



January 11, 2022

The Honorable Deanne Criswell
Administrator
FEMA
500 C St SW
Washington, DC 20472

Dear Administrator Criswell,

Fannie Mae appreciates the Federal Emergency Management Agency’s (“FEMA”) outreach to the public through its Request for Input on FEMA Programs, Regulations, and Policies issued on October 12, 2021 (the “RFI”). Through the RFI, FEMA invited comment on several questions related to revising the National Flood Insurance Program’s (“NFIP”) floodplain management standards (the “Standards”). We understand that FEMA’s intent is to solicit recommendations from the public on how to better align the Standards with the current understanding of flood risk and flood risk reduction approaches and to understand which of the Standards the public believes communities should adopt to result in safer, stronger, and more resilient communities.

Fannie Mae believes that FEMA has a valuable opportunity to leverage its trusted position to increase consumer awareness and education on climate-related risks, particularly flooding. The focus of this response is specific to the Standards and is primarily on questions 5 and 11, with additional information that may be helpful for other related topics. Fannie Mae is making the following recommendations:

First, we recommend that FEMA establish standardized flood risk disclosures and promulgate regulations requiring their use in various contexts. These flood-related disclosures, if required as part of the disclosure package for the sale of residential real property, would equip potential buyers with the information needed to make an informed decision regarding the flood risk associated with their new home. Disclosures could include, for example, a property’s current flood zone designation, past property flooding events, and current flood insurance coverage on the home.

Second, although not directly addressing an RFI questions, we recommend that FEMA increase the transparency and improve the utility of the National Risk Index (“NRI”). The NRI is an excellent tool; however, its utility could be improved to make it more readily accessible to consumers and other interested stakeholders. To our knowledge, FEMA has not issued an RFI on the NRI so we are including recommendations here given the potential importance of the metric. For example, NRI functionality could be improved to allow stakeholders to embed NRI in risk research and risk measurement processes. One of the ways this could be done is to create multiple avenues to solicit more feedback from groups and institutions interested in natural hazard risks as well as by publishing a roadmap and future update schedule.

We believe FEMA’s mandate should include enhancing access to available flood and other climate-related data to all interested parties (e.g., academic institutions, non-profits, public/private companies) to assist in the identification, quantification, and mitigation of climate-related risks while continuing to protect the personal privacy of individual policyholders consistent with the Privacy Act. Our response in this letter is a continuation of our previous comments submitted on June 21, 2021. We congratulate FEMA for continuing to solicit feedback from the public to improve their programs, and we look forward to the opportunity to share additional thoughts on ways to improve the NFIP and related tools.

Importance of the issue

FEMA currently serves as an essential, central source of data employed across countless institutions that study flood risk and the impacts of climate change. For example, federal mortgage providers are required to leverage the mapping of FEMA flood zones to determine flood insurance requirements for homeowners who live within a Special Flood Hazard Area (“SFHA”). FEMA also serves as a source of information for consumers through everyday tools.



We commend FEMA for its excellent work as a data provider, although we believe there remain strong opportunities for FEMA to increase consumer awareness. For example, we believe FEMA making more climate-related information readily available will assist consumers, and others, in making educated decisions around climate-related risk mitigation and resilience measures.

Increasing Consumer Perception and Awareness

As we discussed in our previous comment letter to FEMA (*submitted on June 21, 2021*), Fannie Mae recently initiated a nationwide survey of households seeking to better understand the awareness, understanding, and attitudes of respondents towards flood risk, flood insurance, and related resources. To date more than 3,500 participants have responded, with participants selected from areas with varying levels of flood risk. One of the main themes from the survey results was that awareness of flood risk remains low for many individuals, although there appears to be an increasing consideration of potential flood risks. Another important highlight from the survey was that the government is by far the most trusted source (>60%) for flood risk and flood insurance information. We believe these findings suggest that there is a strong opportunity for FEMA to improve consumer awareness of climate-related risks through information, guidelines, and tools.

