COLLABORATE. INNOVATE. ACCELERATE.

Statement of the Stewards of Affordable Housing for the Future

In Response to the
Senate Committee on Banking, Housing, and Urban Affairs
Hearing on
Perspectives on Challenges in the Property Insurance Market and the Impact on Consumers

September 7, 2023

Stewards of Affordable Housing for the Future (SAHF) is a national collaborative of twelve nonprofit affordable housing developers that collectively own and operate more than 149,000 affordable homes in 1,900 properties across the country. SAHF is deeply concerned by unprecedented insurance costs and reduced coverage that hinders the ability of housing providers to increase the nation's housing supply and worsens the existing housing affordability crisis. We thank Chairman Brown, Ranking Member Scott and the Senate Committee on Banking, Housing, and Urban Affairs for holding this hearing examining challenges in the property insurance market and the impact on consumers.

Property insurance rates in the United States have increased for the past 22 consecutive quarters. In the last three years alone, housing providers have reported annual premium increases ranging from 30 percent to 100 percent for affordable rental housing communities. Throughout the SAHF network, insurance premiums have risen between 10 and 40 percent annually for the last three years, and 2023 has been particularly demanding as SAHF members experience 30 to 40 percent increases in property insurance costs within their portfolios. A majority of SAHF members are also seeing minimum deductibles on property-level policies increasing from $10,000 to $25,000, and in some cases, up to $100,000. There has been little room for negotiation and are owners are often faced with a 'take it or leave it' approach from carriers. Being uninsured or underinsured is not an option. In many cases, higher deductibles also conflict with requirements imposed by lenders, investors and regulators. To address this, owners must take additional policies or create layered coverages or reserve approaches that add additional expenses or risk defaulting on their financing.

Climate-related disasters are one reason for increased costs and reduced coverage. This instability has had a disproportionate impact on housing providers, developers and other stakeholders in the housing industry nationwide in that many insurers have simply ceased to underwrite multifamily or other similar property casualty policies broadly nationwide or in certain markets prone to natural disasters such as the Gulf Coast. And while news of these carriers leaving markets rightly garners attention from the media and policymakers given their impact on single family homeowners, it's important to note that multifamily property owners of all types face the same, if not worse situation, on a regular basis where insurance carriers who have historically served the multifamily market decide to no longer offer coverage or exit the market/jurisdiction altogether.

The impact on insurance cost increases are especially acute for the affordable housing industry because rents are limited, and even when they are adjusted under their programmatic requirements (which is often 2-3 years after the impact of insurance rate increases are felt), they are simply not able to keep pace with these increases. Nonprofit, mission-driven owners must divert their limited resources from services that directly benefit their residents to account for inflated insurance costs and coverage. We are deeply concerned that left unchecked, these increases will lead to reductions in services for residents and deferral of repairs and capital improvements thus threatening the long-term financial sustainability of the property and in some cases the nonprofit sponsor/owner.

In addition to the impacts of climate change, inflation also plays a major contributor to instability in the insurance market- as construction costs increase across the country additional coverage must be purchased to reflect inflated replacement values. Increasing numbers and claim amounts on liability policies driven by litigation and large dollar judgements is also a significant factor. The misuse of risk-modeling tools like Crime Scores can further exacerbate costs and the ability buy coverage, particularly for community development professionals that are working to revitalize distressed communities.

The Issue of insurance costs and coverage nationwide is so urgent that SAHF, along with the National Multifamily Housing Council and National Apartment Association and other housing trade associations, recently created an industry task force focused on finding consensus-driven solutions to the current challenges in the insurance market. Our primary objective is to be sure that all housing providers can meet long-term housing needs of our current and future residents now and in the years to come.

We urge the Committee to work together with stakeholders including this coalition to seek short-term and long-term solutions.

- In the short-term, HUD and other federal agencies that provide funding for properties that families and seniors with low incomes call home may need to rethink existing insurance requirements and provide increased flexibility and additional funding to property owners to account for the real-world challenges they face in securing affordable insurance coverage. There are several administrative or regulatory actions that are being discussed among stakeholders and policymakers that could provide some relief include, but are not limited to, encouraging HUD to update its Operating Cost Adjustment Factor (OCAF) moving forward to account for property level insurance increases; require HUD, the Federal Housing Finance Agency (FHFA), USDA (United States Department of Agriculture) Rural Housing and other federal stakeholders to review and update lender insurance requirements; providing Internal Revenue Service (IRS) guidance that allows developers to capitalize a pre-defined amount of insurance premiums in eligible basis under the Housing and allow for expenses related to insurance procurement and risk mitigation activities that improve property resilience to be capitalized and included in the eligible basis. These administrative actions have the potential to provide limited, but important, short-term relief to housing providers operating subsidized affordable housing.

- In the long-term, a greater level of intervention by the federal government in the insurance markets may be necessary given the current market failures stemming from the private market being unable or unwilling to offer property (and other lines) of coverage to property owners of all types. The task force referenced above is early in its work to identify long-term solutions but possibilities could include, among other things, federal support for the property insurance market. Like the absence of accessible and affordable private sector insurance solutions that led to the creation of the National Flood Insurance Program (NFIP) and the Terrorism Risk Insurance Act (TRIA), today's lack of capacity in the insurance and reinsurance markets is reaching crisis levels and has begun to raise serious alarm across the entire financial system with trillions of dollars in uncovered or uncoverable risk across real estate.

- With no end in sight to climate-driven catastrophic disasters, Congress and the federal government must also do more to ensure all types of affordable, senior and middle-income housing properties are eligible and can benefit from pre-disaster mitigation funding and support. Resiliency is one way to improve the insurability of our affordable housing communities but that can only be realized with the support of Congress. For too long, low-income rental communities have not been prioritized for existing mitigation funding and too often guidance or other federal efforts have been unrealistic or cost-prohibitive for most non-profit or affordable housing operators who do not have the substantial required resources to engage in this important work on their own.

We need to act now. Our country already has a shortage of 7.3 million homes affordable to the lowest income people – we cannot afford to jeopardize existing rental homes or slow the creation of new ones by allowing this unsustainable landscape to continue.

Thank you for your leadership and prioritization of these concerns. We look forward to working with Chairman Brown, Ranking Member Scott and all members of the Committee to address these challenges in the 118th Congress.

1120 G Street NW Suite 800, Washington, D.C. 20005 ● P (202)737-5970 ● www.sahfnet.org