



Testimony On
“Perspectives on Challenges in the Property Insurance Market and the Impact on Consumers”
Before the
Senate Banking Committee
by
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Mr. Chairman, Ranking Member Scott, and Committee Members, thank you very much for the opportunity to speak with you today about challenges in the current property insurance market and how this is impacting the multifamily housing market, and particularly the affordable housing sector. My name is Michelle Norris, and I am the Executive Vice President of External Affairs and Strategic Initiatives at National Church Residences.

National Church Residences was founded on a Christian commitment to provide housing, health care and other services to older adults.¹ For nearly 60 years, our team of 2,323 staff members across 23 states has maintained that commitment and remains dedicated to providing affordable rental homes. Today we provide for more than 20,000 seniors—who earn on average just \$15,000 a year—affordable and healthy homes.² In providing homes for older adults nationwide, we are guided by our core values: (i) purposeful service where we are inspired to serve seniors so they can thrive in safe and loving homes; (ii) compassion for fostering a caring community of dignity and belonging; (iii) pursuing equity and inclusion to respect, value, and protect our employees, residents, and all whom we serve; (iv) commitment to the highest standards of integrity, quality, stewardship and safety; and (v) servant leadership by placing the needs of others first.³ By 2030, NCR will scale for mission impact, advancing better living options for 100,000 seniors.⁴

While I am testifying today on behalf of National Church Residences, my remarks largely reflect those of a growing coalition of multifamily housing providers and trade associations concerned by trends in the insurance market, including unprecedented and climbing insurance rates and reductions in coverage, and the significant impact this has on the rental housing market, from property owners and developers, to lenders and investors, and the families and older adults living in these homes. I am proud to be associated with these groups including Stewards of Affordable Housing for the Future (SAHF), a collaborative of twelve of the nation's leading nonprofit housing providers, where I currently serve as Board Chair; National

¹ National Church Residences, Living Our Mission, <https://www.nationalchurchresidences.org/about-us/mission-values/>.

² *Id.*

³ *Id.*

⁴ *Id.*

Affordable Housing Management Association where I chair the Regulatory Affairs Committee, and the National Multifamily Housing Council (NMHC), where National Church Residences is a member and which represents the nation's leading firms participating in the multifamily rental housing industry. I also see the impacts of insurance increases and coverage on affordable housing in my roles as a board member of the Corporation for Supportive Housing and as a member of LeadingAge.

The Issue of insurance costs and coverage is so urgent that NMHC, along with the National Apartment Association, SAHF, NAHMA, the National Leased Housing Association, National Association of Home Builders and other allied 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.

I would like to use my time here today to highlight what we know about property and casualty insurance trends and their impact on the multifamily housing industry in general, and on the affordable housing more specifically, and how increases in other insurance types are compounding these challenges. The volatility in the insurance market (not just property and casualty but other types including general liability and builders' risk) hinders the ability of housing providers to increase the nation's housing supply and worsens the existing housing affordability supply crisis.

Multifamily Housing Faces Unprecedented Property Insurance Rates

As of the first quarter of 2023, property insurance rates in the United States have increased for 22 consecutive quarters.⁵ Further, over the past three years, insurance premiums have been subject to unprecedented increases, with providers reporting annual premium increases ranging from 30 percent to 100 percent for affordable rental housing communities.⁶

What does this mean in practice? At National Church Residences, we have seen the property insurance liability for our affordable housing properties increase by over 400 percent over the last 6 years⁷. In recent years there has been little room left for negotiation — carriers have increased premiums and raised deductibles but adopted a 'take it or leave it' approach.

