

# Navigating the Multifamily Insurance Crisis

 **HOUSING  
CREDIT  
CONNECT**

  
**NCSHA**  
50 YEARS

## PANELISTS

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Multifamily Programs Allocation Manager | Tennessee Housing Development Agency

# LINCOLN AVENUE COMMUNITIES

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NCSHA Tax Credit Connect  
Navigating the Multifamily Insurance Crisis  
Wednesday, June 11



# MISSION-DRIVEN AND IMPACT-FOCUSED

## WHO WE ARE

Lincoln Avenue Communities is a mission-driven affordable housing developer focused on preserving and creating high-quality affordable homes for families, seniors and individuals nationwide.

## OUR APPROACH

We own, develop, and invest in affordable housing to support thriving communities, delivering both financial and social returns.

Our experienced and agile team works to provide lower-income families with quality affordable housing through federal, state, and local programs.

## OUR FIRM AT A GLANCE



~150 PROPERTIES

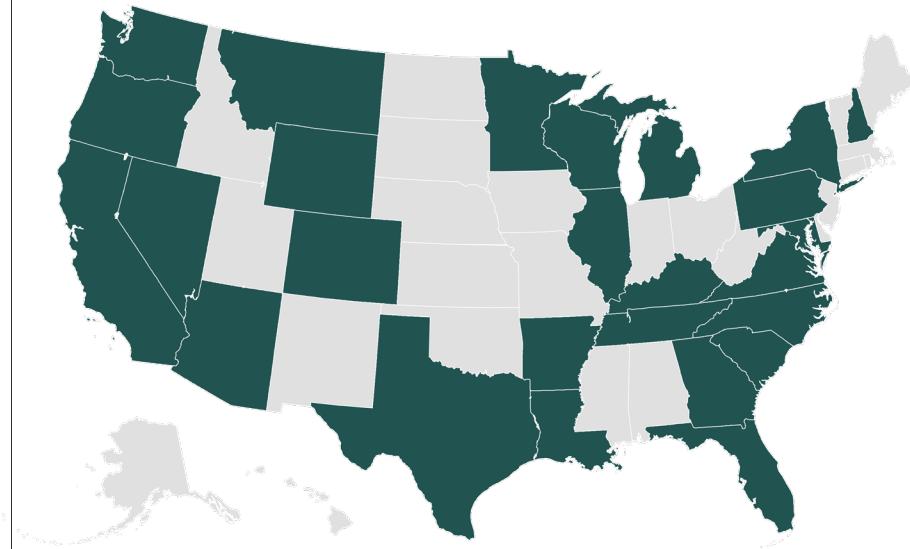


~26,000 UNITS



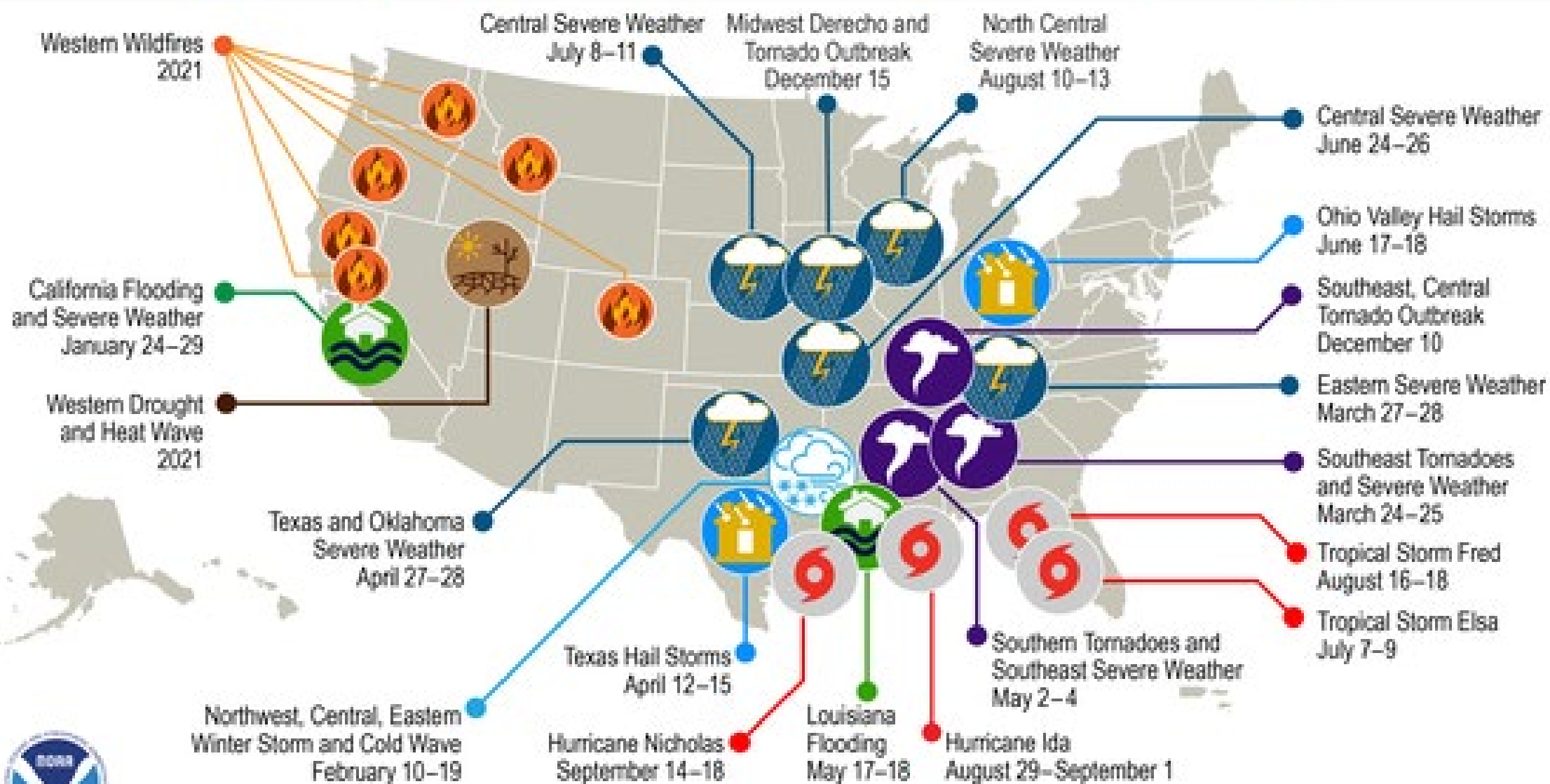
105+ TEAM MEMBERS

## OUR PORTFOLIO TODAY



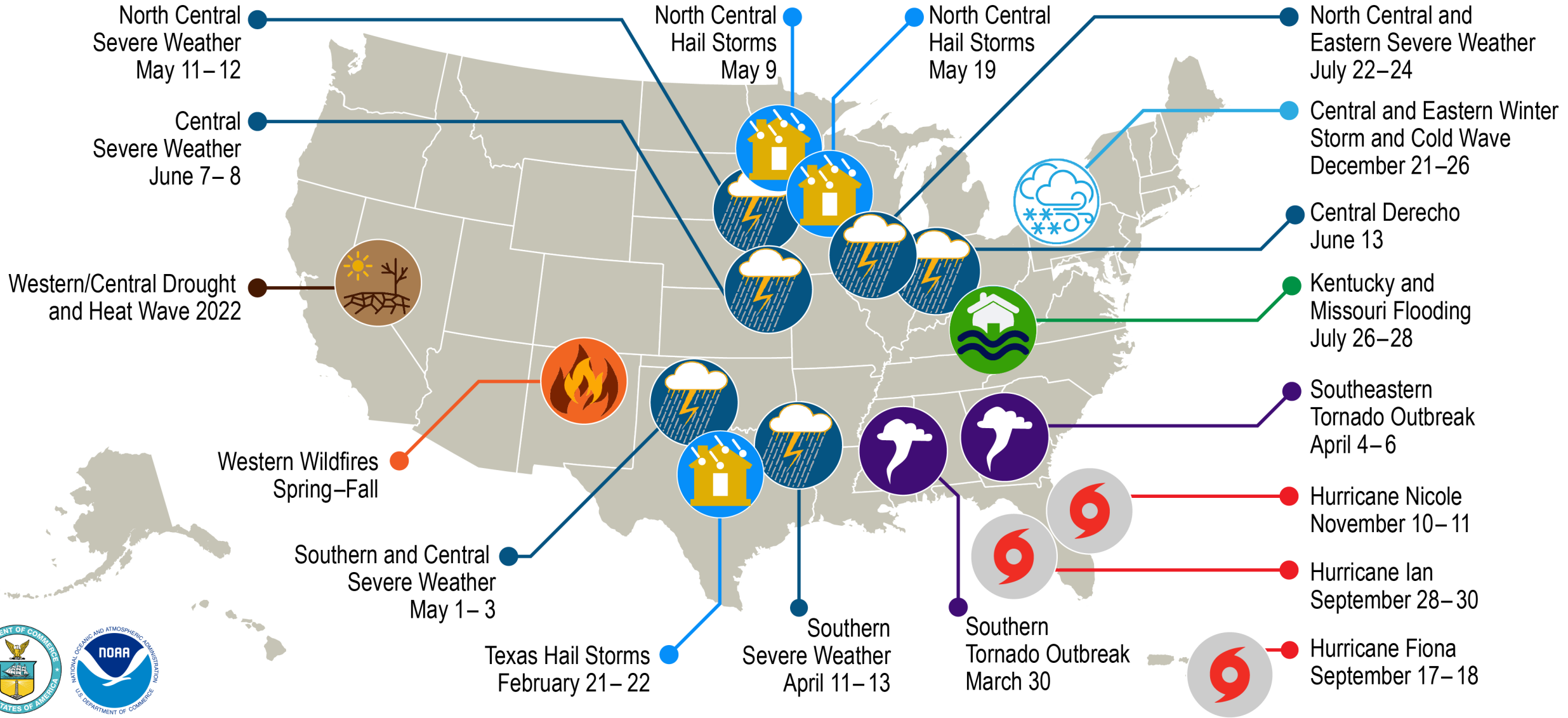
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# U.S. 2021 Billion-Dollar Weather and Climate Disasters



This map denotes the approximate location for each of the 20 separate billion-dollar weather and climate disasters that impacted the United States in 2021

