 53-day lapse in 2010. Each sale meant jobs and growth to the U.S. economy. There were unquantified losses to property owners and taxpayers beyond homes sales – not to mention 17 missed opportunities for reforms which would help pay down the outstanding loan for Hurricane Katrina. A stopgap approach to NFIP reauthorization is not a responsible way to run a federal program – let alone one upon which 5.6 million taxpayers in 21,000 communities depend. We urge the Senate to bring up and pass the Flood Insurance Reform Act, immediately.

Background

Floods are a national problem requiring a federal solution. As detailed in our prior testimony before this Committee, there is not a single state in the union that has escaped a presidential flood disaster declaration in the past two decades. [1] Since May 1, 2011, disasters have been declared in more than

[1] NAR Statement to the U.S. Senate Committee on Banking, Housing, and Urban Affairs, regarding the hearing "Reauthorization of the National Flood Insurance Program," June 9, 2011, pp. 9 and 20.

half the states, including Wyoming, New Mexico, Oklahoma, Utah, Nebraska, North and South Dakota, Iowa, Kansas, Ohio, and Missouri. Tomorrow, it could be Michigan or New York. Floods are inherently unpredictable. They can occur anywhere – along rivers, wherever snow melts or rain falls. We simply do not know when or where they will strike next.

Because of their unpredictable nature and high cost, there has never been an adequate private market for flood insurance. The lack of predictability would force insurers to charge unaffordable rates that few states would be willing to approve.[2] Already, few property owners will buy flood insurance at the more affordable NFIP rates; short of imminent threat, most question the need. However, allowing the rate to rise to reflect this "adverse selection" (i.e., those most likely to buy are also most likely to flood) would guarantee that few could afford flood insurance in a purely private market.

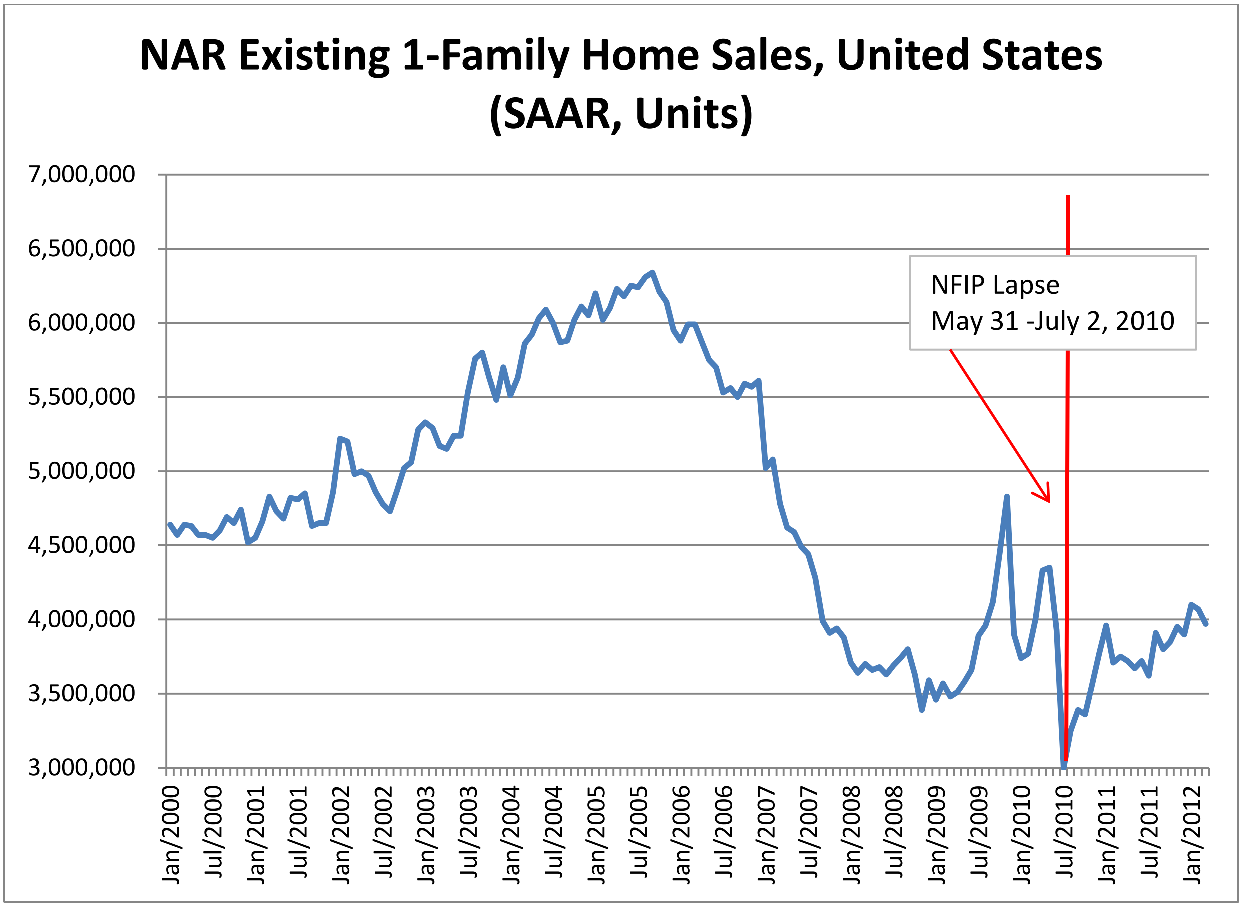
Given this, and the widespread devastation floods cause, the federal government will step in, one way or another. In the past, the federal response took entirely the form of appropriated disaster relief where taxpayers were 100% "on the hook" for rebuilding flooded communities and properties. Then Hurricane Betsy struck in 1965, and the federal government could no longer afford to ignore the cost to the federal government and taxpayers. A HUD commission, authorized by Congress and convened by President Johnson, had demonstrated how creation of a federal insurance alternative could reduce the cost. Rather than relying on government assistance after the fact, those at risk of flooding could assume a measure of responsibility and control upfront by purchasing federally backed insurance and essentially pre-paying to cover future flood damage. Every insured property would mean one fewer to be rebuilt with taxpayer dollars. Insurance would pay for the damage, so taxpayers would not. The NFIP was the result in 1968.