Our experience is not unique. Among our peers in the SAHF network, premiums have risen by 10-40 percent year over year in each of the last three years. The 2023 renewal year has been particularly

⁵ NMHC State of Multifamily Risk Survey & Report, June 2023, https://pages.nmhc.org/rs/676-UDD-714/images/NMHC_InsuranceReport_2023.pdf (the 2023 NMHC State of Multifamily Risk Survey & Report). This study covered 160 respondents that covered a broad range of actors in the housing ecosystem, including, but not limited to, owning 1.6 million units; managing 1.5 million units, with the average portfolio containing 11,292 owned units and 18,973 managed units respectively.⁵ The study also covered several types of housing classes, including Market-rate Class A; Market-Rate Class B, Market-Rate Class C; Subsidized/Affordable; Purpose-built Student Housing; and Age-Restricted (Seniors).

⁶ *Id.*

⁷ National Church Residences' portfolio grew by 20% during this six years but the insurance premiums outpaced this, growing from \$2.5 million to over \$13 million.

challenging where 30-40 percent increases in property insurance costs have been typical in the SAHF portfolio— even after controlling for changes in insured value connected to increases in property values.

In addition to rising premiums, we are seeing reduced coverage. Most SAHF members have seen minimum deductibles on property-level policies increased from \$10,000 to \$25,000 or even \$100,000. The National Church Residences 2024 renewal moved us to a \$100,000 deductible for the first time in our 60-year history. In isolation this may not sound dramatic, but across the portfolios of the 12 SAHF members, it represents more than \$29 million of uncovered risk. In many cases, this also conflicts with requirements imposed by lenders, investors and regulators. To address this, members must take additional policies or create layered coverages or reserve approaches that add additional expenses or risk defaulting on their financing.

We understand that these pressures impact owners and operators of market-rate and affordable rental homes. The impact on the affordable housing industry is especially acute 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) are simply not able to keep pace with these increases. This forces owners and operators of affordable housing communities to offset rising costs with 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.

Property Insurance Rates Largely Driven by Volatility in the Market

The instability of the property insurance market is due to several factors outlined further in this testimony, including the unprecedented frequency of natural disasters. Prior to 2017, the property insurance market was relatively stable in that large catastrophic events were relatively infrequent; thus, allowing insurers to fund and reserve capital as well as plan for the payment of claims for such catastrophes.⁸ Further, the market was relatively competitive and new capital continued to enter the broader market, which allowed for brokers to structure insurance programs in innovative ways that offered broad coverage terms with high insurance limits and low deductibles.⁹ However, starting around 2017, the property insurance market increasingly began to destabilize as more frequent natural catastrophes occurred, in conjunction with the inflationary impact of higher materials and labor costs as was the occurrence of more recent supply chain issues linked to the COVID-19 pandemic.¹⁰ More recently, insured losses arising from natural disasters were calculated at \$121 billion and almost \$115 billion in 2021 and 2022 respectively.¹¹ For National Church Residences, the highest insured losses in our 60 year history all occurred in 2021 and 2022.¹²

⁸ 2023 NMHC State of Multifamily Risk Survey & Report at 7.

⁹ *Id.*

¹⁰ *Id.*

¹¹ Swiss Re Institute, Hurricane Ian drives natural catastrophe year-to-date insured losses to USD 115 billion, December 1, 2022, <https://www.swissre.com/press-release/Hurricane-Ian-drives-natural-catastrophe-year-to-date-insured-losses-to-USD-115-billion-Swiss-Re-Institute-estimates/2ab3a681-6817-4862-8411-94f4b8385cee>.

¹² National Church Residences' highest insured property losses were in \$6.4 million (August 2021, Hurricane Ida); \$13 million for Grove City Manor (September 2022, Hurricane Ian); and \$2.3 million for 44 sites impacted (December 2022, Winter Storm Elliot).

Insured losses in 2022 were well above the ten-year average, with \$132 billion in total insured losses and \$125 billion in natural catastrophe insured losses.¹³ Marsh's May 2023 Market update indicates that the Quarter 1 2023 rate increases trended near 15 percent plus additional building cost increases (i.e. over-10 percent average), culminating in an over-25 percent premium increase.¹⁴

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. For example, Florida has seen unprecedented impacts to its property insurance market due to the frequency of natural disasters. Following the occurrence of Hurricane Ian in Florida in September 2022, United Property & Casualty Insurance Company, a significant regional insurance carrier, became insolvent.¹⁵ At least 16 other Florida insurance carriers have become insolvent since 2020.

