

TO: NAR Leadership Team
FROM: Bill Leininger, Chair, Climate Financial Risk Work Group
SUBJECT: Work Group Report & Recommendations

Charge:

- Identify reasonable approaches to address climate financial risks to the federal mortgage loan programs and regulated entities while minimizing the impact on real estate stakeholders;
- Collaborate with federal regulators, agencies and government sponsored entities;
- Report back to the Insurance Committee at the November 2023 meeting.

Findings:

- According to many studies, the United States has been developing properties in high-risk areas which are not accurately reflected on FEMA flood maps.
- For example, both the First Street Foundation and CoreLogic have identified at least 10 million more high-risk properties than FEMA because FEMA maps do not include pluvial (rainfall-based) flooding and are often delayed or not adopted due to local politics.
- As a result, Government Sponsored Enterprise (GSE) mortgage portfolios are estimated to be mispriced by \$36-56 billion due to flood risk, which represents more than one-third of GSE capital reserves.
- Congress chartered the GSEs to support a national mortgage market, not insure flood or climate financial risk. Yet, GSEs are absorbing the cost of under-insured homes, making their mortgage-backed securities less attractive to investors.
- When losing capital or revenue to unintended, unaccounted-for risks, the GSEs must divert limited resources away from charter missions (including supporting underserved communities) or increase fees, making lending more expensive.
- While the overall impact may appear small relative to a national mortgage market, GSE repricing could significantly and disproportionately affect many communities across the United States.

Recommendations:

1. **Develop a blueprint for climate financial risk by beginning with the flood risk to the GSEs.** Flood is the largest climate financial risk, but most homeowners do not have flood insurance to repair property damage, which means that the GSEs could have to forebear mortgage payments or sell properties at a loss after major floods. Because the GSEs help finance half of all U.S. mortgages annually, the GSE response to uninsured flood risk will guide the market on how to address climate financial risk.
2. **Encourage GSEs to use better risk assessment tools to identify and disclose all special flood hazard areas in the U.S.** There are too many stories of people who never would have moved into an area if they had known the risk. The First Street Foundation, CoreLogic, and others are using more granular, modern, and accurate risk assessment tools to delineate more special flood hazard areas than FEMA maps. The GSEs should hire one or more of these companies to identify all

the special flood hazard areas and use these tools to disclose flood facts about the properties they guarantee so that GSE investors, property buyers and renters, and taxpayers can make informed decisions.

3. **Require flood insurance for GSE new construction loans in all special flood hazard areas across the U.S.** Because FEMA maps do not identify all the special flood hazard areas, at least 10 million properties have a high flood risk but are not required to build to flood standards or purchase flood insurance. When properties are built too low in harm's way, the owners often turn to a real estate professional to help them sell properties with high insurance costs and/or past flood damage. Requiring flood insurance would reduce the GSE exposure and ensure that home builders and buyers qualify for loans in high-risk areas only when considering the total cost of home ownership, including flood insurance.
4. **Continue working to identify reasonable climate financial risk options for existing properties.** While identifying and discussing many options, the Work Group was not able to reach consensus on reasonable alternatives to minimize GSE flood risk while balancing existing housing affordability and sustainability concerns. Meanwhile, federal agencies, lenders, insurers, investors, and other key players, such as Blackrock, continue to move forward, and NAR could miss an opportunity to help shape alternatives to address the climate financial risk.
5. **Reauthorize and strengthen the National Flood Insurance Program (NFIP).** The GSEs would be less exposed if more property owners purchased flood insurance. NAR policy supports providing federal grants or loans for policyholders to elevate, mitigate or relocate. NAR should explore targeting and means-testing assistance so that lower income families can purchase flood insurance from the NFIP.

