



NATIONAL ASSOCIATION OF REALTORS®

The Voice For Real Estate®

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Written Statement

of the

NATIONAL ASSOCIATION OF REALTORS®

submitted to the

House Financial Services Committee
Subcommittee on Housing and Community
Opportunity

On

“Emergency Housing Needs in the Aftermath of
Hurricane Katrina”
September 15th, 2005

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With millions of people displaced in the aftermath of Hurricane Katrina, the National Association of REALTORS® thanks the Subcommittee for holding this hearing, and also for inviting us to speak at the Roundtable last week. Congressional reaction has been swift thus far, and we thank you for all your work to help the people whose lives have been forever changed.

At the outset, REALTORS® immediately rallied to help meet the victims' urgent need for shelter. Like so many other groups and individuals, the over one million members of the NATIONAL ASSOCIATION OF REALTORS®, and its affiliate the Institute of Real Estate Management, are raising contributions to help victims of this terrible tragedy. To date we have raised almost \$3 million, of which \$1.15 million has been donated by NAR. Our funds are going directly to foundations set up by the state REALTOR® Associations in the states of Alabama, Louisiana and Mississippi to help those in greatest need to get back on their feet.

NAR has also assisted in the development of the internet portal *hurricanehousing.net*. The Louisiana REALTORS® Association has worked with FEMA, the Department of Homeland Security and NAR to develop this site, allowing those with available housing resources to post valuable information and those with housing needs to access the details. The website also guides users through the process of identifying and locating emergency housing via frequently asked questions (FAQ) and provides a wealth of information about federal and state assistance resources. REALTORS® across the country are identifying available housing resources in their community and posting the information on *hurricanehousing.net*.

The NAR applauds the Department of Housing and Urban Development (HUD) for its leadership and assistance in the effort to provide housing. It is our understanding that HUD is currently inspecting its inventory of foreclosed homes in the region to determine its suitability for living accommodations. NAR strongly supports these efforts and encourages HUD to prepare these homes as quickly as possible. However, it is important to recognize that many more residents of the region have had to relocate to other areas of the country, without needed provisions, and thus are homeless. NAR strongly recommends that HUD prepare its entire inventory for availability to victims wherever they may now be situated.

Our members own and manage Section 8 properties across the country, some of which have vacant units. While HUD is working to make those units available to existing Section 8 voucher holders from the affected areas, NAR believes these units should also be used to house any displaced resident that is in need. We have asked HUD to waive all program requirements for the immediate future, particularly those related to initial inspections and income verifications. These requirements are time consuming and may be impossible to meet under these conditions. A temporary waiver of program requirements would avoid programmatic delays and provide housing immediately to those in need. In addition, for those residents who had been

receiving project-based assistance, NAR recommends that HUD immediately convert that subsidy to a portable voucher for use wherever the resident has been relocated.

NAR commends the members of this Subcommittee – especially Chairman Ney (R-OH), Ranking Member Waters (D-CA), and Rep. Brown-Waite (R-FL), who joined with Capital Markets Subcommittee Chairman Baker to offer H.R. 3669, the “Flood Insurance Program Enhanced Borrowing Authority Act of 2005”. The NFIP is a unique partnership among three levels of government. It enables property owners in participating communities to purchase insurance as a protection against flood losses in exchange for State and community floodplain management regulations that reduce future flood damages. As a result, federal expenditures for disaster assistance and flood control are reduced. This bill, which has already passed the House, would temporarily increase the National Flood Insurance Program’s borrowing authority to pay claims after the devastating tragedies of Hurricane Katrina.

There are provisions included in several other bills that Congress should consider in the wake of Hurricane Katrina. Rep. Brown-Waite (R-FL) and her fellow Floridian, Rep. Davis (D-FL), have introduced H.R. 846, the “Homeowners’ Insurance Availability Act”. This bill would establish a federal program, administered by the U.S. Treasury Department, making reinsurance coverage available in order to improve the availability of homeowners’ insurance. Treasury would offer reinsurance contracts for sale, through regional auctions conducted at least once a year, to private insurers and reinsurers, state insurance and reinsurance programs, and other interested entities. As Louisiana, Mississippi and Alabama strive to rebuild, a program of this type could assure that homeowners’ insurance is available and affordable to residents who wish to continue living in their communities. Equally of note, Rep. Mark Foley (R-FL) has introduced H.R. 2668, the “Policyholder Disaster Protection Act,” which would allow insurance companies to create reserve funds from pre-tax dollars in order to pay claims arising from future major natural disasters. This could help to protect insurance companies from devastating claims (like the ones they will face with Katrina) and allow them to continue to provide insurance in devastated areas. NAR believes the time is right to renew Congressional discussion over natural disaster relief insurance.

