January 25, 2024

The Honorable Sherrod Brown
Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

The Honorable Tim Scott
Ranking Member
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Chairman Brown and Ranking Member Scott:

The National Multifamily Housing Council (NMHC) and National Apartment Association (NAA) applaud the Committee for calling a hearing entitled "Reauthorization of the National Flood Insurance Program: Local Perspectives on Challenges and Solutions." We appreciate the Committee exploring flood insurance issues as it continues the work of reauthorizing and reforming the National Flood Insurance Program (NFIP) in advance of the program's expiration. NMHC and NAA members are important community leaders across the country, and we strongly support the work of the Committee as our nation continues to confront increasingly destructive flooding events and other natural disasters.

For more than 25 years, the National Multifamily Housing Council (NMHC) and the National Apartment Association (NAA) have partnered on behalf of America's apartment industry. Our combined memberships are engaged in all aspects of the apartment industry, including ownership, development, management, finance and suppliers partners/service providers. Drawing on the knowledge and policy expertise of staff in Washington, D.C., as well as the advocacy power of 141 NAA state and local affiliated associations, NAA and NMHC provide a single voice for developers, owners and operators of multifamily rental housing. One-third of all Americans rent their housing, and 38.9 million of them live in an apartment home.

The Importance of the National Flood Insurance Program

Owners, operators and developers of all types of multifamily rental housing have been particularly hard hit in recent years as the cost of all lines of insurance (e.g., property, liability, cyber) have risen dramatically while coverage limitations, deductible increases and in some cases the absence of an affordable or viable private insurance market altogether has increased the financial risk borne by housing providers directly and strained property operations. The lack of affordability of insurance options for property owners, of all types, increasingly puts needed insurance coverage out of reach or limits the ability of property owners to make needed investments in their properties. Two new data sets show the significant impact of insurance costs on housing operations and affordability. First, NMHC released the State of Multifamily Risk Survey & Report in June of 2023 which looked across all types of multifamily housing and showed, on average, property insurance premiums soaring 26 percent year-over-year. Yet, it is not uncommon to hear of triple-digit property premium increases in certain parts of the country. Other lines of coverage are also troublesome and impacting property operations.

As problematic as this has been across the broader housing ecosystem, the challenge is even more daunting in the affordable and middle-income housing space. A new survey and report released in September, commissioned by the National Leased Housing Association (NLHA), and supported by NMHC, NAA and other affordable housing organizations, focused on the impact of the current insurance market challenges on affordable housing providers. The survey found that rental housing businesses are facing much higher premiums—nearly one in every three policies had rate increases of 25% or more. These conditions have led to negative impacts on both housing providers and renters, with most housing providers indicating that they would take action to mitigate cost increases due to higher insurance premiums by increasing insurance deductibles, decreasing operating expenses, and being forced to increase rent.

Because of the challenges in the broader property insurance market, it is absolutely critical that the NFIP is reauthorized and reformed to ensure its long-term viability. Ensuring that the NFIP is able to continue to ensure that affordable flood insurance is available at all times, in all market conditions for every at-risk rental property is essential. These include more than just high-rise multifamily properties in urban centers and extend across every state to include rental homes of all sizes and types. The reauthorization and reform of the NFIP remains a top priority for our membership to not only protect their property investments but to help manage the increasing costs of providing housing that is affordable.

At the same time, it is essential that Congress do more to prioritize community resiliency and ensure flood prevention and mitigation measures are widely available and affordable to property owners of all types. Resiliency, mitigation and a stable and affordable NFIP are all important parts of a comprehensive strategy that is needed to protect our communities and our residents. We acknowledge that the NFIP comes with its challenges and agree that further reforms are necessary to protect the long-term financial viability of the program. As Congress looks to reform the program to improve the program's long-term affordability and solvency, outlined below are the multifamily industry's priorities as we move towards reauthorization of the NFIP this year. We believe these proposals could offer significant improvements to the efficiency, affordability, and long-term health of the NFIP for the multifamily industry.

