Real estate industry warns of consequences

by JEFF NEWMAN, Staff writer

Fearing another blow to a still-fragile housing market, real estate agents are pushing Congress to grant a long-term extension to the National Flood Insurance Program, which is set to expire this month for the 10th time in two years.

Established by Congress in 1968, the program provides coverage to more than 5.6 million home and business owners in more than 21,000 communities nationwide that have adopted floodplain management plans in an effort to mitigate flood damage.

Though private insurers sell the policies and administer claims, the federal government sets rates and assumes liability for coverage.

The program has bipartisan support — the Senate Committee on Banking passed a bill last week that would grant a five-year extension. But the program fell into heavy debt after Hurricane Katrina and disagreements over how to reform it have stalled a long-term solution, leading to nine short-term extensions and five lapses since September 2008.

Many mortgage lenders require flood insurance for homes inside the floodplain. Private flood insurance is too expensive for most homebuyers, so floodplain homes have a hard time selling during lapses in the federal program, said Paula Martino, government affairs director for the Southern Maryland Association of Realtors.

During a June 2010 lapse, 47,000 home sales were delayed or canceled, according to the National Association of Realtors.

“Americans deserve access to affordable flood insurance, and the current uncertainty surrounding the program is

already hurting many housing markets,” SMAR President Paul Fenton said in a news release.

U.S. Rep. Steny H. Hoyer (D-Md., 5th) voted for a five-year reauthorization of the program that the House of Representatives passed by an overwhelming margin in July.

“I encourage the Senate to pass the House-passed bill, or act quickly on its own long-term extension, so that individuals impacted by flooding such as that occurring in Maryland during the recent storms have the resources they need to clean up and recover,” Hoyer said in an email.

Fenton disagreed with a “common misconception” that the program benefits coastal states at the expense of those inland, citing data that shows coastal states are paying more into the program than they receive from it.

“Flood disasters claimed more lives and property than any other natural disaster in the U.S. over the past century,” he said in the release. “And more recently, from 1990 to 2005 floods were reported in every single state.”

Realtor groups also are advocating reforms to the program, such as adding coverage options for business interruption and living expenses, indexing coverage limits, improving the floodplain mapping used to determine insurance requirements and streamlining the process for map appeals.

“Without this program millions of Americans will be without flood insurance for an uncertain amount of time,” Fenton said. “We cannot leave these property owners in the dark and we certainly cannot afford to cause any more damage than has already been done to the housing market.”

Flooding occurs in 90 percent of natural disasters in the United States, yet coverage is rarely provided under homeowners insurance polices, according to a June report by the Government Accountability Office.

“Because of the catastrophic nature of flooding and the inability to adequately predict flood risks, historically, private insurance companies have largely been unwilling to underwrite and bear the risk that results from providing primary flood insurance coverage,” the report states.

Traditional homeowners insurance typically covers damage from hurricanes and tornadoes, but there are several natural disasters other than floods that it does not, like earthquakes, mud slides and nuclear accidents, said Helene Gummere, office manager of A.F. Szabo Insurance Agency in Waldorf.

Gummere said insurance coverage often differs depending on where it is being sold — for instance, earthquake coverage might be standard in certain parts of California.

“I really think it's more the area,” she added. “We're not prone to hurricanes or tornados, but that's something that’s just always been covered.”

Coverage premiums for the federal program average about $620 per year and, as designed, kept it afloat through 2004, the report states.

But the program is authorized to borrow from the U.S. Treasury when losses are high and did so to the tune of $16.8 billion following the 2005 hurricane season highlighted by Katrina.

Since then the program has borrowed more money to pay interest on its debt and, as of March, owed $17.8 billion. The report concluded that, as currently structured, the program “is unlikely to be able to repay this debt in the near future, if ever.”

To encourage homeowners to purchase insurance, many are charged subsidized rates for their policies. About one-fourth of all NFIP policies are subsidized, the report states.

The GAO suggested that Congress consider allowing the program to charge higher, unsubsidized premium rates and require homeowners who have been repeatedly affected by flooding to either mitigate their property's risk or pay penalties.

But Martino said such steps would make the program “way too unaffordable for many of America's homeowners.”

“We recognize that these potential changes involve tradeoffs. Increasing premium rates and requiring homeowners to mitigate flood-prone properties could, for example, reduce participation and create hardship for some property owners,” the report concludes. “Nevertheless, until these and related issues are resolved, the program will continue to present a significant financial risk to the government and taxpayers.”