

Government shutdown is delaying flood insurance needed for home sales

CBS News

Some 40,000 homes could be left “unsold” for each month the government shutdown lasts, according to the National Association of Realtors (NAR). And in its latest monthly housing report, the NAR predicted “slower economic growth” if employees of the Federal Emergency Management Agency (FEMA) remain off the job, unable to approve the flood insurance that can be key to home sales.

“Unlike past government shutdowns, with this present closure, flood insurance is not available,” said Lawrence Yun, the NAR’s chief economist. “That means roughly 40,000 homes per month may go unsold.”

The housing dilemma is due to a FEMA announcement that will primarily affect Florida, Louisiana and Texas. FEMA said it will no longer sell new flood insurance policies through private insurers “due to the lapse in appropriations” for the National Flood Insurance Program (NFIP) that it runs. The NFIP funds most of the 5 million flood insurance policies issued in the U.S., and more than half are in those three southern coastal states.

Prior shutdowns of the flood insurance program were due to Congressional failure to reauthorize the NFIP. This caused widespread economic loss throughout the South’s real estate markets before it was eventually reactivated. Banks will not approve mortgages for potential buyers who want to purchase homes in flood-prone areas defined by FEMA maps, both in coastal locations and along rivers and streams. It will also be difficult for home builders to obtain construction permits for businesses and residences.

But just before Christmas, Congress specifically authorized an extension of the NFIP until May 31 and President Trump signed the legislation. Then on Dec. 27, FEMA issued a statement saying it could not process policies due to the fees given to private insurers that handled them.

These fees are “an impermissible funding obligation during a lapse of annual appropriations,” FEMA said in a statement on its website, which is now shuttered due to a “lapse in federal funding.” FEMA is not responding to either calls or emails.

FEMA's move was labeled unnecessary by congressional members and business leaders. "By refusing to renew or sell flood insurance ... FEMA is not only thwarting congressional intent, but also hurting countless homeowners across the nation who reside in flood-prone areas," said Randy Noel, chairman of the National Association of Home Builders, a Washington D.C.-based trade association. Thousands of building permits for both homes and businesses could be affected if the problem persists, according to one estimate by an insurer.

But others view the move as having limited effect at a time when the real estate market is at its lowest point in the year — unless the government shutdown continues well into January. "December is typically a slow month for home sales in most parts of the country," said Lynne McChristian, a representative of the Insurance Information Institute, which provides data to home insurers. "Real estate, however, is all about location. And what makes a location attractive in January is a warm climate by the coast."

McChristian also said that the NFIP is not the only way to obtain flood insurance. "Prospective buyers have options in the private flood insurance market now and many private insurers offer flood insurance at comparable prices that may also be more comprehensive."

Chief Executive Craig Poulton of private insurer Poulton Associates predicted that "we will see a rush of applications, and so will other private insurers." He claimed his company could offer a quote to more than half of them.

He also said the FEMA move was somewhat bogus. "FEMA could turn on the NFIP spigot right now," he suggested. "These FEMA people will get paid when the government goes back to work. What FEMA is saying is that it's not important enough for these people to go to work."

FEMA itself said in its statement that it was "currently reviewing all legal authorities that would allow the NFIP to continue operations without interruption."

Some consumer representatives suggest it may be time to get rid of the NFIP altogether, since it funds homes and businesses that perennially flood and have to be refunded, putting the program nearly \$21 billion in debt.

"FEMA is always behind with its mapping process for flood zones. With all the GPS technology it could be done much faster," said Amy Bach, executive director of consumer group United Policyholders.

"Ending the FEMA flood insurance program would be a good thing for many reasons," said Robert Hunter, director of insurance for the Consumer Federation of America. "But not in this fashion."