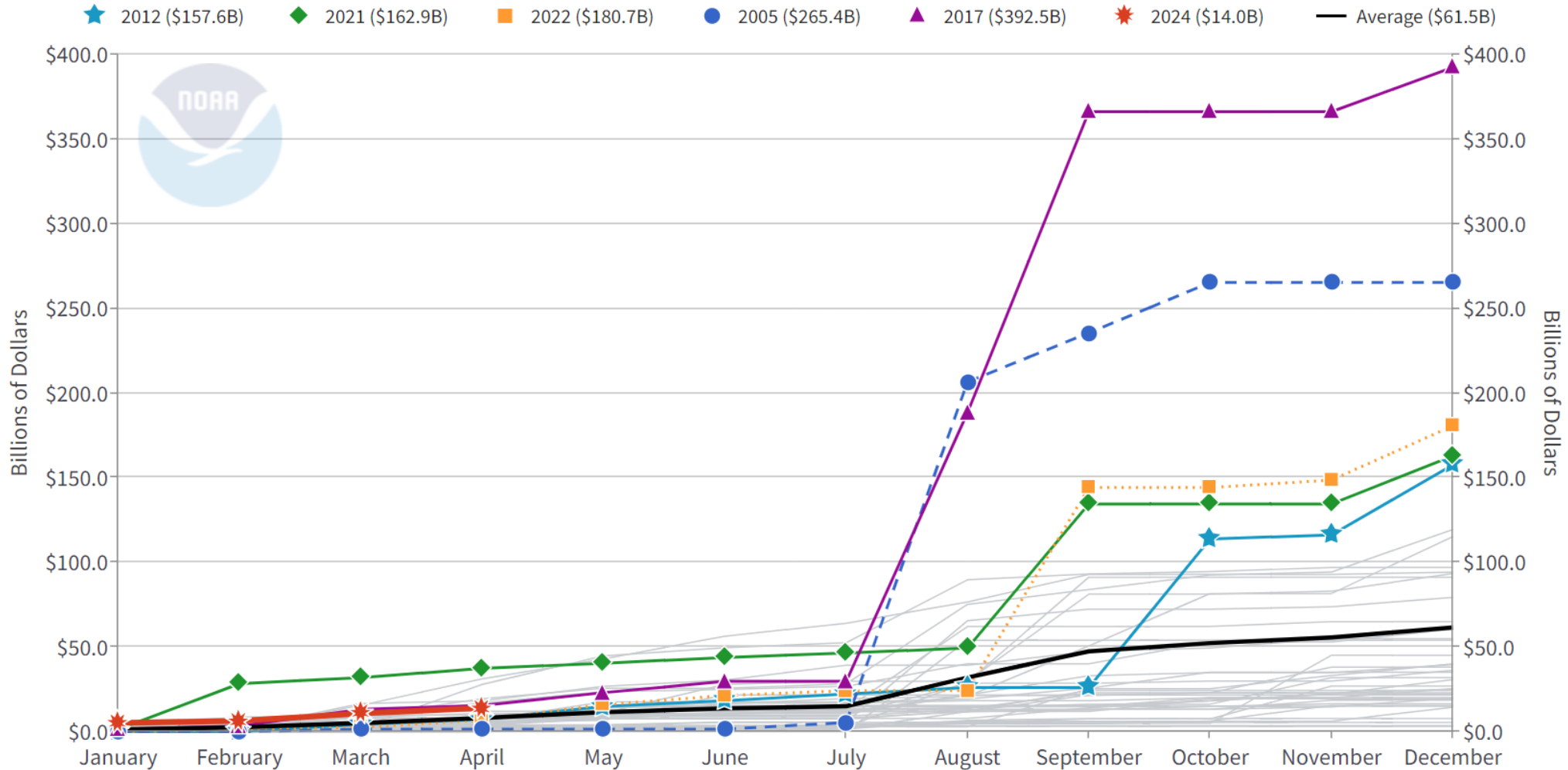
# U.S. 2022 Billion-Dollar Weather and Climate Disasters



*This map denotes the approximate location for each of the 18 separate billion-dollar weather and climate disasters that impacted the United States in 2022.*