Long-Term Authorization – The NFIP has been operating on a series of short-term extensions that began in 2008. The stop-gap measures continually create an environment of uncertainty for multifamily property owners and managers who rely on this program for coverage in the absence of a high level of private sector participation. In the unfortunate times of a lapse in NFIP authorization, many real estate transactions across both the residential and commercial sectors cannot legally be closed without this critical protection in place. NMHC and NAA strongly urge Congress to prevent disruption in the marketplace and pass a long-term reauthorization of the NFIP that maintains the government's backstop before it is set to expire later this year, because the NFIP remains an important source of flood coverage for multifamily developers, owners and operators.

Mapping - It is common for apartment owners to have their properties misclassified as being in high-risk flood zones, or Special Flood Hazard Areas (SFHA). The process to correct an inaccurate and erroneous FEMA flood map is overly complex and financially burdensome. The onus is wrongly on property owners to prove maps inaccurate, who incur engineering and surveying expenses and spend vast amounts of time to appeal under the current system. Inaccurate maps not only have financial repercussions for existing property owners but also have a chilling effect on development in inaccurately zoned areas, which is problematic in a time of a rental housing shortage.

NMHC and NAA encourage Congress to continue to prioritize and provide sufficient resources to more frequently update FEMA's flood maps to reduce the number of inaccuracies that detrimentally affect the multifamily industry and, most importantly, their residents. FEMA had a goal of updating its flood maps at an interval of not less than every five years, which would achieve this goal; however, FEMA has not been provided sufficient resources to meet that goal. NMHC and NAA recommend Congress require FEMA to improve the efficiency of the overall mapping process to reduce cycle time and costs and improve the mapping appeals process to make it more affordable, transparent, and less time-consuming for both communities and property owners.

Risk Rating 2.0—As FEMA's Risk Rating 2.0 program, which is intended to move rate setting to a more detailed and structure specific system, is being implemented concerns remain over the process for property owners to challenge flawed designations and the maps and related criteria on which they are based. Greater transparency around Risk Rating 2.0 is needed. Under the new rate setting process, FEMA does not clearly demonstrate premium setting methodology or potential premium savings for proactively implementing costly mitigation measures to property owners or their insurance representatives. NMHC and NAA encourage Congress to require FEMA to improve transparency around Risk Rating 2.0 and develop a manual or guide to demonstrate premium calculation with clear considerations for mitigation measures that could impact NFIP premiums.

Documentation requirements under Risk Rating 2.0 are burdensome, difficult and causing confusion for multifamily property owners. Under Risk Rating 2.0 underwriting, FEMA is requiring new data points that were never required before. For example, FEMA is now requiring property owners submit replacement costs for each structure, along with documentation to support it such as an appraisal, every three years. While condominium associations typically obtain a new appraisal every three years, multifamily owners do not because commercial appraisals are very expensive and are unnecessary unless a multifamily property is being sold or refinanced. FEMA made a bad assumption about appraisals from not talking with multifamily owners and, in turn, placed an unnecessary and costly burden on the multifamily industry at a time of unprecedented housing affordability challenges. NMHC and NAA encourage Congress to require FEMA work with the NMHC and NAA to better understand the multifamily business and then to streamline the documentation process under Risk Rating 2.0 to prevent burdening property owners with unnecessary and costly documentation requirements.

Flood Risk Mitigation - FEMA currently administers several mitigation grant programs in an effort to reduce damage, claims, and overall risk in the event of a natural disaster such as flooding. NMHC and NAA strongly support pre-disaster mitigation programs to lessen fiscal pressure upon the NFIP and taxpayers more broadly. That said, while apartment communities are not explicitly excluded from eligibility for existing FEMA funds, the grant programs are overwhelmingly focused on primary, single-family homes. Even further, FEMA has only recently focused attention on the importance of mitigation efforts for properties that cannot benefit from traditional mitigation techniques like building elevation. Unfortunately, many of the recommendations for alternative methods of mitigation that FEMA has made to property owners are impractical for apartment communities and the majority would not afford any flood insurance premium reduction despite the large cost of implementation.