Updating Disclosure Requirements & Communications

Disclosure requirements for prospective purchasers are a key step to increasing consumer awareness of flood risk in residential real property transactions. Under the current residential real estate disclosure landscape, which varies from state to state, potential homebuyers rarely receive information related to flooding and flood risk during the home buying process. According to our survey, only a fraction of homebuyers claimed to have received flood risk information prior to them acquiring their home. As a result, many homebuyers are unaware of whether their potential home has been flooded before, leaving them potentially exposed to future flooding events and making it less likely for them to proactively adopt flood mitigation measures¹.

One key source of this lack of information is the absence of mandatory disclosure laws. Currently 28 states have minimal or no laws mandating disclosure of flood-related information to prospective homebuyers (*e.g.*, past flood events, current flood zone mapping, presence of flood insurance). According to the National Resource Defense Council (“NRDC”), which rates states from ‘A’ to ‘F’ depending on the depth and breadth of their flood disclosure requirements, only five states (Texas, Oklahoma, Louisiana, Mississippi, and Tennessee) receive a ‘B’ rating or better¹.

We believe FEMA should consider a more active role in increasing consumer awareness of flood-related risks by establishing a national flood risk reporting standard that buyers could use in residential real property transactions. This optional disclosure standard could be based on the current state law disclosure requirements for states designated by the NRDC as having an ‘A’ or ‘B’ rating, and could allow buyers to contractually require sellers to disclose:

- FEMA Flood zone designation;
- Previous flood events and/or flood-related property damage;
- The presence of an active flood insurance policy and the current cost of insurance premiums;
- Any flood insurance claims (including claim dates and amount of damage);
- Any disaster-related aid provided (either federal, state, or local); and
- Any other available disclosures (*e.g.*, elevation certificates)

We believe that FEMA should promulgate regulations to establish uniform flood risk reporting standards, creating consistency across the disclosure landscape for all residential transactions. As discussed above, current flood disclosure requirements vary from state to state, leading to confusion among consumers who are moving from one state to another and increasing operational complexity for companies operating on a national level. Alternatively, with additional Congressional action, the source of available flood disclosures could be shifted from a property seller to FEMA or private vendors using FEMA data. As the source for the NFIP and other disaster aid programs, FEMA should have access to most of the data required for a standard flood risk disclosure, making FEMA the best equipped to craft and manage these standards. We defer to FEMA the question of whether Congressional action would be required to establish uniform flood risk reporting standards.

¹ Source: <https://www.nrdc.org/flood-disclosure-map>



We believe there are several potential additional options in deploying a uniform flood risk disclosure, some of which may require further legislative or regulatory action:

- Congress could require sellers and lessors who obtain NFIP insurance coverage to agree, as a condition to obtaining coverage, to disclose certain flood-related information when selling or letting the property;
- FEMA could consider requiring seller flood-related disclosures as a condition for transferring a NFIP policy at time of property sale;
- Congress could consider requiring communities to adopt ordinances that mandate disclosure of flood risk at the time of property sale as a condition of NFIP participation;
- FEMA could consider requiring states or communities to adopt flood disclosure laws for residential real estate transactions as part of their mitigation plans required to receive Stafford Act benefits²; and
- FEMA could leverage its Community Rating System (“CRS”) to encourage flood-related disclosures. For example, FEMA could provide additional CRS points or even a voluntarily increase in protection levels based on compliance with disclosure standards. This type of system would incentive communities (and individuals) through decreases in flood insurance premiums for strengthening flood-related disclosure standards.

Establishing a uniform flood risk reporting standard also could positively reduce the financial impact that multiple loss event properties have on the NFIP. By increasing awareness of past flood events and other flood information, buyers unable to properly mitigate the disclosed risks (e.g., with flood insurance, other flood resiliency measures) may over time self-select away from purchasing such properties over time.

FEMA, while preparing its flood risk disclosure standards, could also seek to increase consumer education and awareness of flood hazards beyond the current definitions on its flood risk maps because of the expanding nature of flood risk. For example, we believe that FEMA’s current narrow definition of flood risk, as represented on its flood risk maps, promotes a false sense of precision.

In the survey we conducted, we identified gaps between a respondent’s perceived and actual flood risk. While we appreciate FEMA’s implementation of Risk Rating 2.0 to improve the correlation between the flood risk and flood insurance premiums, the binary dividing line and corresponding insurance requirements (e.g., whether a property is inside or outside a designated SFHA) continue to be the driving factors behind how a consumer perceives their flood risk and whether an individual takes action to mitigate flood risk.

