2024 Insurance Summit Fact Sheet

Challenges in the Property Insurance Market and HUD's Actions

Over the past several years across the nation, homeowners and housing providers have experienced significant increases in property insurance premiums and deductibles, reductions in coverage, added requirements, and withdrawals of insurance companies from certain markets. Increased insurance costs and the unavailability of coverage are negatively impacting HUD's program participants, including public housing authorities (PHAs), multifamily property owners, homeowners, and healthcare providers.

The Department of Housing and Urban Development (HUD) is taking action to mitigate the impact to stakeholders and communities.

RENTAL HOUSING. Unlike owners who provide market rate housing, affordable housing providers generally cannot pass on insurance cost increases to tenants through increased rents. HUD staff have heard that individual affordable housing properties faced with suddenly higher insurance costs are coping in short-term ways: reducing coverage, choosing a higher deductible, changing insurers, reducing services or amenities to cut costs, and using property reserves to cover higher premiums. Owners and PHAs have also reported that they may have to resort to delaying capital repairs or sales of properties and consolidation of portfolios.

Additionally, financing deals for development of new properties are becoming more difficult to pencil out or close. For FHA Multifamily Mortgage Insurance Programs, underwriting projections are now taking into account higher insurance costs, which makes underwriting new loans more difficult and generates lower loan amounts for acquisition and renovations.

SINGLE FAMILY HOUSING. According to HUD's Office of Single Family Housing, difficulty in obtaining sufficient insurance coverage at a reasonable price affects FHA borrowers in all property types for new and existing construction across the nation. For existing FHA borrowers, rising insurance costs increase monthly housing expenses, causing financial stress on the borrower and affecting their ability to maintain monthly mortgage payments. Lower-income and otherwise financially constrained borrowers will be particularly at risk, as will homeowners in higher risk areas where costs are expected to increase the fastest.

In many instances, companies are simply not renewing existing insurance policies, leaving consumers searching for new, and often more expensive, policies that often provide less coverage. If a homeowner does not replace their coverage, their mortgage servicer will likely purchase it for them—these "force-placed" insurance plans are typically the most expensive option available and may provide less comprehensive coverage.

Additionally, the lack of affordable and available insurance coverage can also make it more challenging for individuals to sell their home. For potential borrowers, increasing insurance costs may limit affordable housing options or participation in the market altogether.

NATIVE AMERICAN HOUSING PROGRAMS. In recent discussions with HUD's Tribal Intergovernmental Advisory Committee and other stakeholders, rising insurance costs have emerged as a critical issue affecting Tribes and Tribally Designated Housing Entities (TDHEs). These challenges extend beyond Indian Country, with Tribes facing unique hurdles such as limited access to insurance markets in remote or economically disadvantaged areas, leading to high premiums and difficulties in securing coverage. Environmental risks, including increased occurrences of natural disasters on tribal lands, further compound these challenges. The sharp rise in insurance costs, exceeding 30%, has placed families at risk of foreclosure across various regions. Some Tribes have responded by establishing risk management pools, yet regulatory obstacles and sparse insurer presence in remote regions continue to impede effective solutions.

HEALTHCARE PROGRAMS. Healthcare providers who participate in HUD's Section 232 Mortgage Insurance for Residential Care Facilities program or Section 242 Mortgage Insurance for Hospitals program have reported issues with maintaining affordable insurance coverage, particularly in communities hard hit by natural disasters, such as rural areas, the Gulf Coast, and California.

GINNIE MAE GUARANTY PROGRAM. If insurance cost increases render single family and multifamily borrowers incapable of making their mortgage payments, Ginnie Mae issuers would be faced with the costs to pay ongoing principal and interest payments to investors, the purchase of nonperforming loans out of Ginnie Mae securitized pools, and advances of taxes and insurance for properties associated with nonperforming mortgages until a loan is submitted to the underlying government guaranty/insurance agency for claim payment. Precipitous growth in these costs could pose liquidity constraints for mortgage lenders and servicers, and in the event they are unable to meet their obligations to investors and insuring agencies, Ginnie Mae could be required to take over a lender's portfolio of loans and securities, posing additional financial risks to Ginnie Mae.

HUD Actions:

HUD has limited ability to directly address the issues underlying insurance cost increases or lack of availability. However, across the Department, HUD has been reviewing its policies for opportunities to address industry challenges due to market trends while managing potential risks.

HUD has also been speaking with stakeholders to better understand their challenges in finding and maintaining affordable insurance coverage, and to consider the ways in which HUD may be helpful.

HUD has already taken action to address this issue in a variety of ways:

HUD recently revised the insurance requirements for wind and named storm insurance coverage for properties with multifamily mortgages insured by FHA. The revisions modernize FHA's requirements and reflect current market and industry standards while still mitigating risk to the FHA insurance fund. The changes will reduce costs for owners while continuing to ensure that properties have adequate insurance coverage – a key element of HUD's work to address insurance costs and assure that communities are able to recover from disaster.

In 2022, HUD also revised its methodology for calculating how contract rents are set in Section 8 project-based rental housing to better account for rising insurance costs among multifamily owners in their overall operating cost (tenants still pay 30 percent of their income on rent).

In 2023, HUD launched its Green and Resilient Retrofit Program (GRRP), which has so far awarded more than $610 million to owners of HUD-assisted multifamily properties to support energy efficiency and climate resilience upgrades. While this funding will help strengthen housing to withstand future climate events and reduce disaster-related losses, insurance providers generally have not shared with housing providers how resilience improvements will affect premiums.

HUD's Office of Healthcare Programs is working on implementing feedback and revising the insurance chapter of the Section 232 Handbook to ensure HUD's requirements are consistent with industry practices so that borrowers are able to purchase insurance coverage without creating undue risk to HUD.

Ginnie Mae is performing climate-related financial risk modeling and quantifying the impact of extreme weather events on its mortgage-backed securities guaranty portfolio so that it can assess the potential risk to the agency and consider options to mitigate them.

HUD's Office of Public and Indian Housing has been holding listening sessions with Public Housing Insurance Risk Pools to gain a better understanding of the insurance environment, localized challenges, and solutions already underway.

HUD clarified that Public Housing Authorities (PHAs) may submit an appeal of their Operating Fund Project Expense Level (PEL) if the PHA's total operating costs, including the costs of insurance, have increased to a level that exceeds the PEL eligibility amount. A successful appeal would result in increased funding for the PHA.

HUD has communicated to PHAs that they may submit waiver requests of the public housing insurance requirements for good cause. For example, HUD has encouraged PHAs that have vacant buildings with pending demolition applications to submit waiver requests related to insurance requirements to permit PHAs to secure liability-only policies, rather than full coverage for such properties.

HUD's new Federal Flood Risk Management Standard (FFRMS) protects communities from flood risk, heavy storms, increased frequency of severe weather events and disasters, changes in development patterns, and erosion. By implementing the FFRMS, communities can become resilient to flooding, protect lives and properties, minimize damage to households, reduce insurance costs, and safeguard federal investments – ensuring that federally funded construction projects are built to withstand current and future flood risks.

HUD's Community Development Block Grant Disaster Recovery (CDBG-DR) and Mitigation (CDBG-MIT) grant programs provide funds to state, local, and tribal governments to rebuild disaster-impacted areas and provide crucial seed money to start the long-term recovery process and improve community resilience, especially in low-income areas. While this funding can strengthen communities and help residents withstand future disasters and lower damage-related losses, insurance providers generally have not shared how resilience improvements will affect customers' premiums.