The situation in Florida has gotten so bad for insurance carriers that in July 2022, Demotech, the chief ratings firm in Florida, publicly announced that it was on the verge of downgrading more than a dozen insurance carriers in Florida. This action would have implicated the Fannie Mae and Freddie Mac insurance rating requirements requiring additional coverages, which provide that mortgage lenders must obtain additional insurance coverage on applicable properties if an applicable insurer's ratings fall below an "A" rating and if the homeowner is unable to immediately purchase "A" rated replacement policy.^{16,17} Accordingly, the Florida Office of Insurance Regulation announced earlier this year that the state would provide 100 percent backstop coverage of any claim left unpaid by a bankrupt insurer through the Florida Insurance Guaranty Association and the state-run Citizens Property Insurance Corp. The temporary program would be in effect until the end of hurricane season on November 30th.¹⁸ Specifically, this arrangement takes advantage of an exception to Fannie Mae and Freddie Mac's rules, by using Citizens, through an endorsement, to cover outstanding claims that would not be paid by the Florida Insurance Guaranty Association in case the insurer becomes insolvent and is put into receivership.¹⁹ In December 2022, Fannie Mae and Freddie Mac announced that they would accept Florida's insurance stabilization temporary solution given the fluctuations in the Florida insurance sector. However, both entities

¹³ *Id.* at 8.

¹⁴ *Id.*

¹⁵ Storm-Driven Insurer Insolvencies Stir State Actions: Explained, Bloomberg Law, December 29, 2022, <https://news.bloomberglaw.com/insurance/storm-driven-insurer-insolvencies-stir-state-actions-explained>.

¹⁶ Florida Creates Backstop to Protect Homeowners Insurance through Hurricane Season, Program Business, July 28, 2022, <https://programbusiness.com/news/florida-creates-backstop-protect-homeowners-insurance-through-hurricane-season/>

¹⁷ Florida Ratings Crisis: Fannie and Freddie Agree to Accept Citizens-as-Backstop Plan, Insurance Journal, December 8, 2022, <https://www.insurancejournal.com/news/southeast/2022/12/08/698579.htm>.

¹⁸ Florida Creates Backstop to Protect Homeowners Insurance through Hurricane Season, Program Business, July 28, 2022, <https://programbusiness.com/news/florida-creates-backstop-protect-homeowners-insurance-through-hurricane-season/>

¹⁹ Florida Ratings Crisis: Fannie and Freddie Agree to Accept Citizens-as-Backstop Plan, Insurance Journal, December 8, 2022, <https://www.insurancejournal.com/news/southeast/2022/12/08/698579.htm>.

specifically noted that their respective approval was specific only to Florida's arrangement, and other states would have to obtain approval for other state programs, as applicable.²⁰

While this short-term emergency solution is in place in Florida, the factors at play are not unique to that state. During a similar time period, at least 20 insurers in Louisiana have become insolvent or have left the state entirely.²¹ Further, public reporting indicates that states that are prone to natural disasters such as tornado convective storms, wildfires and flashfloods are feeling similar pressures to their respective property insurer markets.²² For example, major insurers such as State Farm, Allstate and AIG all no longer underwrite new homeowners' insurance policies in California due to the state's proximity to several natural disasters.²³

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.

We're seeing these impacts in real time: one SAHF member operating in Florida had their long-time carrier decline to provide coverage for wind related damage. The only coverage they could obtain was at a 1400% increase (227K) which would consume 56% of the property's operating income for wind coverage alone and more than 60% of income spent on insurance. This leaves insufficient funds for management, maintenance and other operational expenses and renders the property financially unsustainable.