Finally, NAR commends Rep. Richard Baker (R-LA) and the Congress for passage of H.R. 804, the “Flood Insurance Clarification Bill”. This bill amends the National Flood Insurance Act of 1968 to declare that assistance provided under a program for flood mitigation activities with respect to a property shall not be considered income or a resource of the owner of the property when determining eligibility for or benefit levels under any income assistance or resource-tested program that is funded in whole or in part by a federal agency or by appropriated federal funds. When signed by the President, this law will help many citizens of the affected areas rebuild their homes.

Many property owners are currently providing housing to victims of Katrina, having waived many or all of their normal occupancy requirements. NAR encourages Congress to consider some safe harbor type of legislation to protect these good Samaritans during this time of uncertainty. There may be rules or regulations that were burdensome and unable to be complied with in order to shelter victims, and well-meaning housing providers should not be penalized for these oversights.

Once the immediate and short-term needs of the victims have been met, long term solutions will be needed to rebuild the impacted areas. Federal assistance will be needed to encourage private sector growth and development. To this end, we strongly support a number of programs.

HUD's FHA Single-Family Mortgage Insurance Program features two mortgage products called the 203k and the "Streamline (K)" Limited Repair Program. These programs permit homebuyers to finance the rehabilitation of existing properties or the purchase and rehabilitation of their homes before move-in. With these products, homebuyers should be able to quickly and easily tap into cash to pay for property repairs or improvements, such as those identified by a home inspector or FHA appraiser. These programs should be readily available to those families whose homes can be rehabilitated. NAR urges the Subcommittee to work with HUD to expedite the availability of this program so that it can be used for rebuilding these areas.

Due to mail disruptions, victims of Hurricane Katrina may be unable to receive proper billing notices from creditors, let alone pay them, for weeks and sometimes months to come. Victims should not have their credit histories suffer from late payments due to this disaster. Such late payment information could prevent victims from obtaining much needed private credit to rebuild their lives or purchase new homes. NAR urges Congress to explore amending the Fair Credit Reporting Act to prohibit creditors from filing late payment information with credit bureaus during a state of emergency declared in a disaster such as Hurricane Katrina.

Several of our suggestions fall outside the jurisdiction of this Committee, but we believe that they should be mentioned as part of a comprehensive response to the storm damage. We are aware that Fannie Mae and Freddie Mac and many primary lenders will forbear on loans that become delinquent for varying periods of time. Balances on some of those loans, however, will, in time, be forgiven as part of a debt cancellation because of the disappearance of the security or similar circumstance. Under current law, the cancellation of that mortgage debt would be treated as income to the borrower and subject to income tax. We believe that relief should be provided so that the borrowers will not be taxed on forgiven amounts, particularly at a time when they have such great demands on any savings or cash reserves they might have.

The need for significant amounts of capital to construct new housing will become acute. One way to provide an incentive for construction or rehabilitation of housing would be to enact some version of H.R. 1549, a bipartisan bill that would provide a tax credit for up to 50% of the cost of constructing or rehabilitating affordable housing. This mechanism or similar incentive would be an important aid to generate capital for restoring housing to decimated communities. A large majority of this Committee's members sponsored that legislation in the previous Congress and/or currently. A substantial bipartisan majority of Ways and Means Committee members have also sponsored the bill.

Two tax provisions that expire at the end of this year are also crucial components of any redevelopment. Both should be extended for as long as possible. The first would extend the tax treatment of leasehold improvements (the buildout and similar configuration of commercial space for tenants). Under current law, the cost recovery period is 15 years. Unless the provision is renewed, the recovery period would revert to 39 years effective January 1, 2006. Notably, the New York Liberty Zone legislation enacted pursuant to the 9/11 attacks permitted a 5-year recovery period for these improvements. Obviously, shorter recovery periods provide greater incentives to make improvements on behalf of commercial tenants.

The other expiring provision of note is the rule enacted several years ago that would permit a deduction for the cost of site preparation activities that include brownfields cleanup. If this provision is not extended beyond its December 31, 2005 expiration date, developers would receive no tax benefit for cleaning up contaminated property. This provision should also be expanded so that the cleanup costs for petroleum products would qualify for the deduction.

NAR continues to work with the Ways and Means Committee to develop sound tax measures that would supplement and complement this Committee's activities. We urge the Members of this Committee to offer their suggestions and assistance to the Ways and Means Committee.