NMHC and NAA urge Congress to require FEMA to undertake further actuarial work and issue alternative mitigation guidance specific to multifamily property owners that is both realistic, cost effective and would result in premium reductions under the NFIP.

NMHC and NAA ask that Congress expressly authorize small businesses and apartment firms to be eligible for existing mitigation programs or consider establishing a multifamily and commercial property specific mitigation grant program to address the unique challenges faced by these property owners.

NMHC and NAA encourages Congress to raise the amount of the Increased Cost of Compliance (ICC) coverage in the NFIP policy for commercial and multifamily properties to $ 500,000 and make this higher limit a separate, optional limit that is not part of the current $500,000 maximum building coverage limit.

Allow for Blanket NFIP Policies – Current mandatory purchase requirements require multifamily property owners secure coverage for each structure on their properties that lie in a FEMA-designated Special Flood Hazard Area (SHFA: A & V Zones). Often, this means that multifamily owners must secure a separate NFIP policy for multiple buildings throughout the same apartment community, all of which require separate deductibles and policy renewals. NMHC and NAA urge Congress to provide a property owner the option to secure just one "blanket" NFIP policy with higher limits than the current NFIP maximum limits for building and contents coverage, so that the higher blanket limit could efficiently provide coverage for all of their at-risk structures on a given property or throughout their portfolio. This change would greatly streamline and enhance the business efficiency of using the NFIP.

Business Interruption Coverage - Property owners fortunate enough to be able to purchase flood insurance through the private sector also frequently purchase Business Interruption Coverage to help restart operations and defray the financial impacts surrounding the relocation of business services, resident relocations, and other expenses. This coverage should be available to NFIP policy holders as well and would allow property owners to resume normal operations more quickly and get residents back into their homes after a disaster in a timelier manner.

Because the private flood market writes flood coverage for only a portion of multifamily buildings in SFHA, and the private market does not allow for the purchase of only Business Interruption Coverage as a stand-alone flood insurance product, the NFIP must allow for Business Interruption Coverage. NMHC and NAA urge Congress to support the creation of Business Interruption Coverage as a new and additional type of coverage with its own coverage limit, separate from building and contents coverage, under the NFIP for multifamily and commercial policies.

Align NFIP Single Family & Multifamily Claim Reimbursement - Currently multifamily property owners receive Actual Cash Value (ACV) for claim payments from FEMA while single-family homeowners and condominiums receive Replacement Cost Value (RCV) for their losses. The discrepancy places multifamily property owners at a disadvantage because they often suffer the same, if not more, flood damage. NMHC and NAA encourage Congress to direct FEMA to move NFIP multifamily and commercial building coverage from ACV to RCV claim reimbursement, since FEMA's objective is to provide RCV coverage on homes and buildings where people live as their primary residence. Multifamily residents use their rental apartments as their primary residence, so FEMA should afford RCV to sufficient claim payments to bring their residences back to pre-loss condition too.

Private Flood Market/Continuous Coverage Requirement - NMHC and NAA believe that a robust private flood insurance market has a multitude of benefits for both property owners and taxpayers through increased competition, enhanced market efficiencies and reduced financial demands on taxpayers. While Congress and federal banking regulators have taken significant steps to improve acceptance of private flood insurance policies in meeting federal mandatory purchase requirements, pain points remain that hamper the private market and harm consumers. An outstanding issue that Congress should look to address is ensuring both private and NFIP coverage satisfies the federal government's requirement of "continuous coverage" and allows policyholders to return to the NFIP coverage at a later date. NMHC and NAA encourage Congress to consider including continuous coverage protections for property owners in the next NFIP reform and reauthorization package.

We thank you for the opportunity to present the views of the multifamily industry as you once again begin deliberations to reauthorize and reform the NFIP. The NFIP's reauthorization is a key priority for the apartment industry given the critical role the program plays in helping multifamily firms mitigate the financial risk of flooding events. We stand ready to support the efforts of Congress to make the necessary improvements to the program to ensure its long-term success, affordability, and viability.

Sincerely,

Sharon Wilson Géno
President
National Multifamily Housing Council

Robert Pinnegar
President & CEO
National Apartment Association