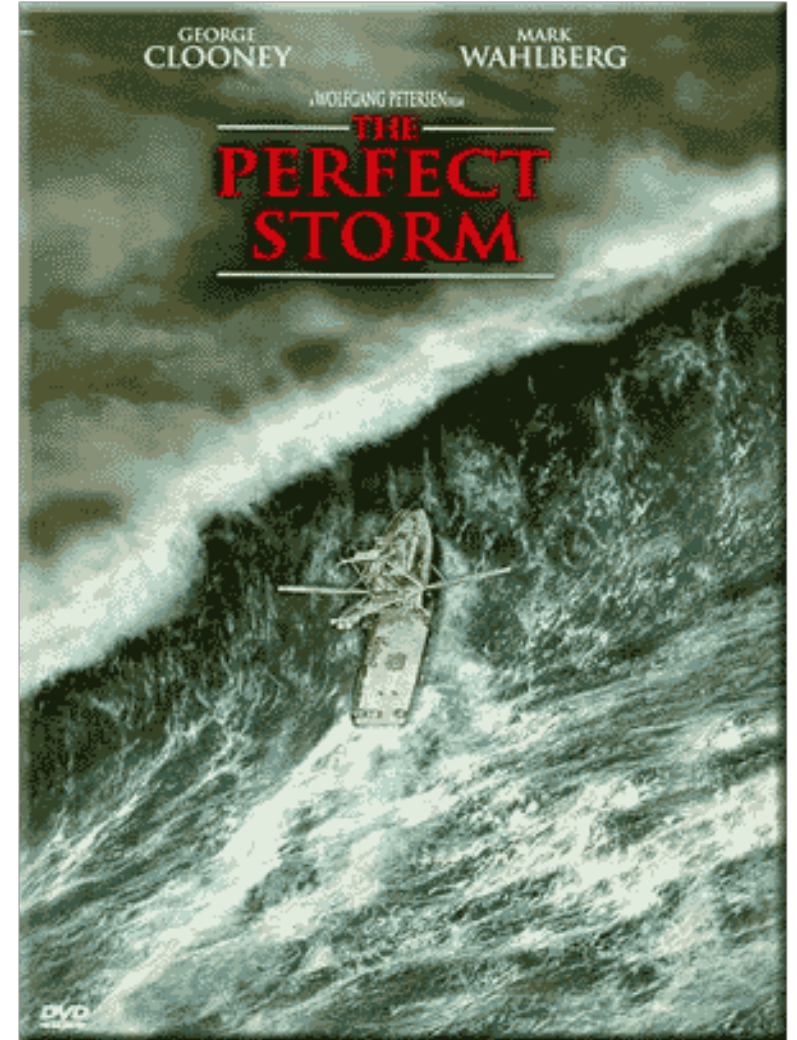


### 1980-2024 United States Billion-Dollar Disaster Year-to-Date Event Cost (CPI-Adjusted)



## Perfect Storm of Circumstances

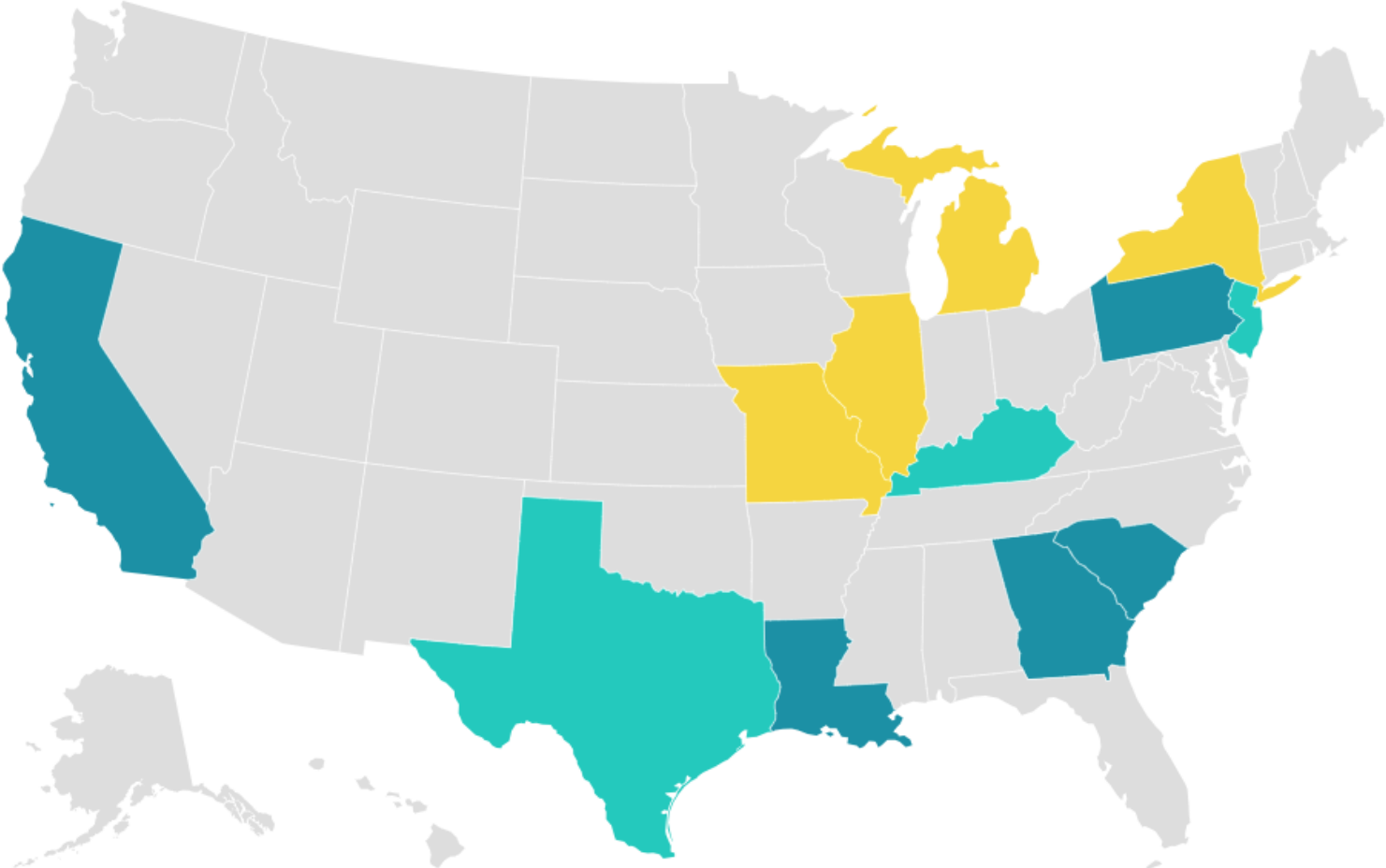
- Increase in Extreme Weather Events
  - Rising Claims Amounts
  - Increased Frequency
- Construction Costs + Supply Chain → Increase in Total Insurable Values (TIVs)
- Inflation + Interest Rates
- Declining Insurance Company Investments/Profitability
- Less Competition in the Marketplace
  - Insurance Company Failures
  - Global Overconcentration of Claims and Insurable Risk in US
  - Limited Capital to Allocate
- Crime Scores, Redlining & Discrimination
- Litigation Funding Industry + Judicial Hell Holes + AI Plaintiff Attorney Tools → Large Settlements, Jury Awards & Attorney Fees



