

February 6, 2014

The Honorable Carol Galante
Assistant Secretary for Housing/Federal Housing Commissioner
U.S. Department of Housing and Urban Development
451 7th Street, S.W.
Washington, DC 20410

Dear Commissioner Galante:

The undersigned organizations are seeking to confirm the eligibility of the Federal Housing Administration's (FHA) Section 203(k) program for the rehabilitation of homes that have not been damaged in a flood but are at risk of damage in future flood events. Many property owners live in homes where there is no flood damage per-se, but due to the home's location in the floodplain and its age, it must be mitigated or the homeowner will face rising flood insurance rates. We believe that 203(k) loans are eligible for this purpose. By confirming that the program could be used in this way, the Department of Housing and Urban Development would help raise awareness of the program, allowing many more property owners to benefit from the opportunity to reduce their risk and costs of future flood disasters.

In 2012, Congress passed the Biggert-Waters Flood Insurance Reform Act to bring long-term financial solvency to the National Flood Insurance Program (NFIP) and to phase out discounts on flood insurance premiums that may have served to encourage occupation of flood-prone areas. The Act reduces flood insurance subsidies that have been built into the NFIP for the past 45 years and requires that all properties are eventually rated at their full risk rates. As a result, the program will be much more financially solvent and help inform property owners of the true nature of their flood risk. These changes are causing a tremendous amount of concern in communities and among property owners nationwide who may be affected by significantly higher flood insurance rates, especially for those structures that have previously received subsidies, and those who may be affected by future flood zone changes. In both instances, the structure's flood insurance rating may result in premiums that have increased by several thousand dollars per year, and under Biggert-Waters these rates will continue to increase. While the home may be considered habitable for construction purposes, it may be unaffordable to current residents and prospective buyers due to the costs of flood insurance.

Flood insurance rates are set based on how much above or below the lowest floor of a building is relative to the known 100-year flood elevation at the site. Rates can be significantly reduced by elevating a home to a level at or above the 100-year flood elevation, or by making other retrofits to reduce damage associated with the 100-year flood. Increased rates dictated by Biggert-Waters are beginning to take effect, and our members are on the front lines working with homeowners seeking options and flood insurance premium relief.

The Section 203(k) program is being used successfully post-Sandy to repair damaged homes, which ultimately makes them more resilient to floods and other extreme weather events. Generally, these homes have either been elevated on site or relocated to a new site which is less-flood prone. Elevation costs can range from \$20,000 to more than \$100,000. Consequently, we believe homeowners who are facing significant increases in flood insurance premiums would benefit if HUD were to confirm that the 203(k) program was available for either the repair of flood damage or the mitigation of future flood threats. In fact, it may be the only affordable option available to many families. Another benefit of the

203(k) program is that it is available across the country, and many REALTORS®, builders and lenders are already familiar with how it works.

Momentum is building in Congress to find some relief to the more challenging provisions of the Biggert-Waters legislation. There are several legislative efforts underway right now as Congress tries to further refine the law and address these affordability challenges. Multiple solutions must be found to address flood insurance affordability. HUD's promotion of the 203(k) program for this purpose could provide a viable solution to an emerging problem which will quickly grow without action.

We appreciate your expedient consideration of this request and if HUD can provide the needed confirmation letter, we are committed to working with you to rapidly communicate this information to stakeholders nationwide.

Respectfully,

Association of State Floodplain Managers
Mortgage Bankers Association
National Association of Home Builders
National Association of Local Housing Finance Agencies
National Association of REALTORS®