Guest Speakers

- John Seo, Fermat Capital Management
- Edward Seiler, MBA Research Institute for Housing America
- Leighton Hunley and David Evans, Milliman Actuarial Consulting Firm
- Howard Botts and Howard Kunst, CoreLogic
- Matt Eby and Jeremy Porter, First Street Foundation

Meeting dates: 04/12, 05/07, 06/01, 06/21, 07/13, 08/02, 08/22, 09/14, and 10/10/2023

Work Group Members:

1. Bill Leininger (MT) - Chair
2. Steven Fischer (GA) -Vice Chair
3. Andy Mahowald (SD) - Liaison
4. Chris Kutzkey (CA)
5. Cyndee Haydon (FL)
6. Cyndi Bell (TX)
7. Debbie Niemeyer (MN)
8. Eileen Oldroyd (CA)
9. Greg Larson (ND)
10. Kent Simpson (NM)
11. Logan Morris (LA)
12. Lori Todd (IN)
13. Mabel Guzman (IL)
14. Maria Wells (FL)
15. Matt Kahn (VA)
16. Peggy Todd (VA)
17. Rob Harrington (MA)
18. Robert White (NJ)
19. Tim Kellogg (IL)

NAR POLICY ANALYSIS OF THE U.S. CLIMATE FINANCIAL RISK

To develop its report to the Leadership Team, the Work Group conducted an eight-step public policy analysis of the flood and climate financial risk to the Government Sponsored Enterprises Fannie Mae and Freddie Mac. Below please find the analysis, using the eightfold path,¹ for additional information and insight into the Work Group findings and recommendations.

Step 1: Define the Problem

Due to a lack of understanding of the climate financial risk, the United States has been developing properties in high-risk areas where the flood risk is not accurately reflected on FEMA flood maps. According to one study, many of these riskier, under-insured mortgages are being transferred to the Government Sponsored Enterprises (GSEs), where less risky borrowers, investors and taxpayers are cross subsidizing the cost.² As a result, GSE mortgage portfolios are estimated to be mispriced by \$36-56 billion due to flood risk,³ which represents more than one-third of the GSEs' capital reserves before accounting for other climate financial risks.⁴

Congress chartered the GSEs to support a national mortgage market, not to insure flood or climate financial risk. When losing capital or revenue to unintended, unaccounted-for risks, the GSEs must divert limited resources away from their charter duties, including supporting underserved communities. Moreover, the impact of repricing while small relative to a national mortgage market, could be significant and disproportionate to many communities across the United States.

While the Work Group's charge is to address the broader climate financial risk, the Work Group decided to start with the climate-related flood risk to the GSEs because:

- NAR's flood response could become a blueprint for addressing other climate financial risks.
- Flooding is the largest, single climate financial risk by multiple measures;^{5,6}
- 96% of U.S. homeowners do not have flood insurance, whereas most have a standard home insurance policy that covers all other climate financial risks, including wildfires and windstorms; and
- Fannie Mae and Freddie Mac help finance half of all U.S. mortgages annually so their response to this issue will guide the market.

¹ Bardach, Eugene and Eric Patashnik. 2020. "A Practical Guide for Policy Analysis: The Eightfold Path to More Effective Problem Solving" (6th Edition).

² [Mortgage Finance in the Face of Rising Climate Risk \(nber.org\)](https://www.nber.org/papers/w26822)

³ [Unpriced costs of flooding: An emerging risk for homeowners and lenders \(milliman.com\)](https://www.milliman.com/insights/unpriced-costs-of-flooding)

⁴ Please see the Forms 10k of [Fannie Mae](https://www.fanniemae.com) and [Freddie Mac](https://www.freddiemac.com), which respectively, shows a net worth of \$60.3 and \$37.0 billion for a combined total of \$97.3 Billion as of the end of 2022.

⁵ [Time Series | Billion-Dollar Weather and Climate Disasters | National Centers for Environmental Information \(NCEI\) \(noaa.gov\)](https://www.noaa.gov/education/outreach-and-engagement/time-series-billion-dollar-weather-and-climate-disasters)

⁶ [Disaster Declarations for States and Counties | FEMA.gov](https://www.fema.gov/disaster-declarations)

Fully insured properties are less of a concern to the GSEs because the owners are more likely to rebuild and recover after natural disasters thus the costs are less likely to be borne by the GSEs.