Since then, the NFIP has been reauthorized multiple times, but the Bunning-Bereuter-Blumenauer Flood Insurance Reform Act of 2004 (P.L. 108-264) was the last reauthorization bill to become law. Congress returned to the subject last session, but the 110th Congress came closer to a subsequent reauthorization, when both houses passed similar versions of the Flood Insurance Reform Act, the predecessor to this Committee's S. 1940. That bill passed the Senate by 92 votes and was headed to a conference with the House when attention turned to the U.S. financial crisis. S. 1940 is virtually unchanged from what passed the Senate in 2008. And while there were not many bill differences to begin with, the House has since adopted many of the Senate provisions. Now 17 stopgaps and two shutdowns later, NFIP authority is again set to expire on May 31st of this year.

Real Estate Markets Have NOT Rebounded

The housing market continues to recover from one of the longest economic downturns since World War II. While fewer property owners are reporting as many major problems as they have in the past and some markets are even starting to trend upward, surveys show real estate prices remain weak as the distressed properties still make up a significant portion of home sales. Many home buyers, who bought during the peak of the market and saw their homes values drop precipitously, continue to be underwater and many of those face foreclosure. Below is NAR's chart of existing home sales.

[2] Id, pp. 4-5.



Data show a concomitant drop in sales around the time of the last multi-week lapse. As the chart illustrates, sales were dropping before and during June 2010 but rebounding afterward. The lapse was not the only or even the driving factor for this, but as this suggests, it contributed. By federal law, buyers and property owners may not obtain a federally related mortgage loan without flood insurance in 21,000 communities, where there is a 100-year floodplain. These days, the bulk of financing is federally related, and private insurance is not an option, except for the highest value property owners.[3]

Commercial real estate markets are similarly struggling. Property values have plummeted across the board since 2007. Small business owners – the engine of job creation and innovation and backbone of the local community – have suffered the most. Compounded with $2 trillion in commercial real estate loans coming due over the next decade and a limited capacity to refinance, sales and leasing of commercial properties have been dismal. The failure to reauthorize the NFIP has only exacerbated the situation for commercial property owners, who are already struggling to stay afloat amid the liquidity crisis, high vacancy rates, and lower net operating incomes. In many cases, this held up commercial sales, contributing to the economic instabilities.

[3] Id, p.4.

NFIP Stopgaps Exacerbate Market Uncertainty

For some time now, the NFIP has operated under stopgap extensions of authority to issue flood insurance. Since 2008, there have been a total of 17 extensions, with the latest one set to expire on May 31, 2012. Twice in 2010, failure to act on an extension turned into a multi-week shutdown, resulting in the delay or cancellation of any property sale to be financed with a federally related mortgage in the 100-year floodplain.

NAR surveyed its membership to assess the impact of the shutdown and found that the NFIP is essential for successfully completing half a million home sales annually. Further analysis confirmed that each day of a lapse stalls more than 40,000 sales per month or 1,300 daily. Nationwide, about 8 percent, or 10 million homes, are located in the 100-year floodplain or Special Flood Hazard Areas (SFHAs). Table 1 presents the daily impact in SFHAs by census region.