Cover of DVD, *The Perfect Storm*

# ATRA 2023-24 Judicial Hell Holes

Judicial Hellhole (Local)    Judicial Hellhole (Statewide)    Watch List

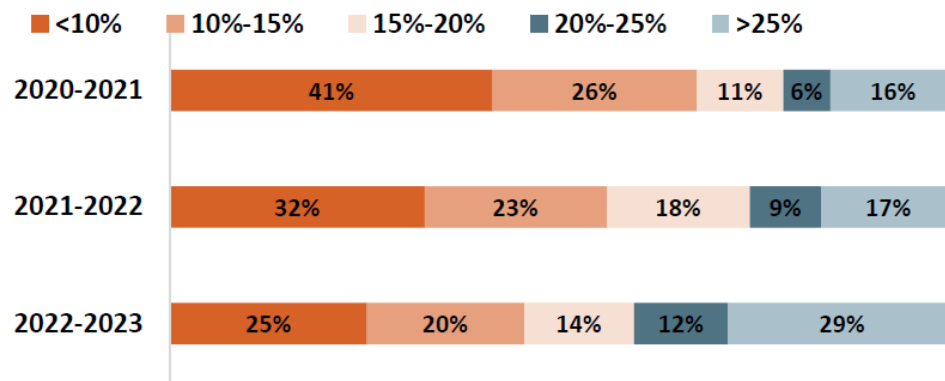


Get the data • Created with Datawrapper

# Housing Provider Survey Highlights

## Premium hikes exceeding 25% are increasingly common in 2023

### Premium hikes over time by percent increase



**33%**  
Of policy renewals in 2023 resulted in less coverage than the prior year

**67%**  
Of insurers cited limited markets as reason to increase rates

**93%**  
Of housing providers indicate they plan to take action to manage costs

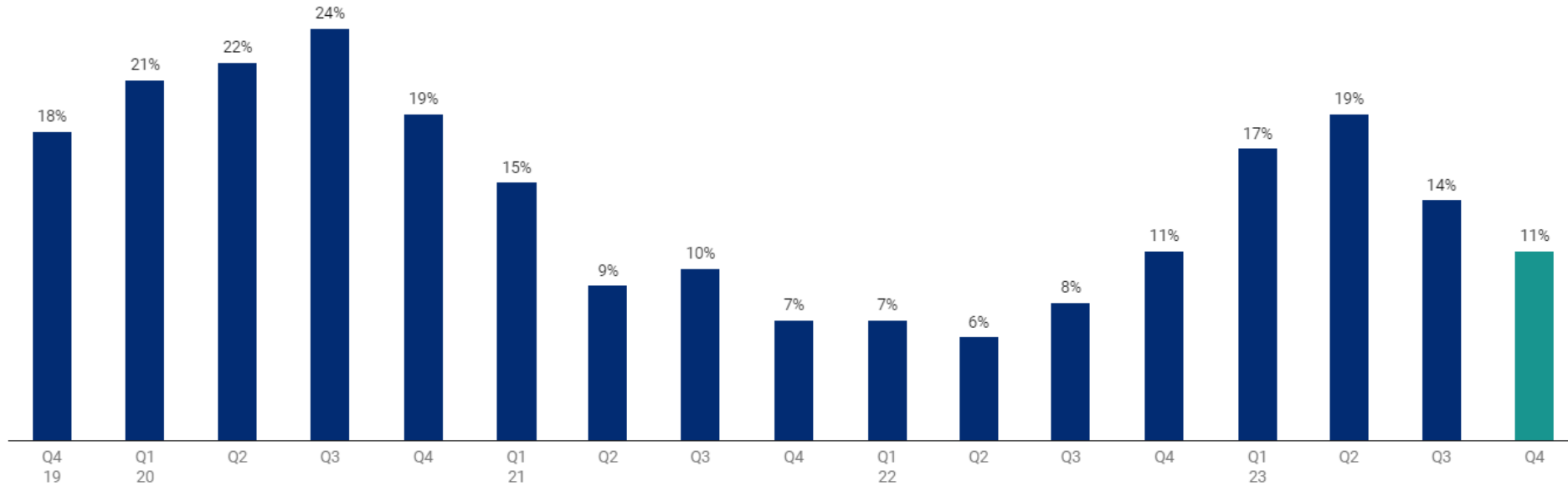
### Overview

- Premiums are increasing across all lines of insurance. For 2022-23 renewals, nearly one in every three policies had rate increases of 25% or more
- The magnitude of rate increases is higher than in prior years. For 2020-21 and 2021-22 renewals, 16% and 17% of policies increased by 25% or more, respectively
- Within 2022-23 renewals, commercial property policies had the steepest increase in rates compared to the prior year

Data and analysis courtesy of Nam D. Pham and Mary Donovan, "Increased Insurance Costs for Affordable Housing Providers," National Leased Housing Association and NDP Analytics, October 2023.

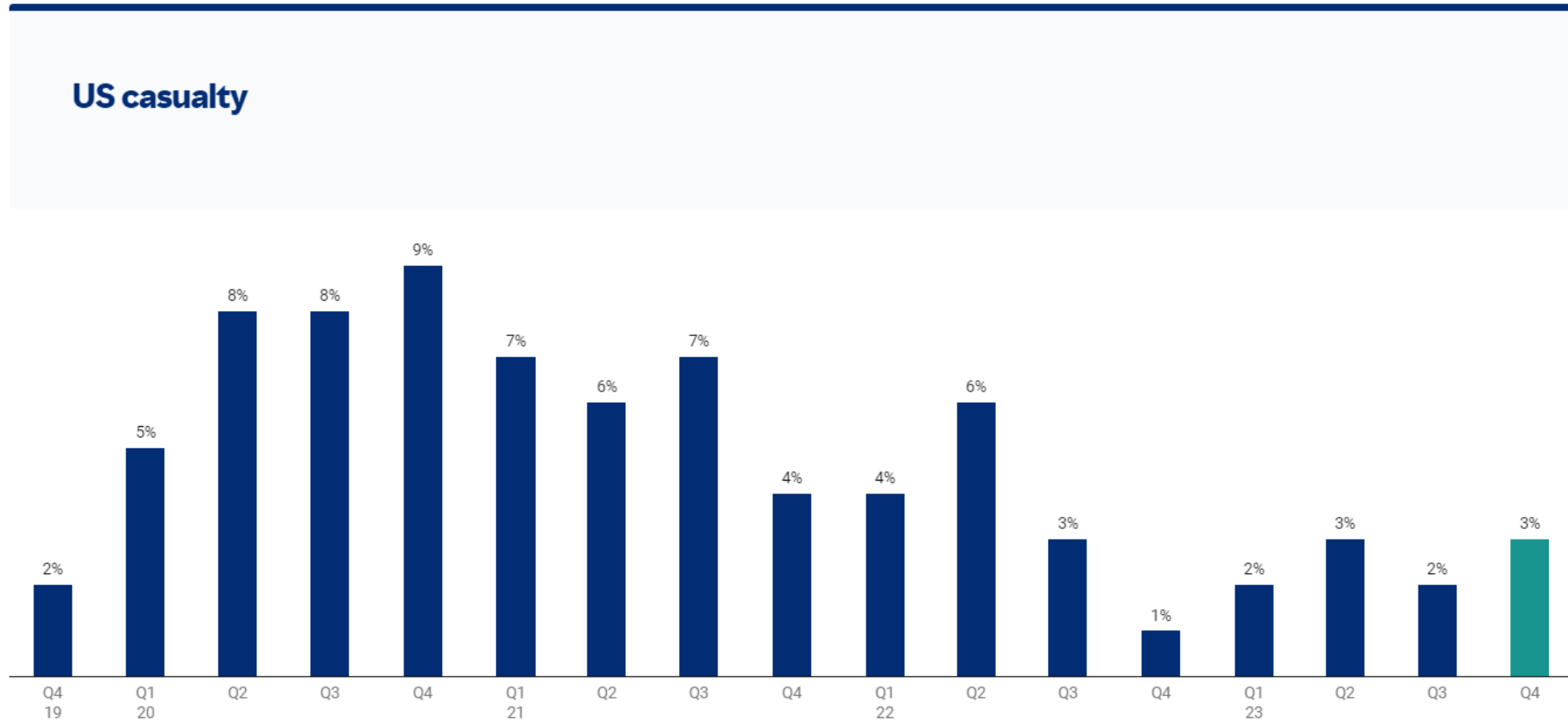
## US Property Rate Trends

### US property



Source: Marsh Specialty and Global Placement • [Download SVG](#) • Created with [Datawrapper](#)