Step 2: Assemble the Evidence

The Work Group conducted a comprehensive literature review to help estimate and address mispricing of climate financial risk by federal mortgage loan and insurance agencies. Key studies considered included:

- [Unpriced climate risk and the potential consequences of overvaluation in US housing markets | Nature Climate Change](#)
- [Unpriced costs of flooding: An emerging risk for homeowners and lenders \(milliman.com\)](#)
- [Residential Flood Risk in the United States \(soa.org\)](#)
- [DeltaTerra Klima™ Single-Family Report 2021 \(deltaterracapital.com\)](#)
- [DeltaTerra Response to FHFA Request for Information on Climate Risk](#)
- [Mortgage Finance in the Face of Rising Climate Risk \(nber.org\)](#)
- [RIHA Releases Collection of Essays on Impact of Climate Change on Real Estate Finance – MBA Newslink](#)
- [Protecting Vulnerable Communities: Two Major Opportunities to Insure Flood – CoreLogic®](#)
- [Fannie Mae Survey Underscores Opportunity to Raise Consumer Awareness About Flood Risk and Flood Insurance | Fannie Mae](#)
- [U.S. P & C Insurers Facing Hardest Market in a Generation: New White Paper Examines Mounting Inflation, Claims, Reinsurance and Other Capital Costs | APCIA](#)
- [Inequitable patterns of US flood risk in the Anthropocene | Nature Climate Change](#)
- [How hurricanes sweep up housing markets: Evidence from Florida - ScienceDirect](#)
- [Natural Hazard Mitigation Saves: 2019 Report | National Institute of Building Sciences \(nibs.org\)](#)
- [NFIP Affordability Report to Congress \(fema.gov\)](#)

The Work Group also interviewed many experts about the GSE risk, including:

- John Seo, Fermat Capital Management;
- Edward Seiler, MBA Research Institute for Housing America;
- Leighton Hunley and David Evans, Milliman Actuarial Consulting Firm;
- Howard Botts and Howard Kunst, CoreLogic; and
- Matt Eby and Jeremy Porter, First Street Foundation

Step 3: Construct the Alternatives

Based on NAR staff's historical review of GSE actions, the Work Group considered the following alternatives to address GSE flood risk exposure. Please note that the GSEs

are currently studying their exposure and have not yet proposed a course of action. Nevertheless, the Work Group believes that NAR should get ahead of the curve and thus, provides an evaluation of a realistic range of possible GSE options to help guide members and staff, should the GSEs decide to act. Here are the options:

1. **Take no action.** Allow the GSEs to continue purchasing mortgages without underwriting for flood/climate financial risk. This provides a baseline view of the future in the absence of GSE action so the Work Group can compare alternatives.
2. **Use better flood risk assessment tools.** Encourage the GSEs to adopt more accurate risk assessment tools to determine which properties have an elevated risk of flooding when guaranteeing mortgages. Currently, Fannie Mae and Freddie Mac rely on FEMA flood maps, which do not accurately reflect the risk across most of the U.S. By using better tools, the GSEs may be able to detect more than 10 million high-risk properties not found on FEMA maps. [Here is an analysis](#) which compares the number of properties mapped by FEMA versus the First Street Foundation. [Here is an example of an analytical report](#) that the GSEs would be able to produce by using more current, granular, and accurate tools.
3. **Require flood insurance as an underwriting condition.** Authorize the GSEs to require flood insurance on high-risk homes outside Special Flood Hazard Areas (SFHAs) delineated on FEMA maps. Increasingly, properties are flooding where flood insurance is not required for a federally related mortgage or the NFIP rate does not reflect the full risk. As a result, the GSEs are increasingly responding by forbearing mortgage payments or selling properties at a loss, which means they have less revenue to pay investors and must charge more to lower risk borrowers or draw on capital reserves to make up the shortfall. The GSEs already require full replacement home insurance and could add flood to the list of required perils for which insurance is required. [Check out Fannie Mae's home insurance guidelines.](#)
4. **Build a Flood Risk Capital Fund and charge a Guarantee or "G" Fee.** Direct the GSEs to build a new capital reserve fund earmarked to pay for future flood losses. Currently, the GSEs do not consider environmental risks when reserving capital. This means that when a home floods outside an SFHA and the borrower is unable to make mortgage payments, the GSEs must either forebear payments or sell the damaged property at a loss. The property remains damaged because there is no flood insurance, and the private mortgage insurance will not cover any repairs to the building. With a new "rainy day" fund however, GSEs would have more money to pay for flood repairs but less money to guarantee loans unless they charge a new G Fee to build a flood fund. [Here is what FHFA's 2020 capital rule looked like.](#)
5. **Set building/mitigation standards for GSE loans.** Require that homes in high flood risk areas must meet minimum flood-resilient building standards for a GSE loan. By requiring building standards prior to loan purchase, GSEs could reduce their flood risk, maintain revenue to pay investors, and meet charter/statutory obligations. There appears to be a precedent for this as Fannie Mae and Freddie Mac both require seismic risk assessments and provide mitigation guidelines for the purchase of loans in high earthquake risk zones. [For example, here is Freddie Mac's multifamily seismic risk assessment guideline.](#)

6. **Enhance flood risk disclosure.** Direct the GSEs to disclose more granular flood risk and cost data about the mortgages they purchase. Currently, the Form 10k provides a more general, high-level disclosure to investors that GSE loans could be exposed to flood or climate financial risk. [Here is Freddie Mac's Form 10k](#). If the GSEs were to disclose more flood facts about their loans, prospective investors as well as property owners and renters would be able to make informed decisions about the true risk to the properties, where to buy or rent, and where there may be need for additional insurance or risk mitigation improvements.
7. **Impose geographic restrictions.** Authorize GSEs to restrict lending in high-risk areas delineated on FEMA maps or using modern risk assessment tools such as catastrophe modeling. Today, the GSEs already restrict lending in Coastal Barrier Resources Act (CBRA) zones to properties with flood insurance. This restriction is because those places might be more likely to flood making it harder for people to pay back loans. [Click here for Fannie Mae guideline including CBRA restrictions](#).
8. **Strengthen Ability-to-Repay (ATR) rules.** Lenders selling to GSEs must already determine a borrower's ability to repay a mortgage loan under Regulation Z at 12 C.F.R. 1206. Those rules however do not currently require lenders to consider the cost of flood insurance in the Principal-Interest-Taxes-Insurance (PITI) calculation except if the property is inside an SFHA on a FEMA map. The Consumer Financial Protection Bureau (CFPB) could propose to expand the regulation to include the flood insurance cost for properties in high-risk areas not found on FEMA maps, but it would require an alternative methodology to identify the additional high-risk areas. [Read the CFPB's current ATR regulation here](#).
9. **Create a "Flood Risk Transfer" (FRT) market.** Currently, the GSEs manage their credit risk -- i.e., the risk of borrower default -- by transferring some of the risk to reinsurance and bond markets. This is known as the Credit Risk Transfer (CRT) market, and it may be a model for the GSEs to manage their climate financial risk. However, flood risk is far more volatile than credit risk and it is unclear if the GSEs have the authority to address flood or other climate financial risk. For more about CRT markets, please click here: [Credit Risk Transfer | CRT | Fannie Mae](#).
10. **Adopt none, all, or some combination of the above options.** For example, the GSEs could decide to adopt one or more of the above options to underwrite for flood/climate financial risk. The GSEs could also opt for different options for new and existing construction, as there is less flexibility and more cost to retrofit an existing home than to address the risk at the point of new construction.