Other nuances of the property insurance market that have led to higher insurance rates include (i) the expansion of the litigation funding industry and (ii) the unique dynamics of insurers' investment portfolio performance. The litigation funding industry refers to an approximately \$39 billion industry in which entities such as hedge funds, venture capital funds, and other undisclosed or shadow investors provide funding for commercial litigation that is paid back after insurance settlements related to the litigation are paid out.²⁴ Recent academic literature indicates that a prevalent pattern of the litigation funding industry is such undisclosed entities charging plaintiffs usurious rates in a manner that is similar in scope and risk

²⁰ *Id.*

²¹ More insurance companies pull out of Louisiana: 'We are in a crisis', Fox Business, January 16, 2023, <https://www.foxbusiness.com/features/more-insurance-companies-pull-out-louisiana-crisis>.

²² Property market braced for heavy loss bill from Q1 convective storms, Inside P&C, April 11, 2023, https://www.insidepandc.com/article/2bipkc88n43fsbdriru9s/industry-wide/property-market-braced-for-heavy-loss-bill-from-q1-convective-storms?utm_medium=social+media+organic&utm_source=linkedin&utm_campaign=ipc_contentshowcase_2023-04-11.

²³ Uninsurable America: Climate change hits the insurance industry, Axios, June 6, 2023, <https://www.axios.com/2023/06/06/climate-change-homeowners-insurance-state-farm-california-florida>.

²⁴ How Litigation Funds Are Affecting Lawsuits Against Insurance Companies, Forbes Advisor, March 28, 2022, <https://www.forbes.com/advisor/insurance/litigation-funds/>.

to payday lending.²⁵ The response by the insurance industry to the rise in the litigation funding industry has been to increase insurance rates and tighten coverage requirements, which in turn has resulted in higher rates for coverage holders in the ordinary course of business. For example, in 2020, AM Best, an insurance industry rating agency, downgraded “U.S. commercial general liability insurance segment, owing to unfavorable claims trends driven by social inflation and other factors such as third-party litigation financing.”²⁶

With respect to the nature of insurers’ investment portfolio performance, it is important to note that insurers typically hold significant investments in corporate bonds and structured securities like collateral loan obligations, residential mortgage-backed securities as well as consumer-backed securities, among others. Due to rising interest rates in connection with the inflationary nature of the current economy, the value of these investments has decreased over the last year to two years.²⁷ In fact, this is the exact phenomenon that led to bank failures earlier this year, including Silicon Valley Bank and Signature Bank. Further, rising interest rates have raised the cost of borrowing and doing business for insurance companies nationwide, which has only served to force such insurance companies to find other means of raising capital and offsetting such costs. The primary means by which insurance companies have offset such dynamics has been to raise insurance rates for coverage holders and new applicants, even when applicable risks and the total insurable value (TIV) of an applicable property have not materially increased.

Ultimately, we believe that the main causes of rising property insurance rates nationwide can be summed up through the following high-level factors—the impact of rising inflation and increased labor costs on replacement costs, depleted insurance market capacity constraints and policy limitations, frequency and severity of catastrophic storms, and historical changes in the reinsurance market. Inflation and higher costs as well as the lack of capacity in the insurance and reinsurance market are discussed in further detail below.

- *Impact of Rising Inflation on Replacement Costs Methodology*²⁸: Insurers use varying methodologies for determining a property’s insurable replacement costs (e.g., internal valuations, engaging third party services, relying on the expertise of construction/development teams, using industry standards such as Marshal and Swift, CoreLogic or the National Building Cost Manual, or reviewing guaranteed maximum price schedule of values and other metrics to determine corresponding costs), among other means. Rising inflation in recent years has led to higher construction/rebuilding costs, which ultimately impact replacement costs for properties insured under operational insurance programs. The net effect of this phenomenon is that insurers are raising insurance premiums and rates to account for significantly higher replacement costs. In sum,

²⁵ “Consumer Litigation Funding: Just Another Form of Pay Day Lending?”, Paige Marta Skiba & Jean Xiao, Vanderbilt University Law School.