There are also four specific areas currently in the Appropriations process that are related to disaster emergency management and response of which the Committee should be aware.

Pre-Disaster Mitigation grants (PDM) are funded in the House bill at the budget request of \$150 million and in the Senate bill at \$37 million. Pre-disaster mitigation projects are being implemented at the state and local government level in accordance with hazard mitigation plans required by the Disaster Mitigation Act of 2000. Adequate funding must be allocated for preventative measures that protect property, reduce the impact and cost of future disasters, and save lives.

NAR commends Congress for including language in the House and Senate bills that will maintain the Hazard Mitigation Grant Program (HMGP) formula for states with Enhanced Mitigation Plans at 20% of disaster costs. "Enhanced Plan States" have made significant commitments to disaster mitigation. HMGP funds are used following a disaster, when awareness of risk is high and important mitigation measures have a broad base of support. The value of mitigation programs is enhanced in a post-disaster environment because of the immediate awareness of risk and government willingness to commit state and local funds for cost-sharing with federal funds. Reduced federal funding means a lost opportunity for communities and localities to act as partners and make positive use of the interest generated during the post-disaster period to reduce the costs of future catastrophes.

NAR is pleased that both the House and Senate bills have provided \$200 million to the Federal Emergency Management Agency (FEMA) in FY '06 for the next installment of the critically important task of updating and modernizing the nation's flood maps. In the course of developing the initiative, mapping needs have been found to be greater than when they were originally projected in 1997. The "population mapped" metric must be adjusted so that maps can be updated and not simply digitized with existing data, and the deadline for accomplishing this task should, therefore, be extended to integrate this necessary change. Up-to-date and modernized flood maps provide critical data necessary for responsible pre- and post-disaster mitigation planning by states and localities. These maps also ensure that the National Flood Insurance Program (NFIP) can meet the needs of consumers and the private sector for accurate mapping data.

New programs to alleviate the problem of repetitive flood loss claims under the NFIP were authorized last year as part of the Flood Insurance Reform Act of 2004. The House bill provides the full authorized amount of \$90 million while the Senate provides the budget request of \$28 million. These are funds to be transferred from the National Flood Insurance Fund (NFIF), not new appropriated funds. The NFIF itself is financed by premiums and fees associated with federal flood insurance policies. Each year, the Fund loses about \$200 million in payments for repetitive claims. The new programs are designed to deal with this unnecessary expense to the

NFIF by mitigating the repetitive claim properties in a manner that is "cost effective to the Fund." This means that there will be a priority given to the most severe cases of repetitive loss properties. NAR supports the investment of NFIF monies to address repetitive losses, and believes it will stem the unnecessary annual outflow of \$200 million each year. We urge you to provide the transfer funds included in the House bill for this important effort to deal with repetitive flood losses.

NAR believes these four initiatives will help to reduce future disaster-related costs to the federal government through comprehensive mitigation strategies, and we urge Congress to look carefully at these programs to protect against the fallout from future disasters.

Likewise, small businesses in the three affected states will need economic assistance to allow them to once again assume the key role that they play in the region's economy. By doing so, not only will the economy rebound but every small business that is helped back on its feet will help a hardworking family start to put their lives back together. Therefore, we encourage Congress to act quickly to bolster the programs of the Small Business Administration.

In addition, we would ask that attention be paid to reviewing the eligibility criteria for SBA's disaster assistance programs to ensure that these programs are able to address the needs of the area's smallest businesses - those owned and operated by independent contractors. With the growth of a knowledge and service-based economy and corporate down-sizing, a growing number of individuals now support themselves as independent contractors.

In the past, however, independent contractors, including our own real estate sales agent membership, have found themselves unable to access the SBA's Economic Injury Disaster Loan (EIDL) program despite the fact that independent contractor owned and operated firms suffer from all of the same post-disaster problems that confront any small business (e.g. office and equipment losses, lost income stream, etc.) and have no access to the assistance programs that an individual employed by a firm might have such as unemployment insurance. This vital segment of the economy should not be overlooked as the result of overly rigid or out-dated program eligibility guidelines.

The aftermath of Hurricane Katrina is a disaster unlike any ever experienced in the United States. Americans' outpouring of support has been tremendous, but more will be needed. Extraordinary measures are going to be necessary to rebuild these communities, and return normalcy to the many victims devastated by Hurricane Katrina. The NATIONAL ASSOCIATION OF REALTORS® stands ready to work with you on all the initiatives. Thank you for the opportunity to provide our input and recommendations on this important matter.