Step 4: Select Criteria

The Work Group identified the following objective criteria to help evaluate the efficiency, equity and process of potential alternatives constructed in Step 3:

1. **Maximize the net benefits – i.e., benefits minus costs – to the community.** In a perfectly competitive market, an individual would not decide to build or buy in a high-risk area unless the total benefit of the decision exceeds the total cost to the community as well as the individual. However, due to a lack of information about

flood risk, many individuals are locating in high-risk areas because they are only bearing part of the cost – i.e., the cost to the individual and not to the community. Instead, when the GSEs back these mortgages, the community or “externality” portion of the cost is passed through and paid by investors, lower risk borrowers and taxpayers. In economics, people tend to take more risks when not bearing the full cost of their decisions. This is a market failure known as “moral hazard” and may be addressed by shifting the community/externality cost back to the individual through actuarial insurance rates or another pricing mechanism. This criterion will evaluate whether and to what extent each alternative in Step 3 will address the “moral hazard” and ensure that everyone “internalizes” the full cost of their decisions to buy/build in high-risk areas going forward.

2. **Balance the sustainability and affordability of the 30-year mortgage.** NAR’s Strategic Plan calls for improving housing affordability and sustainability to meet consumer demand. However, by internalizing the social/external cost of flood risk, fewer consumers may be able to afford a home in a high-risk area. Yet, improving the affordability of high-risk properties may not be sustainable in the long term if those properties flood and become uninhabitable for extended periods each year. This criterion will evaluate whether and to what extent each alternative balances these important yet potentially competing housing goals.
3. **Consider the impact and equity to lower income borrowers.** The GSEs have a statutory mission to support a national mortgage market by charging adequate fees to guarantee mortgages while attracting investors and reducing mortgage interest rates. Some fees are “risk-based” but GSEs also have a duty to charge less of underserved communities and use cross subsidization to support the mission. As a result, some homeowners have located in high-risk areas where the cost of homeownership tends to be lower. Others may have located in high-risk areas due to historic discriminatory redlining practices. This criterion will introduce equity into the equation as the Work Group evaluates various alternatives.
4. **Evaluate the political feasibility of alternatives.** While Federal law sets minimum lending requirements, the GSEs may overlay requirements to protect their assets as they lend in high flood risk areas. This criterion evaluates the extent to which alternatives may raise concerns in Congress or the Administration.
5. **Ensure that options are legal and consistent with GSE charter missions and safety and soundness regulations.** The GSEs operate under a series of complex, sometimes conflicting legal, policy, and practical constraints. This criterion will rate alternatives on whether GSEs are meeting legal and statutory obligations.

Steps 5 & 6: Project the Outcomes and Confront the Tradeoffs.

The Work Group projected the impacts of each alternative in Step 3 and confronted the tradeoffs using the criteria in Step 4. There was no single alternative that met all the criteria. Some alternatives achieved higher community net benefits while others addressed equity, process, or political considerations. The Work Group presents the full range of public policy alternatives, criteria and impacts (adjusted to 2021 dollars) in Table 1 below.

Table 1. Annual Cost, benefit, and distributional impact of GSE alternatives to underwrite for flood/climate financial risk.

