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Testimony on the National Flood Insurance Crisis
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Good morning. I'm Kim Skumanick, president of the Pennsylvania Association of Realtors®. I am an associate broker in northeastern Pennsylvania and have been a Realtor® for nearly 20 years. On behalf of our 28,000 members, I'd like to thank Senator White and Senator Stack for the Senate Banking and Insurance Committee and Senator Yaw and Senator Yudichak for the Senate Environmental Resources and Energy Committee for inviting us to speak today and I'd like to commend you for recognizing the severity of this issue.

As you know, when Congress passed the Biggert-Waters Act of 2012, it was the first longer-term reauthorization of the National Flood Insurance Program in many years. The National Association of Realtors® has worked closely with our federal elected officials. While Biggert-Waters has brought some stability to the NFIP, the law has proven too complicated and difficult for the Federal Emergency Management Agency, or FEMA, to implement in an open and transparent process. To date, only the first round of rate changes have taken effect and already property owners and Realtors® throughout the Commonwealth and across the country are reporting dramatic increases that are well beyond what we and many members of Congress believed to be possible.

The Pennsylvania Association of Realtors® has heard countless stories of how these rate increases are impeding real estate sales. For example, in my own office, we recently had a client who wanted to sell his property in Luzerne County and listed it for \$90,000. The property experienced minor flooding in the basement in 1996 after a heavy snow which required the replacement of its hot water heater and furnace. His annual flood insurance premium was \$788. He accepted a buyer's offer but when the homebuyer discovered the new flood insurance rate would be \$7,015, the deal fell through. At that rate, the monthly escrowed flood insurance payment would be \$175 more than the monthly mortgage payment.

A Realtor® colleague in Lycoming County recently had three listings in the flood plain that have had no activity on them once buyers learned of the new flood insurance rates. The homes were listed between \$81,000 and \$120,000 and the annual flood insurance rate quotes ranged from \$4,000 to \$7,000. All three are now rental properties as the owners are not able to sell their properties. Situations like this often have a ripple effect on the real estate market, as homeowners are unable to sell because of high flood insurance rates, they are unable to purchase a new property. This often causes a domino effect with several real estate transactions.

Additionally, the Pennsylvania Association of Realtors® believes these rising and unaffordable flood rates may have a serious economic impact on our local communities. As homeowners are unable to sell their properties due to unaffordable insurance rates, the local and state government will see a reduction in real estate transfer tax revenues. As more home buyers rule out houses in flood plains because of the excessively high insurance, these properties will lose value and property taxes will be reduced if homeowners appeal their assessments. These are merely a few of the short term issues we believe will adversely affect the Commonwealth.

The National Association of Realtors® and the Pennsylvania Association of Realtors® believe there are four causes to this insurance crisis: unintended consequences due to the law, its implementation, flood map updates and insurance rating errors.

Unintended Consequences

We believe FEMA has introduced needless complexity into an already complicated law. For example, FEMA waited nearly nine months to implement the removal of subsidized rates at point of sale for properties purchased after July 2012. It was not until March 2013 that FEMA issued guidance so that write-your-own insurance companies could begin quoting the non-subsidized rate for purchased properties. FEMA's guidance directed these companies to implement the purchase provision beginning on October 1, 2013 and to apply it retroactively to sales beginning July 2012.

Some companies were quicker than others in updating their rate quote software before that date. Those that could update provided two quotes for one property – the first if the home was purchased before October 1 and the second, if purchased afterward. This only confused buyers.

Implementation

Because FEMA delayed, then retroactively applied the purchase provision, many homebuyers, specifically those who bought between the enactment of Biggert-Waters in 2012 and March 2013, were not warned of rate increases before purchasing their properties. Flood insurance policies are not labeled as “subsidized.” Many homebuyers did not learn of the increase until opening the policy's renewal notice.

FEMA Flood Mapping

Realtors® believe problems like this will become more commonplace because FEMA has yet to implement section 207 of the act because it only recently began collecting data on “grandfathered” properties, i.e., those properties that have been mapped and are paying an actuarial rate but whose risk has increased due to new maps. In the past, these properties were allowed to keep their original risk rates because they were built to code at the time. FEMA has posted on its site that it will begin phasing out grandfathered rates in late 2014 at the earliest.

We believe FEMA should implement other provisions that could help homeowners in the area of affordability:

- Complete the affordability study required by Biggert-Waters so Congress can understand and act on the rate changes; the report was due April 2013 but may not be completed for another two years.

- Provide for installment payments and reimbursement for successful flood map appeals. We are not aware of FEMA’s plans to initiate either rulemaking any time soon.
- Issue a “without levee” policy to give partial credit in the premium rates for any flood protection provided by a dam or levee that has not been federally accredited.

In addition to the changes mandated in Biggert-Waters, FEMA continues to roll out flood map updates in communities throughout Pennsylvania. While not a result of the recent Act, maps and changes in the law do have overlapping effects. The vast majority of Realtor® reports come from areas being mapped into a higher risk flood zone, in addition to a subsidy being phased out.

Rating Errors

Many Realtors® have worked with homeowners who report receiving multiple rate quotes for a single property. According to an analysis by the National Association of Realtors®, one buyer received six different quotes ranging from \$10,000 to \$30,000 per year; three of those came from different agents for the same company. All six insurance agents provided inaccurate information about the property and mistakes drove the quotes. When the correct data was entered, the true rate was about \$480 per year, which was confirmed by FEMA.

Lack of training appears to be contributing to excessive rate quotes. FEMA has a four-hour introductory class that is required only if insurance agents write for the NFIP Direct Program. It does not teach agents how to fill out an application for flood insurance. FEMA could expand the class and modify its agreements with write-your-own companies to make it a requirement. Additionally, FEMA could require training for surveyors, engineers or architects who complete the Elevation Certificate as part of the Letter of Map Change process.

Currently, consumers have no one to discuss these issues with when faced with multiple differing rate quotes for the same property. They are essentially told to trust the agent. If this were a question about the standard homeowners’ policy, the owner could turn to the state insurance commissioners. There should be an equivalent advocate at the federal level for flood insurance.

Conclusion

While we understand there are several proposals currently proposed in Congress, the National and Pennsylvania Association of Realtors® strongly support HB 3370 and S. 1846, the “Homeowners Flood Insurance Affordability Act,” introduced by Representatives Grimm (R-NY) and Waters (D-CA) and by Senators Menendez (D-NJ) and Isakson (R-GA) in the Senate. This legislation would delay further implementation of the major rate changes until FEMA completes the affordability study required by Biggert-Waters, creates an office of the Advocate to investigate the flood insurance rate increases and reports to Congress with a proposed solution to the problems encountered based on the findings.

In the interim, our associations call on FEMA to convene a national summit with key stakeholders to develop a longer-term affordable solution. We believe that the agency already has the ample authority under current law to begin the discussion and should not wait for Congress. We stand

ready to work with FEMA and the Administration to bring clarity to housing markets subject to the Biggert-Waters reforms.

We strongly urge you to support the “Homeowners Flood Insurance Affordability Act” when speaking with our federal officials. Thank you for your time.