Table 1: NFIP Lapses Jeopardize Home Sales

	A	B	C
CENSUS REGION	**Annual Existing Home Sales (2008-2010 Average)[4]**	**Percent in SFHAs[5]**	**Daily Number of Transactions Impacted ((A x B) ÷ 365 Days)**
South			
Existing Residential Sales	1,899,800	14.1%	732
New Residential Sales[6]	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**

Source: NAR Research Team.

[4] NAR estimated annual existing home sales by taking the 2008-2010 average. Using an average ensures that any year-to-year variability (such as the first-time home buyer credit) is smoothed out and 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. Adding 2011 data would not significantly change the results.

[5] NAR estimated the percentage of the existing sales in SFHAs by using GIS software to overlay spatial layers of block-level data from the latest American Housing Survey (ACS 2005-2009) with the map of SFHAs from FEMA.

[6] 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.

Economic Impact of Home Sales

A stopgap approach to NFIP reauthorization not only affects home sales but also has a ripple effect throughout the economy. Each sale provides jobs and income to real estate agents, construction workers, building contractors, mortgage service providers, home inspectors, home appraisers, and many others. There is an annual impact to the community as there is less income to spend on goods and services.

NAR estimated the contribution of each home sale to Gross Domestic Product (GDP). In 2010, real estate and related industries added $58,000 in income per sale, accounting for the multiplier effect. Using a conservative earnings assumption, this transaltes into two jobs generated for each sale.

Economic Impact of a Home Sale

Real Estate Industries		Related Industries (Furniture/Gardening)		Local Multiplier		New Housing Construction		Impact to GDP
$15,570	+	$5,235	+	$9,987	+	$27,738	=	$58,529

Income from Two Home Sales		Income per Worker		Two Sales → One Job
$117,058	÷	$113,000	=	1.04

Source: NAR Research Team. For a detailed explanation, please see: http://www.realtor.org/topics/home-ownership-matters/jobs-impact-of-an-existing-home-purchase

Additional Economic Impacts

Each NFIP lapse affects +1,300 home sales daily, each of which has the potential to generate jobs and contribute to the annual growth of the economy. But this home sales impact is not the full impact of a lapse. While NAR has quantified the loss of those sales with a federally related mortgage in the 100-year floodplain, as well as the multiplier effect, this does not account for:

- Property Sales Other than Single Family Homes and Rentals. The mandate to purchase flood insurance applies to multifamily and nonresidential properties, too.
- Refinancing. During the lapse, Write Your Own companies (which partner with NFIP to process insurance policies) are unable to renew or modify a policy, either. Existing property owners could be in technical default of a mortgage for failure to renew flood insurance after the 30-day grace period.
- Financing BEFORE Lapses. Some banks, when faced with the prospect, often weeks in advance, preemptively suspended lending in the floodplain. Federal regulators attempted to address this through guidance that loans could still be made where buyers took steps, though due to the lapse, were unable to obtain flood insurance; nevertheless, anecdotal reports were

that most of these lenders did not find the guidance persuasive and instead, erred on the side of protecting their interest in the property, by choosing not to lend.

- Insurance Outside of Federally Designated Floodplains. According to NFIP, 25 percent of flood claims come from properties located outside of areas where flood insurance is required but where the owner chooses to purchase coverage.

Finally, there is also the consequence to taxpayers. Again, a property without flood insurance is a property one flood away from federal disaster relief – at taxpayer expense. Owners of a property facing a 1-percent chance of flooding in a given year (or a 26-percent chance over the life of a 30-year mortgage) would most likely turn to the federal government after flooding. Compared to the number of NFIP policies, the following table bounds the impact of uninsured residential structures for the United States.

Table 2: Homes in Special Flood Hazard Areas (SFHAs) versus Flood Insurance

	A	B	C
CENSUS REGION	**Homes in SFHAs[7]**	**NFIP Policies[8]**	**Percentage of Homes with Insurance ((B ÷ A) x 100)**
South	6,759,684	3,978,185	59%
Midwest	1,463,845	229,637	16%
West	1,638,471	491,823	30%
Northeast	1,706,485	529,076	31%

Source: NAR Research Team.