Alternative	Annual Community Cost	Annual Community Benefit	Impact on Lower Income Households	Feasible	Legal
<p>Take no action</p>	<p>\$1,800-4,500 per home, which is based on the impact to a Freddie Mac mortgage-backed security for:</p> <ul style="list-style-type: none"> • Flood insurance underpayment; • Forbearing loan payments, and • Selling flooded homes at a loss. <p>Source: NAR calculations based on:</p> <ul style="list-style-type: none"> • Gourevitch et al. (2023) • DeltaTerra (2021) • Milliman (2020) 	<p>\$1,500 per home, including the benefits of home ownership to:</p> <ul style="list-style-type: none"> • Community maintenance, revitalization & stability; • Children who grow up in homes, not apartments; • Citizenship as owners tend to be active in the community. <p>Source: Coulson & Li (2013)</p>	<p>Will be increasingly affected and less able to absorb floods due to lack of flood insurance or other resources.</p> <p>Source:</p> <ul style="list-style-type: none"> • Gourevitch et al. (2023) • Wing et al. (2022) • FEMA (2018) 	<p>Yes</p>	<p>Not clear</p>
<p>Update risk assessment tools</p>	<p>\$1 per home, which includes:</p> <ul style="list-style-type: none"> • Updating GSE risk tools based on what FEMA paid Milliman for Risk Rating 2.0 (\$11 million); • Using those tools to identify 10 million more high-risk homes, who could pay more premium than reflected on FEMA maps. 	<p>Depends. Using First Street Foundation tools, the GSEs could detect 10 million more high-risk homes than FEMA maps and reduce losses that can be used to support other lending. But if the GSEs do not disclose or act on the data, there is less benefit.</p>	<p>Depends on if GSEs disclose or act on the better flood risk data</p>	<p>Yes</p>	<p>Yes</p>
<p>Require flood insurance</p>	<p>\$1,000-2,000 per home due to insurance underpayments for:</p> <ul style="list-style-type: none"> • 5.7 million mapped homes; • 3.1 million unmapped coastal homes; and • 4.5 million unmapped inland homes. <p>Also “if insurance premiums were priced at [full actuarial risk], 2% of borrowers would have been denied loans at application.”</p> <p>Source: DeltaTerra (2021)</p>	<p>GSE flood risk is minimized.</p>	<p>Higher insurance costs have not yet reduced housing demand, but low-income owners are less likely to have flood insurance or stay in homes after major hurricanes.</p> <p>Source:</p> <ul style="list-style-type: none"> • Zivin et al. (2023) • Hino & Burke (2020) • FEMA (2018) 	<p>Yes</p>	<p>Yes</p>

Alternative	Annual Community Cost	Annual Community Benefit	Impact on Lower Income Households	Feasible	Legal
Set building mitigation standards	<p><u>New Construction</u>: \$7,800 for a new 2,300sf home to build one foot higher. The source estimates that elevating one foot represents 2.1% of total cost of construction.</p> <p><u>Existing Retrofit</u>: \$158,000-244,000 for a 2,300sf home to retrofit and elevate a foundation by one foot.</p> <p>Source: NIBS (2019)</p>	<p><u>New Construction</u>: \$46,800 for a 2,300sf home to avoid future flood property damage, added living expenses & PTSD based on a benefit/cost ratio of 6:1.</p> <p><u>Existing Retrofit</u>: \$948,000-1,464,000 for a 2,300sf home using the 6:1 benefit/cost ratio.</p> <p>Source: NIBS (2019)</p>	<p><u>Cost prohibitive</u> to address flood risk by retrofitting homes; it is more cost effective to address at the point of new construction by tightening building codes and standards.</p>	Unclear	???
Build flood risk capital fund	<p>\$1,000-2,000 per home based on actuarial insurance cost estimates by DeltaTerra (2021)</p> <p>But rather than paying insurance rates proportional to each home's flood risk, borrowers would pay a national average Guarantee or "G" fee.</p> <p>A G fee would under-charge borrowers with above-average flood risk while undercharging others relative to insurance cost.</p>	<p>GSEs would have more revenue to pay for property damage, but some borrowers will continue to qualify for loans in high-risk areas because the flood insurance cost is not included.</p> <p>According to DeltaTerra (2021): "If insurance premiums were priced at [full actuarial risk], 2% of borrowers would have been denied loans at application."</p>	<p>A G-fee approach could be structured to address affordability.</p>	Yes	Yes
Impose geographic restrictions	<p>High. If the GSEs no longer lend in FEMA special flood hazard areas, 6 percent of loans in a Freddie Mac security could be affected (source: DeltaTerra (2021)). There would be a multiplier effect to the economy as well as impacted communities.</p>	<p>GSE flood risk is minimized but the benefit is partially offset by loss of lending in certain areas; requiring flood insurance would achieve the same benefit, but without the offsetting loss.</p>	<p>Lower income homes in high risk areas are less likely to have flood insurance according to FEMA.</p>	Unclear	???