Our research also indicates that consumers have faith in FEMA’s flood maps, and the disconnect between Risk Rating 2.0 pricing and flood map designations will likely introduce more confusion. Challenges associated with adoption will be magnified in areas outside of SFHAs where flood insurance is not mandatory because the flood maps will be inconsistent with the actual flood risk being priced via Risk Rating 2.0 premiums. We believe a better system is one where flood maps are regularly updated and are more in line with risk-based premium pricing. Also, when factoring in the observation that consumers trust government sources for identifying flood risk, we suggest that FEMA consider expanding flood risk communication efforts beyond SFHAs, at least to the 500-yr flood zones.

Improving the NRI

In our previous RFI to FEMA (*submitted on June 21, 2021*), we detailed how FEMA could continue to improve existing risk assessment tools (e.g., the HEC-RAS and HAZUS models, as well as the NRI) to help communities understand and plan for potential disruption and damage from natural disasters. We maintain that stance and wish to propose additional recommendations regarding the NRI for your consideration.

We recognize that the creation of the NRI, the dataset and associated tool, continues to be a comprehensive and ambitious undertaking. The NRI is available to consumers and the public to articulate physical risk, estimation of loss, social vulnerability,

² Source: <https://www.law.cornell.edu/cfr/text/44/201.4>



and community resilience at a national scale. The perils and metrics provided enable an understanding of regional risks to various natural hazards. The public nature of the tool enables any institution or organization to have access to sophisticated risk metrics and allows for a standardized approach to natural hazard risk assessment across institutions.

Presently, the market is hampered by the lack of a standard metric or set of metrics to understand the risks associated with natural disasters. However, the NRI represents an excellent opportunity to establish a unifying set of metrics aligned with best practices regarding metric development and maintenance.

Looking ahead, we believe that there are steps FEMA can take to further improve the NRI. As it stands, there is not a clear process or timeline for future updates to the NRI. For reliable and up-to-date analytics, there would need to be known release cycles with transparent updates (e.g., details on specific changes to any methodologies or the underlying data). Ideally, the base data (e.g., historic occurrence counts per peril) would be updated and factored into a revised risk rating for each county and tract. This would allow for analytics that are representative of current natural hazard trends. Another area for improvement of the NRI is that there is uncertainty surrounding the relationship and potential compounding effects of certain perils to each other. For instance, clarity is needed around how the 'Inland Flooding', 'Hurricane', and 'Strong Wind' perils intersect. Specifically, whether there are dependencies across any of these perils and which, if any, of the perils are subsets of others. This lack of clarity limits the use of NRI as a tool to assess the risk of individual properties that are exposed to multiple perils. Additional guidance on how to best combine metrics would be invaluable.

The underlying composition of the NRI is complex, although it has the potential to be informative to consumers as they make decisions about their future. With that in mind, we believe that there is value in FEMA creating multiple and periodic channels for feedback on the NRI from stakeholders across the industry (e.g., consumer groups, realtors, academic institutions, financial institutions, insurance companies). This would enable organizations and/or institutions that utilize the NRI to suggest areas of improvement, encourage further research (e.g., impact on valuations) and ensure that the NRI continues to be a reliable and valuable tool for organizations and individuals to understand and assess natural hazards.

Conclusion

In this letter we have outlined several steps for FEMA's consideration that we believe would improve consumer knowledge and understanding around natural hazard risks. We have focused our suggestions on two areas - a standardized flood disclosure regime and NRI improvements. We believe that increasing climate risk awareness and empowering consumers to make informed decisions is of primary importance. Fannie Mae also encourages FEMA to be mindful of underserved communities and how they might benefit from greater access to information. Often, underserved communities disproportionately feel the negative impacts from natural hazard and other climate-related risks, and empowering those communities to make informed choices should be a priority. Further, Fannie Mae recognizes a gap in the market for a standardized natural hazard metric or set of metrics. Fannie Mae stands ready to provide ongoing feedback to assist FEMA in making the NRI the standard hazard risk metric across the industry.

Sincerely,

Handwritten signature of Timothy Judge in cursive script.

Timothy Judge
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