

STATEMENT OF

**TIM RICHARDS
THE RICHARDS AGENCY
OCEAN CITY, NEW JERSEY**

REPRESENTING THE

THE NATIONAL ASSOCIATION OF REALTORS®

**BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE
HOUSING AND COMMUNITY OPPORTUNITY
SUBCOMMITTEE**

ON

**H.R. 1428, THE TWO FLOODS AND YOU ARE OUT OF THE
TAXPAYERS POCKET ACT**

AND

H.R. 1551, THE REPETITIVE FLOOD LOSS REDUCTION ACT

JULY 19, 2001

Thank you for the opportunity to present the views of the NATIONAL ASSOCIATION OF REALTORS® (NAR) on H.R. 1428, The Two Strikes and You Are Out Of The Taxpayers Pocket Act, and H.R. 1551, the Repetitive Flood Loss Reduction Act.

I am Tim Richards, a REALTOR® from Ocean City, New Jersey. I own a full service residential real estate company, and I have been a real estate professional for many years.

I wish to thank Chairman Marge Roukema for holding a hearing on an issue that is of great concern to REALTORS®. I would also like to thank Representatives Doug Bereuter, Earl Blumenauer, and Ken Bentsen for introducing legislation that would reform the nation's current repetitive loss policy.

It is often said - and I agree - that REALTORS® don't sell homes, we sell communities. The 760,00 members of the NATIONAL ASSOCIATION OF REALTORS® are concerned and active members of our communities. When a flood strikes, our members are on the frontlines to help our neighbors put their lives back together.

Realtors care about flood insurance issues for a number of reasons: for Realtors who sell houses in a floodplain, the cost of flood insurance is a critical part of the transaction. For low or middle-income purchasers, it

may even determine whether or not they can purchase the home. For repetitive loss properties, Realtors have a keen interest in having the appropriate information on the flood losses for disclosure purposes, making sure that flood insurance is accessible for those properties, and keeping the costs of the premium as low as possible.

I would like to briefly discuss three issues with you today: first, the importance of the National Flood Insurance Program in protecting our homes and communities; second, NAR's perspectives on the concept of repetitive loss; and finally, the issue that ties many of these other matters together – the floodplain maps developed by the Federal Emergency Management Agency (FEMA) and how to update and modernize them.

The National Flood Insurance Program (NFIP), currently operated by FEMA, partners with 19,000 communities nationwide, holds 4 million policies and provides approximately \$5 billion in property loss coverage. In my home state of New Jersey, some 546 communities partner with FEMA, and there are over 175,000 policies in force that provide over \$239 million in property loss coverage. As Realtors, we benefit from this program because it allows people to buy homes that are safe from flooding through flood mitigation activities taken by the participating community, and further protects that investment by providing access to affordable flood insurance that would otherwise be unavailable on the open market. The strength of the National Flood Insurance Program in my state has allowed many people, of all incomes, to own a piece of the American dream.

Unfortunately, owning a home in a floodplain can sometimes become a nightmare. This occurs when a property is subject to multiple floods and must dip into the National Flood Insurance Program more than once. Currently, 43,000 properties nationwide have incurred two or more losses over a ten year period. These 43,000 properties cost the flood insurance program over \$200 million annually. The top 10,000 structures alone cost the program over \$65 million annually.

In New Jersey, over 5,000 properties are considered repetitive loss properties, with total payments of over \$174 million. These multiple loss properties inflict serious economic harm to the flood insurance program by driving up the premiums for all other policy holders, and by allowing the entire system to rest upon an unsustainable actuarial foundation. These properties are not paying a premium that adequately reflects the risk they incur by residing in a floodplain.

NAR believes that the repetitive loss issue must be resolved, and the flood insurance program be placed on firmer financial ground. However, we do not agree with the Administration's proposal to terminate flood insurance coverage for repetitive loss properties. By terminating a property's participation in the flood insurance program, it would be difficult for the owner to find affordable flood insurance on the open market. This draconian measure would result in a significant decrease in the value of the property and wipe out any previous investment the owner may have made in the property.

NAR supports an approach to the repetitive loss issue that has three components: (1) the property is kept in the NFIP with access to flood insurance; (2) flood mitigation measures or a buy-out at fair market value is offered to the worst repetitive loss properties; and (3) if both the buy-out or the offer of mitigation is refused, the owner will be required to pay the highest premiums allowable. This win-win approach allows the owner to stay in the property, while paying a premium that reflects the risk of living in a floodplain. This approach will also reduce federal disaster assistance over the long term, by getting the worst repetitive loss properties either properly mitigated or bought out by FEMA.

A comprehensive reform of the current repetitive loss policy must also reflect three additional issues that are of importance to Realtors: First, some properties may experience repetitive losses as a result of upstream or downstream development that occurred after the properties were constructed. Some exceptions should be made for floods that were caused due to development activities. Second, once a buy-out has been completed, NAR has concerns about the use and ownership of the acquired floodplain property. We would encourage flexibility in determining how these properties are used and maintained, so that they do not become eyesores in the community and decrease the value of adjacent properties. Finally, NAR would encourage the use of local appraisers and others who have knowledge of the local real estate market in determining fair market value for buy-outs.

In addition to FEMA's proposal on the repetitive loss issue, NAR also has concerns regarding their proposal to increase flood insurance premiums on second homes and vacation homes. We would be troubled if these homes were denied access to flood insurance as well.

The last issue I wanted to discuss is the issue of FEMA's Flood Insurance Rate Maps, the well-known and much maligned "floodplain maps". Accurate floodplain maps are crucial during a real estate transaction in determining whether or not a property is in a floodplain, which in turn determines whether or not the owner will require flood insurance. NAR is concerned that sufficient budgetary resources are not being identified for FEMA to improve these maps, although we were pleased with the recent action of the House Appropriations Committee to provide FEMA with an additional \$50 million to improve the maps. NAR supports full funding for modernization of the nation's flood hazard mapping program.

Thank you for allowing the NATIONAL ASSOCIATION OF REALTORS® to comment on these critical flood insurance and repetitive loss challenges. We encourage the members of this Subcommittee to fashion a workable, bi-partisan approach to resolving these issues, and stand ready to work with you to get a law passed that would financially strengthen the National Flood Insurance Program, and further protect our citizens from the ravages of flooding.