Alternative	Annual Community Cost	Annual Community Benefit	Impact on Lower Income Households	Feasible	Legal
Strengthen Ability-to-Repay Rule	According to DeltaTerra (2021) in one Freddie Mac security, 2% of borrowers would have been denied loans at application.	GSE flood risk is reduced as the cost of flood insurance is added to PITI calculations for loans.	Fewer lower income applicants may qualify for a loan in high-risk areas.	Yes	Yes
Disclose flood risk to GSEs	Unclear. Some are concerned that disclosing this data could “spook” the market and result in lenders, insurers and investors pulling out of certain communities.	However, investors, borrowers and taxpayers can make risk informed decisions , and there is a significant investor appetite for flood risk based on the growth of catastrophe bonds.	Depends on how lenders, insurers and investors respond to flood risk disclosures.	Yes	Yes
Create Flood Risk Transfer market	Unclear. Flood is more volatile than credit risk so a market may not develop like it did for Credit Risk Transfers. If the market developed, the benefits of a consistent and deep market would attract investor at a lower ROE and cost to the consumer.	If a market develops, GSEs could shift some flood risk exposure to those investors who have an appetite based on the growth of catastrophe bonds.	Shifting flood risk to reinsurance or bond markets is a tool to manage risk; it does not change the risk or cost to borrowers.	Unclear	???

Steps 7 & 8: Decide & Share the Results

Based on the foregoing analysis, the Work Group recommends that NAR:

1. **Develop a blueprint for climate financial risk by beginning with the flood risk to the GSEs.** Flood is the largest climate financial risk, but most homeowners do not have flood insurance to repair property damage, which means that the GSEs could have to forebear mortgage payments or sell properties at a loss after major floods. Because the GSEs help finance half of all U.S. mortgages annually, the GSE response to uninsured flood risk will guide the market on how to address climate financial risk.
2. **Encourage GSEs to use better risk assessment tools to identify and disclose all special flood hazard areas in the U.S.** There are too many stories of people who never would have moved into an area if they had known the risk. The First Street Foundation, CoreLogic, and others are using more granular, modern, and accurate risk assessment tools to delineate more special flood hazard areas than FEMA maps. The GSEs should hire one or more of these companies to identify all the special flood hazard areas and use these tools to disclose flood facts about the properties they guarantee so that GSE investors, property buyers and renters, and taxpayers can make informed decisions.
3. **Require flood insurance for GSE new construction loans in all special flood hazard areas across the U.S.** Because FEMA maps do not identify all the special flood hazard areas, at least 10 million properties have a high flood risk but are not required to build to flood standards or purchase flood insurance. When properties are built too low in harm's way, the owners often turn to a real estate professional to help them sell properties with high insurance costs and/or past flood damage. Requiring flood insurance would reduce the GSE exposure and ensure that home builders and buyers qualify for loans in high-risk areas only when considering the total cost of home ownership, including flood insurance.
4. **Continue working to identify reasonable climate financial risk options for existing properties.** While identifying and discussing many options, the Work Group was not able to reach consensus on reasonable alternatives to minimize GSE flood risk while balancing existing housing affordability and sustainability concerns. Meanwhile, federal agencies, lenders, insurers, investors, and other key players, such as Blackrock, continue to move forward, and NAR could miss an opportunity to help shape alternatives to address the climate financial risk.
5. **Reauthorize and strengthen the National Flood Insurance Program (NFIP).** The GSEs would be less exposed if more property owners purchased flood insurance. NAR policy supports providing federal grants or loans for policyholders to elevate, mitigate or relocate. NAR should explore targeting and means-testing assistance so that lower income families can purchase flood insurance from the NFIP.