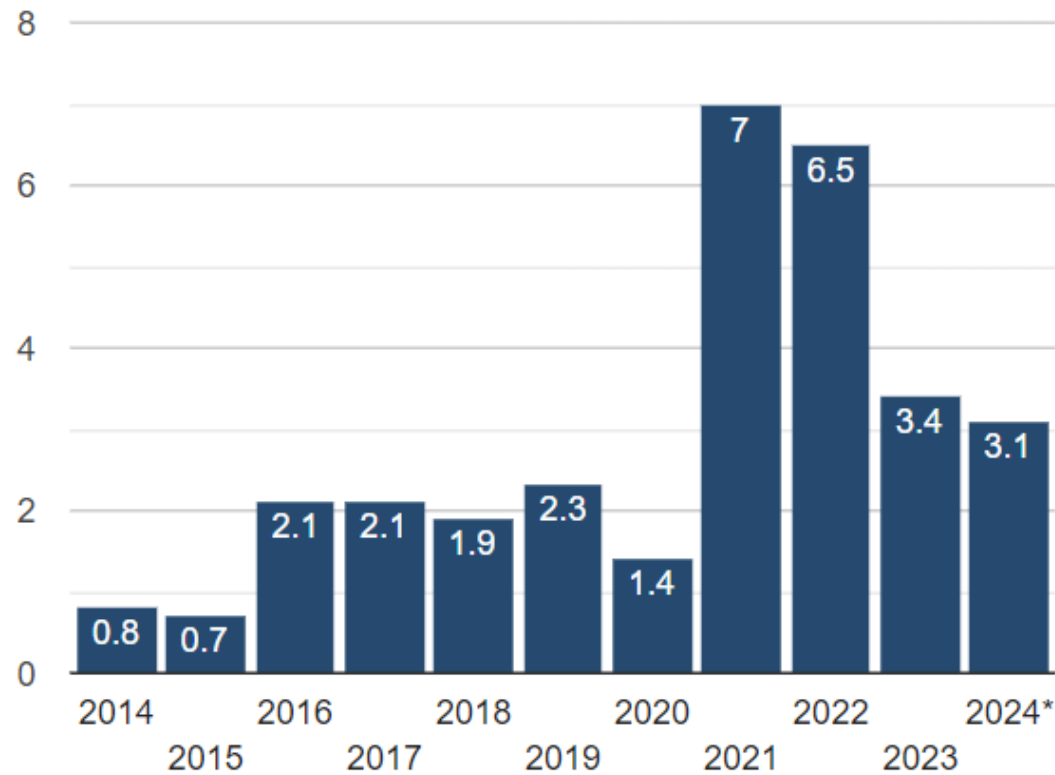
## US Casualty Rates Trends



Source: Marsh Specialty and Global Placement • [Download SVG](#) • Created with [Datawrapper](#)