²⁶ AM Best, Best’s Market Segment Report: AM Best Assigns Negative Outlook to US General Liability Insurance Market, December 15, 2020, <https://news.ambest.com/PR/PressContent.aspx?refnum=30201&altsrc=9>.

²⁷ “The Impact of Rising Rates on U.S. Insurer Investments,” National Association of Insurance Commissioners, February 2023, <https://content.naic.org/sites/default/files/capital-markets-special-reports-impact-of-rising-rates.pdf>.

²⁸ *Id.* at 9-10.

since March of 2020 when the COVID-19 pandemic began, construction costs have increased dramatically due to the economy’s current inflationary environment, which has resulted in significant increases in the replacement value of current rental housing assets. When the TIV of multifamily housing assets increase, housing providers are forced to buy higher limits of insurance coverage, which causes premiums to increase.

- *Insurance Market Capacity Constraints and Policy Limitations*²⁹: Additional capital is exiting the market due to additional losses and corresponding increases in capital from reinsurers. Further, the reinsurance market is separately undergoing volatility as well. For example, as of January 2023, treaty reinsurance renewals have been seeing significant rate increases, together with reductions in capacity and increase in retentions for catastrophe capacity. Given new and more frequent catastrophic events and disasters in recent years, carrier risk models have been adversely affected, which has limited underwriting profitability. Accordingly, insurers are being forced to take such factors into account, which results in significant rate increases and limited capacity for coverage.

Broader Insurance Issues Impacting Multifamily Housing

While the focus of this hearing is on property insurance, we also wanted to highlight issues concerning other types of insurance coverage that compound challenges facing the multifamily housing industry. NMHC conducted a survey of its members in June 2023, and found unprecedented increases in rates for various types of insurance coverage:³⁰

Type of Insurance Coverage:	Average Reported Percent Increase From the Previous Year:	Maximum Reported Percent Increase From the Previous Year:
Property	26.4 percent	120 percent
Liability	14.7 percent	133 percent
Umbrella	16.6 percent	226 percent
Earthquake	14.9 percent	55 percent
Terrorism	6.2 percent	80 percent
Cyber	24.4 percent	220 percent
Crime	4.7 percent	25 percent

This data is consistent with other studies that have been issued in this space. For example, in May 2021, NDP Analytics issued data for 174 affordable and conventional housing providers that operated an aggregate of 2.6 million apartments, which data indicated that insurance premiums increased in 87 percent of policies renewed in 2020 and 2021.³¹ In addition, the data provided that more than 60 percent of umbrella policy premiums increased by more than 15 percent.³² Specifically, this survey provided a

²⁹ *Id.* at 12-14.

³⁰ *Id.*

³¹ NDP Analytics, Increased Insurance Costs for Housing Providers, May 2021, <https://www.irem.org/file%20library/globalnavigation/learning/tools/researchreports/housingproviderinsurancecostsrportmay2021.pdf>.

³² *Id.*

number of highly-problematic results with respect to unprecedented increases in premiums for various lines of insurance coverage applicable to the real estate and affordable housing markets, as set forth below.

Relevant Statistics from NDP Analytics 2021 Survey:

- Across all lines of insurance, premiums increased for 87 percent of renewed policies in 2020 and 2021. Premium increases were most common for general umbrella/excess liability and commercial property insurance. These lines also had the highest magnitude increases. For general umbrella/excess liability insurance, premiums increased for 95 percent of policies including 26 percent with rate increases over 30 percent in 2020 and 2021. For commercial property insurance, premiums increased for 94 percent of policies including 14 percent with rate increases over 30 percent during the same period.³³
- For all lines of insurance, the share of 2020 and 2021 policy renewals with increased premiums was similar across regions, ranging from 85 percent for policies held by housing providers who primarily operate in the Northeast to 89 percent for those in the South. However, the magnitude of increases varied. Housing providers in the South reported higher premium increases than other regions. Increased premiums were most frequent among housing providers with insurance policies covering both affordable and conventional housing units (90 percent of policies had increased premiums), followed by housing providers with policies specific to affordable housing (86 percent), and those with policies specific to conventional housing (84 percent).³⁴
- For general umbrella/excess liability insurance, the share of 2020 and 2021 policy renewals with increased premiums ranged from 92 percent for housing providers primarily operating in the West and Midwest to 97 percent for those in the South. However, housing providers in the Northeast reported the highest premium increases with 16 percent increasing by over 100 percent. Housing providers with insurance policies that covered both affordable and conventional housing units reported the most general umbrella/excess liability premium increases (97 percent), compared to 93 percent for those with policies specific to affordable or conventional housing.³⁵
- For commercial property insurance, the share of 2020 and 2021 policy renewals with increased premiums ranged from 91 percent for housing providers operating primarily in the Northeast to 96 percent for those in the Midwest. The highest premium increases were reported by housing providers in the South and West. Housing providers with policies covering both affordable and conventional housing units reported the most commercial property premium increases (96 percent), compared to 93 percent for housing providers with policies specific to affordable housing and 92 percent for those with policies specific to conventional housing.³⁶

In the few years since this data was collected in 2021, inflation and other economic factors have only served to exacerbate the impacts of rising insurance costs for all housing stakeholders.

³³ *Id.* at 3.

³⁴ *Id.* at 4.

³⁵ *Id.* at 5.

³⁶ *Id.* at 6.

In addition, housing developers and builders have seen significant increases in the rates for builders' risk insurance policies.³⁷ Due to many of the factors described herein, insurers have generally tightened the underwriting criteria for builders' risk policies, which have led to significantly higher deductibles, warranty requirements, and premium amounts.³⁸ This trend has particularly been shown in jurisdictions and markets that are prone to natural disasters, such as the Gulf Coast area, among others. That said, "typical" underwriting criteria for builders' risk policies often make obtaining such policies increasingly challenging for applicable parties. This is because underwriting requirements typically include stringent requirements for costly security measures and other things, including, but not limited to, security fencing, video monitoring, and/or 24-hour security, all of which only adds to the costs associated with a typical project.

For general liability policies, recent trends indicate that many providers of such policies are declining to underwrite and issue insurance policies in affordable housing/subsidized housing communities and/or in jurisdictions and communities where there is a segment of subsidized housing located therein. While many of the factors described in this statement contribute to such pattern, one additional factor of note is the use of the "crime score" methodology by several insurance carriers, particularly in the multifamily housing space, who use such score as a metric to assess and price general liability risk. The "crime score" methodology is utilized by such insurance carriers to decline to underwrite and issue a policy with respect to a property located in an area that has a "crime score" above a specified "crime score" threshold. The immediate impact of use of such "crime score" methodology by insurance carriers is that there is a disproportionate and negative impact on multifamily and affordable housing growth because many affordable housing units are often located or proposed to be developed into communities that have higher "crime scores". There are also several issues in the actual methodology related to "crime scores", as raised in a study conducted by the Center for Real Estate Excellence at Virginia Tech, whereby many stakeholders are concerned that the use of such methodology not only disincentivizes insurers, developers, and other stakeholders from participating in the affordable housing market, but also serves as de-facto discriminatory redlining of affordable housing communities.³⁹

Insurance Rate Increases Negatively Impact Affordable Housing Supply

Affordable housing communities, including, but not limited to, those developed using the Low Income Housing Tax Credit (Housing Credit) are income-restricted (i.e., typically eligible only for households earning more than 60 percent of area median income (AMI)) and rent-restricted (i.e., typically where programmatic rents are established so that the aggregate housing costs do not exceed 30 percent of a household's income or of an income limit). These restrictions mean that providers of affordable rental homes typically cannot pass through insurance rate increases to their residents via rent increases. Instead, increased costs mean reduced cash-flow at properties or the depletion of property reserves. Without addressing these cost increases, affordable housing providers could be forced to defer maintenance plans

³⁷ Carriers Shift More Risk Onto Builders For Multi-Family Frame Projects, CRC Group, 2022, https://www.crcgroup.com/Portals/34/Flyers/Tools-Intel/Builders%20Risk%20SOM_Final.pdf?ver=2022-07-29-075543-540.

