In My Opinion

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Flood Insurance
By Gary Taylor, CRB, GRI, CDPE, Summa Professionals Real Estate Group

I have read a lot recently about the new flood insurance law that basically repealed most of the 2012 Biggert-Waters Flood Insurance Act. (Congress does have a sense of humor with “Big…Waters” as sponsors of the bill!) It seems we want to have our cake and eat it too. The 2012 law was designed to eventually bring flood insurance rates to market rates and end federal government subsidies, which are very expensive. The original bill in 2012 passed with an overwhelming majority of both Democrats and Republicans. Everybody patted themselves on the back and was happy that the bipartisan legislation had saved the government billions of dollars. That is, everybody was happy until reality set in.

It seems like we are all for the government getting rid of pork and subsidies until it affects us individually. I am just an individual real estate broker working in a state that is not affected by flooding nearly as much as other states. I listed a beautiful, rural property last winter in Banks for $265,000 - which got you a house and barn on five acres just off the Sunset Highway and near Intel. The price included many fruit trees, two goats, and all the chickens the raccoons had not yet had for dinner.

The seller had several offers within days, and eventually accepted three offers. The property is now off the market because none of those transactions closed. It did not sell. To make a long story short, the transactions failed because of the cost of flood insurance. The buyers were quoted from $6,000 per year to $12,000 per year. The current seller pays $1,850 per year. It doesn’t take a brain surgeon or loan underwriter to figure out that most buyers in the $250,000 price range are not willing, nor able, to pay up to $1,000 per month for flood insurance. The seller has a current mortgage that must be paid off upon sale, so the end result is the seller either must stay on the property, or let the bank foreclose.

This scenario was repeated thousands of times all over the country after the flood insurance reforms of 2012. With members of Congress up for re-election and constituents mad as all get-out, they got rid of the more onerous provisions of the 2012 bill. Now my seller in Banks should be able to offer the property for sale again with his flood insurance premium assumable at the $1,850 per year rate. (Please don’t call him! He is now not selling for a while for personal reasons.)

I have read quite a few articles on this subject in the last few months, and am surprised by what I read. It seems like it is either a black or white issue with people of various political viewpoints. A recent issue of Time magazine devoted several pages to the issue promulgating the viewpoint that the country cannot afford to subsidize flood insurance. What got me a little hot under the collar is that the author did not once give an example of what happened to people like my Banks client. They talked about gross numbers and millions and billions of dollars, but not...
people. The article did give examples of several people who have rebuilt many times after floods and collected in insurance far more than the property is worth. Granted, these kinds of things happen, but my guess is there are thousands of people like my client for every person who has taken advantage of the flood insurance program. I don’t believe this is an all or nothing situation. For example, the first floor of the Banks home is about five feet below the floodplain level of Dairy Creek. It flooded in 1996 when I was on national TV piling sandbags around the Tualatin RE/MAX office, and there were people in boats drifting down the parking lot. At the time, flood insurance paid for the repair of the Banks property; why did the Federal Government not help subsidize the raising of the house up past the flood plain level to essentially minimalize the possibility of flooding in the future, and reduce or eliminate the requirement for flood insurance on the property?

I am not an engineer, politician, surveyor, actuary or insurance agent, but my educated guess is that if the government had helped raise that property in 1996 by flat out paying for it, or subsidizing a loan to do so, the total amount the government has had to spend on that property in subsidizing the flood insurance premiums since then would be considerably less. There would be little or no need for flood insurance the past 18 years, and the property would be worth more. There must be other ways of thinking “out of the box” on this problem. Why does the problem have to be conservative vs. liberal and a platform for disagreement, rather than an opportunity to help people and solve a problem?

Oh, that’s right, the people I am asking to think “outside of the box” are the ones who spent ½ of a billion dollars on a website that doesn’t work. What was I thinking?

All this flood insurance stuff does not affect most of us here in Oregon. However, what happens to us if lenders suddenly decide that earthquake insurance is a requirement to obtain a mortgage? If the “big one” hits, what would be our premiums be after that? How would that affect real estate sales?

As an aside, the National Association of Realtors® went to bat for homeowners in lobbying for the new legislation that helped homeowners out of the flood insurance debacle.

As always, these are just my opinions. Sometimes I am right!

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