## Inflation & OCAFs

**Chart: United States Annual Inflation Rates (2014 to 2024)**

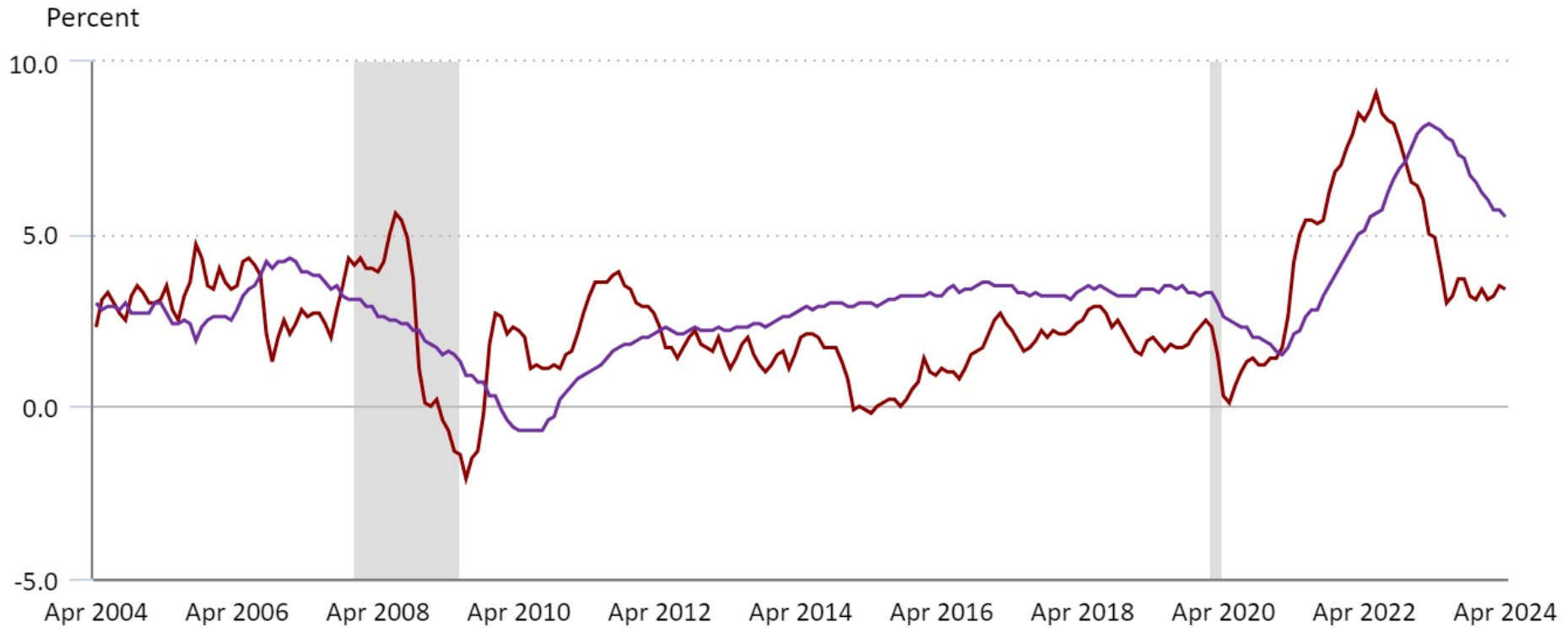


Year	OCAF (national average)
2024	5.3%
2023	6.1%
2022	3.1%
2021	2.5%
2020	2.2%

*\*The latest inflation data (12-month based)  
Source: <https://www.usinflationcalculator.com/>*

# 12-month percentage change, Consumer Price Index, selected categories, not seasonally adjusted

- All items
- Food at home
- Energy
- Electricity
- All items less food and energy
- Apparel
- Medical care commodities
- Shelter
- Education and communication
- Food
- Food away from home
- Gasoline (all types)
- Natural gas (piped)
- Commodities less food and energy com...
- New vehicles
- Services less energy services
- Medical care services



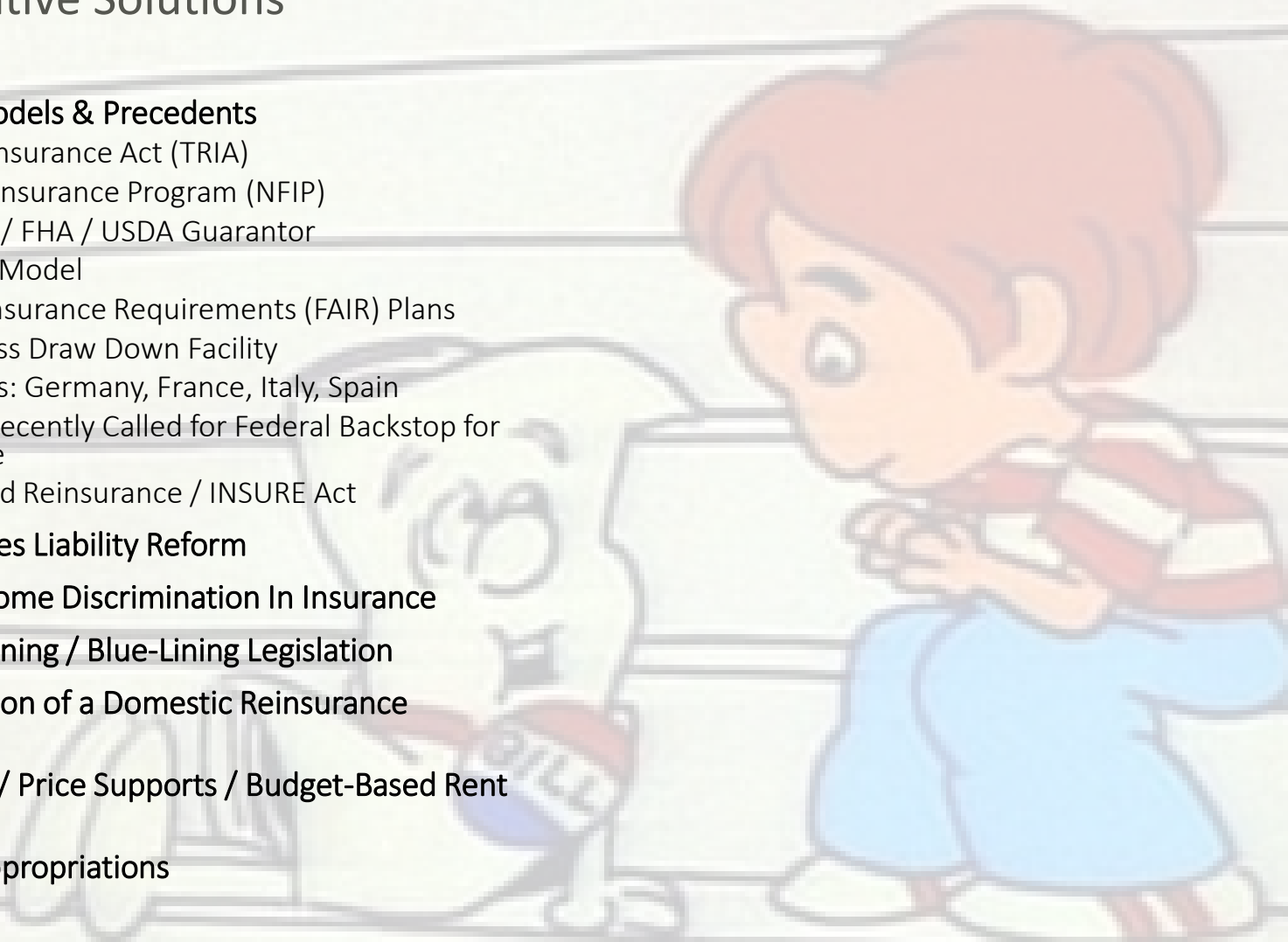
## Hard Insurance Market → Hard Truths *and* Consequences

- Reduces Affordability in Subsidized and Conventional Markets
- Capital Transactions & Development
  - Reduces Leverage
  - Increases Costs
  - Delays Closings
- Existing Portfolio
  - Declining Revenue
  - Deferred Maintenance
  - Reduced Services
  - Potential for Technical Defaults
  - Opt-Outs