³⁸ *Id.*

³⁹ Roberts, Jeffrey G., "10 Reasons to Carefully Consider How Insurance Carriers Use Crime Scores to Assess Risk in the Affordable Housing Industry".

and services, and reduce services for residents or in the most extreme cases forgo coverage triggering a default on debt.

Ultimately, affordable housing providers may be forced to consider whether to opt-out from participation in the affordable housing market if insurance and other operating costs continue to outpace allowable rent.

Preservation of affordable housing also becomes a challenge as rising insurance costs and higher operating costs mean lower Net Operating Income (NOI). Lower NOI, means you can borrow less. It also leaves less for return on equity investments. If you can borrow less or attract less investment, it becomes more difficult to finance the construction or preservation of affordable rental homes.

For example, one of our fellow affordable housing organizations in the Pacific Northwest saw a \$495,000 reduction in the loan proceeds (what they could borrow) due to increases in insurance premiums between underwriting and final closing of a property recently. For transactions already in development, owners, funders and government partners are scrambling to close these gaps and protect existing investments. However, for future transactions affordable housing developers must ask themselves whether they can accept the risk of these funding gaps that jeopardize the completion of new rental units. For nonprofits, like National Church Residences, that regularly reinvest proceeds into mission, we simply cannot afford to continually forgo or defer development fees or contribute additional funds to these transactions.

Rising insurance rates have contributed to this untenable situation not only because of the added costs, but also due to the unique nature of insurance coverage and requirements that are imposed on housing providers. While housing providers and developers can take steps to reduce certain operating expenses (e.g., lowering utility expenses through investments in energy efficient designs) there are few to no options to mitigate the costs of rising insurance premiums. Private-sector and public-sector lenders, ranging from private sector banks and investors to State Housing Finance Agencies, the Department of Housing and Urban Development (HUD), and the Department of Agriculture, among others, typically require housing developers serving as their borrowers to obtain and maintain property casualty and general liability insurance policies as a condition to receiving financing for the duration of the loan. Housing providers and developers do not typically have alternative options for obtaining and maintaining such insurance policies; thus, they are stuck having to pay for these policies even if the rising costs are well-above standard metrics such as inflation, the consumer price index, or others.

Within the current economic climate of persistent inflation, housing developers and providers are already dealing with supply chain disruptions and increased construction, development, operation, maintenance, and other costs that are making the construction and operation of affordable housing units increasingly untenable. Unprecedented rises in property insurance rates have further disincentivized housing providers from participating in the affordable housing market. This ultimately impacts not only housing providers, but also the existing residents they serve as well as everyday Americans who are desperate for affordable housing opportunities and need the supply of affordable housing units to increase accordingly. As insurance rates rise or availability for affordable coverage declines, housing providers are left with no

choice but to avoid or remove themselves from the affordable housing market, or in certain cases, raise rents or lower services, all of which is significantly detrimental to renters nationwide who are in a sustained need for affordable housing opportunities.

Property Insurance Challenges Require Short -Term and Long-Term Policy Solutions

As the Committee and other policymakers evaluate ways to stabilize the insurance markets and ensure housing providers and the broader consumer market has access to affordable and attainable coverage to mitigate property and other risks, we believe there is a need for both short-term and long-term policy 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. SAHF, NMHC, NAHMA, NAA and other stakeholders in the real estate industry are early in its coalition work to identify possible, long-term solutions. 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.

The reality facing rental housing operators, absent a multi-pronged federal response in these areas, will deteriorate further and only exacerbate the challenges we already have in providing housing that is affordable to those in need.

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 efforts to explore and address these significant challenges. I am honored to have had this opportunity to testify today. As the Committee and Congress consider various proposals in this space, we stand ready to work with all stakeholders and policymakers to further these efforts in an effective manner.