



Testimony to the Pennsylvania Flood Insurance Task Force

Feb. 5, 2024

On behalf of more than 40,000 Realtors® across the commonwealth, thank you for the opportunity to comment on flood insurance reforms within the commonwealth. The Pennsylvania Association of Realtors® appreciates the work being done by the task force and looks forward to a strong working relationship.

Realtors® believe that access to affordable flood insurance is important for the commonwealth's economy, vital for protecting homeowners and imperative to maintain a successful housing market. According to Federal Emergency Management Agency, 80% of individuals who have flood insurance have experienced flooding in the past or know someone who has. FEMA also estimates that one inch of water can cause approximately \$25,000 in damages. Without flood insurance, homeowners are faced with the burden of the high costs associated with flood damage repairs.

Ensuring flood insurance remains affordable and accessible is critical to all Pennsylvanians. The National Flood Insurance Program is an important tool in ensuring flood insurance remains affordable in the commonwealth. Another important tool is FEMA's new pricing methodology called Risk Rating 2.0: Equity in Action. Under the previous methodology, lower value and lower risk homeowners in the commonwealth were cross-subsidizing high-value properties in high-risk areas, such as those along the Gulf Coast. Risk Rating 2.0 now uses modern risk

assessment tools and property specific characteristics to more accurately price each home individually rather than by flood zone. According to FEMA, nearly one third of Pennsylvania property owners saw their rates drop 30% in the first year alone. Preserving and leveraging Risk Rating 2.0 not only ensures fair ratings in the commonwealth but also ensure that homeowners have peace of mind without having to rely on taxpayer-funded disaster assistance.

NFIP and Risk Rating 2.0 are not the only tools that should be at the commonwealth's disposal to keep premiums affordable. The task force should also consider state level affordability programs. FEMA drafted several design options for flood insurance affordability programs in the [NFIP Affordability Report to Congress \(fema.gov\)](https://www.fema.gov/nfip-affordability-report-to-congress). These design options include:

1. Income-based premium sharing
2. Premium burden-based benefit
3. Housing burden-based benefit
4. Mitigation grants and loans

In considering the design of an affordability program however, the task force should keep in mind several factors:

- Cross-subsidization may make insurance cheaper for homeowners whose plans are subsidized, but will increase the burden on homeowners whose plans are not.
- Subsidies should be strictly means tested based on income and fully disclosed to recipients up front. Holding prices down below true risk levels enables more homeowners to move into harm's way where they cannot afford the insurance.
- Reducing a property's flood risk will reduce the risk based NFIP rate.

The number of NFIP policies in force has declined drastically in Pennsylvania to 44,944 as of June 2022, from the peak of 69,716 in 2012. There are several factors that have played a role in this decline:

- Low perception of flood risk from homeowners (leading reason why homeowners do not get flood insurance).
- Many are unaware that flood damages are not covered under their standard homeowner's insurance policy.
- Many homeowners opt out of flood insurance because it is not required for them.
- Pennsylvania also offers private flood insurance options for homeowners.
- Many homeowners are unaware of the limitations of a federal major disaster declaration and that few flooding events can receive federal assistance.
- Homeowners are also unaware that even when there is a major disaster declaration, federal assistance provides an average of \$3,000 for the few who qualify compared with NFIP which has historically paid out \$21,000 per property.

PAR applauds Commissioner Humphreys for continuing to encourage the development of a more robust private flood insurance market in addition to the NFIP. To close the flood insurance gap here in the commonwealth, it will take a partnership between the NFIP and private market. At the same time, we need to continue to educate consumers about their flood insurance options. For example, while many homeowners have been fortunate to save money purchasing private flood insurance, they may be unaware that once they have opted to purchase private insurance, they are no longer eligible to purchase insurance at a subsidized rate through the NFIP.

While real estate professionals are valuable sources of information on properties, they are not licensed or trained to provide guidance on flood risks and data. However, they can encourage homeowners to seek the assistance of a flood insurance professional or their local floodplain manager. Unfortunately, most homeowners do not follow this advice, making it vital for the commonwealth to help close the knowledge gap homeowners face understanding flood insurance and their options. To close this knowledge gap, education for homeowners on flood insurance should include:

- Information on flood risks.
- Tools and professionals that can assist in determining flood risks.
- The costs of flood related damage.
- Options for flood insurance policies.

To ensure homeowners are able to make informed decisions about flood insurance, flood maps must also provide necessary and up-to-date information about flood zones. Currently many flood maps are outdated and only cover major rivers and the coastline of the United States, causing homeowners to buy homes without proper knowledge of their flood risks. To remedy this, the commonwealth should work with FEMA to assess and update its flood maps. The commonwealth should also consider partnering with the First Street Foundation or other scientific sources to develop a website which ensures that more complete, accurate and granular flood risk information is available, including in areas away from the major rivers including low lying areas where urban flooding is the major source of flooding.

Thank you for helping to ensure that Pennsylvania homeowners and buyers continue to have flood insurance options. Making sure that homeowners have the tools and knowledge they need to protect and repair their most valuable asset when unpredicted flooding strikes is

imperative to ensuring a strong housing market and economy in Pennsylvania. PAR looks forward to continuing to work with the Flood Insurance Task Force to meet these goals.