Bipartisan Opportunity for NFIP Reform

We appreciate NFIP's many program innovations over the years, including employing advanced flood mapping technologies (e.g., satellite imaging and LIDAR), working to replace its "without levee" policy with a more precise approach, and instituting independent review of map appeals. While there have been many great strides, REALTORS® have helped identify a number of areas for further improvement, including:

- Enhancing FEMA notifications and communications with communities.
- Providing reimbursement of flood-map appeal expenses where NFIP erred.
- Providing additional time for communities and homeowners to work through appeals.
- Reviewing mapping standards and procedures, and streamlining the process.
- Undertaking more accurate insurance pricing, particularly behind dams and levees to account for the protection provided by flood control structures.

---

[7] NAR estimated the percentage of these in SFHAs by using GIS software to overlay spatial layers of block-level data from the latest American Housing Survey (ACS 2005-2009) with the map of SFHAs from FEMA.

[8] The 5-year ACS offers a rolling average of housing units at the lowest geographic level available. NAR calculated the comparable 5-year average of NFIP policies, based on data provided by FEMA.

- Indexing and expanding coverage to include business interruption and living expenses.

We applaud the Committee for addressing virtually every one of these recommendations in S. 1940. These reforms will greatly improve the accuracy of floodplain mapping and increase participation. They will help property owners better understand the flood risk and make more informed decisions that protect their homes and businesses as well as taxpayers. But unless the Senate takes up this bill and soon, the many years of hard work and collaboration on these reforms will be lost, and we will have to start again. We will not only have lost these important reforms but also missed yet another opportunity to fiscally strengthen the program for the long run.

Conclusion

Thank you again for the opportunity to share the REALTOR® community's views on the NFIP and the urgent need for long-term reauthorization and reform. All stopgap extensions do is maintain an uncertain status quo while shut downs risk homes, businesses, communities, and the U.S. economy. NAR urges the Senate take up and pass the Flood Insurance Reform Act, immediately, and keep the legislative process moving forward. NAR stands ready to work with you and the Senate to pass meaningful reforms to the NFIP that help protect property owners and renters and help them prepare for and recover from future losses resulting from floods.

APPENDIX: FLOOD INSURANCE EXTENSIONS SINCE 2008

17) H.R. 2055: Consolidated Appropriations Act, 2012 (Extension through May 31, 2012; signed December 23, 2011.)

16) H.J. Res 95: Making further continuing appropriations for fiscal year 2012, and for other purposes. (Extension through December 23, 2011; signed December 17, 2011.)

15) H.J. Res 94: Making further continuing appropriations for fiscal year 2012, and for other purposes. (Extension through December 17, 2011; signed December 16, 2011.)

14) H.R. 2112: Consolidated and Further Continued Appropriation Act, 2011. (Extension through December 16, 2011; signed November 18, 2011.)

13) H.R. 2608: Small Business Program Extension and Reform Act of 2011. (Extension through November 18, 2011; signed October 5, 2011; note 1-day gap – 5th lapse.)

12) H.R. 2017: Continuing Appropriations Act, 2012. (Extension through October 4, 2011; signed September 30, 2011.)

11) S. 3814: National Flood Insurance Program Re-extension Act of 2010. (Extension through September 30, 2011; signed September 30, 2010.)

10) H.R. 5569: National Flood Insurance Program Extension Act of 2010. (Includes extension through September 30, 2010; signed July 2, 2010; note 33-day gap – 4th lapse.)

9) H.R. 4851: Continuing Extension Act of 2010. (Contains extension through May 31, 2010; signed April 15, 2010; note 19-day gap – 3rd lapse.)

8) H.R. 4691: Temporary Extension Act of 2010 (PL #111-144). (Extension through March 28, 2010; signed into law March 2, 2010; note 2-day gap – 2nd lapse.)

7) H.R. 3326: Department of Defense Appropriations Act, 2010 (PL #111-118; Division D). (Extension through February 28, 2010; signed December 12, 2009.)

6) H.R. 2996: (No Title) (PL #111-088). (Extension through December 18, 2009; signed October 30, 2009.)

5) H.R. 2892: Department of Homeland Security Appropriations Act, 2010. (Extension through October 31, 2009; signed October 28, 2009.)

4) H.R. 2918: (No Title) (PL #111-068; Div. B). (Extension through October 31, 2009; Signed October 1, 2009; note 1-day gap – 1st lapse.)

3) H.R. 1105: Omnibus Appropriations Act, 2009 (PL #111-008; Div. J) (Extension through September 30, 2009; signed March 11, 2009.)

2) H.J. Res 38: A resolution making further continuing appropriations for the fiscal year 2009, and for other purposes. (Extension through March 11, 2009; signed March 6, 2009.)

1) H.R. 2638: Consolidated Security, Disaster Assistance & Continuing Appropriations Act, 2009 (PL #329; Div. A). (Extension through March 6, 2009; signed September 30, 2008.)