## Potential Legislative Solutions

- **Federal Back Stop Models & Precedents**
  - Terrorism Risk Insurance Act (TRIA)
  - National Flood Insurance Program (NFIP)
  - Wrap from GSE / FHA / USDA Guarantor
  - Crop Insurance Model
  - Fair Access to Insurance Requirements (FAIR) Plans
  - Catastrophic Loss Draw Down Facility
  - Global Examples: Germany, France, Italy, Spain
  - Treasury Dept Recently Called for Federal Backstop for Cyber Insurance
  - Federally-Backed Reinsurance / INSURE Act
- **Tort Reform / Premises Liability Reform**
- **Ban on Source of Income Discrimination In Insurance**
- **Red-Lining / Green-Lining / Blue-Lining Legislation**
- **Incentivize the Creation of a Domestic Reinsurance Marketplace**
- **Other Tax Incentives / Price Supports / Budget-Based Rent Increases**
- **Direct Subsidies / Appropriations**



## Incorporating National Support for Unprecedented Risks and Emergencies (INSURE) Act

- HR 6944 (Introduced 1/10/2024)
- **Lead Sponsor:** Rep. Adam Schiff (D-CA-30) + 15 Co-Sponsors
- **Committee:** House Financial Services Committee
- **Key Features:**
  - Establishing a Federal Catastrophe Reinsurance Program within the Department of the Treasury to cap insurers' liability in the case of a catastrophic event above a threshold developed by the Secretary and an advisory committee of experts.
  - Requiring participating insurers to cover all natural disasters, including wildfires, severe storms, wind, hurricanes, floods, and earthquakes.
  - Directing significant investments from insurers in loss prevention and risk mitigation partnerships with policyholders.
  - Improving market monitoring through the Office of Financial Research and the Federal Insurance Office in collaboration with state insurance regulators.



## Disaster Resiliency Insurance Act

- **HR 7849** (Introduced 3/29/2024)
- **Lead Sponsors:** Rep. Mike Thompson (D-CA-04) & Rep Doug LaMalfa (R-CA-01) + 20 Co-Sponsors
- **Committees:** House Ways & Means and House Committee on Transportation and Infrastructure
- **Key Features:**
  - Provides homeowners in disaster-prone regions with broad incentives to harden their properties against wildfires and other risks
  - Creates a grant program, administered through State governments, through-which homeowners in designated disaster-prone regions are eligible for \$10k for resiliency work on their homes
  - Stipulates that payments from State-run disaster resiliency programs and payments from various federal emergency agricultural programs are not considered income for federal tax purposes (Mirrors Provisions in HR 4070)
  - Provides a 30 percent tax credit for qualified disaster risk mitigation activities conducted by individuals or businesses.
    - Treated as General Business Credit
    - Credit amount equal to 30% of 'qualifying mitigation activity' expenditures paid by tax paper
    - Exclusions & No double dipping
      - Expenditures paid / reimbursed by state under a qualified state disaster mitigation program excluded
      - Marketable timber expenditure excluded
      - Basis reduction – no double dipping



## Natural Disaster Risk Reinsurance Program Act of 2023

- HR 3525 (Introduced 5/18/2023)
- **Sponsor:** Rep. Jared Moskowitz (D-FL-23) [Note: also co-sponsor of HR 7849]
- **Committee:** House Committee on Financial Services
- **Key Features:**
  - Establishes the Natural Disaster Risk Reinsurance Program within the Department of the Treasury. States may voluntarily participate in the program.
  - The program provides payments to states for damages from a natural disaster not covered by the National Flood Insurance Program for amounts in excess of trigger amounts. These trigger amounts are calculated by the National Academy of Sciences.
  - States must present a plan that ensures the coverage of losses by insurers not exceeding the trigger amount. States must also pledge to repay the full amount provided by the program within 10 years.



## Flood of Flood Insurance Legislation

- S. 2142 / HR 4349 - National Flood Insurance Program Reauthorization and Reform Act of 2023
- S. 4143 / HR 8102 – Flood Insurance Relief Act
- S. 2852 / HR 4686 – Flood Insurance Affordability Act
- S. 2108 – Flood Insurance Transparency Act of 2023
- S. 2110 – Flood Insurance Consumer Choice Act of 2023
- S. 2109 - A bill to ensure that Write Your Own companies can sell private flood insurance products that compete with National Flood Insurance Program products.
- S. 601 - Flood Insurance Affordability Act
- HR 1540 – National Flood Insurance Program Affordability Act
- HR 1392 - National Flood Insurance Program Extension Act of 2023
- S. 721 - Homeowner Flood Insurance Transparency and Protection Act
- S. 1039 - National Flood Insurance Program Consultant Accountability Act of 2023
- HR 1309 - To require the use of replacement cost value in determining the premium rates for flood insurance coverage under the National Flood Insurance Act, and for other purposes.
- HR 900 - To amend the National Flood Insurance Act of 1968 to allow for the consideration of private flood insurance for the purposes of applying continuous coverage requirements, and for other purposes
- S. 3650 - FIRM IT Act of 2024
- S. 2391 / HR 5828 -NFIP Extension act of 2023
- S. 2968 - NFIP Extension through 2023 Act
- HR 5843 - NFIP Stopgap Act of 2023
- HR 6082 - Emergency Advance Payments Modernization Act
- HR 1307 - To repeal the mandatory flood insurance coverage requirement for commercial properties located in flood hazard areas, and for other purposes.
- HR 1308 – Community Mapping Act
- S. 602 - Risk Rating 2.0 Transparency Act
- S. 3649 / HR 7310 - Flood Risk Transparency for Homebuyers Act

## Other Congressional Insurance Initiatives



- Source of Income Discrimination (Draft Legislation Forthcoming)
- Federal Insurance Office Study (Draft Legislation Forthcoming)
- Other Data / Studies / FIO Bills
  - S. 3349 / HR 5535 – Insurance Data Protection Act
  - HR 2933 / S. 1694 – Federal Insurance Office Elimination Act
  - HR 1545 – Restoring Competitive Property Insurance Availability Act
  - HR 7462 – Wildfire Insurance Coverage Study Act of 2023
  - HR 274 - To require a report by the Comptroller General of the United States on a national all-hazards disaster insurance program
- Other Consumer-Oriented Bills
  - HR 3997 - Homeowners’ Defense Act of 2023
  - HR 7537 - Flood History Information Act of 2024

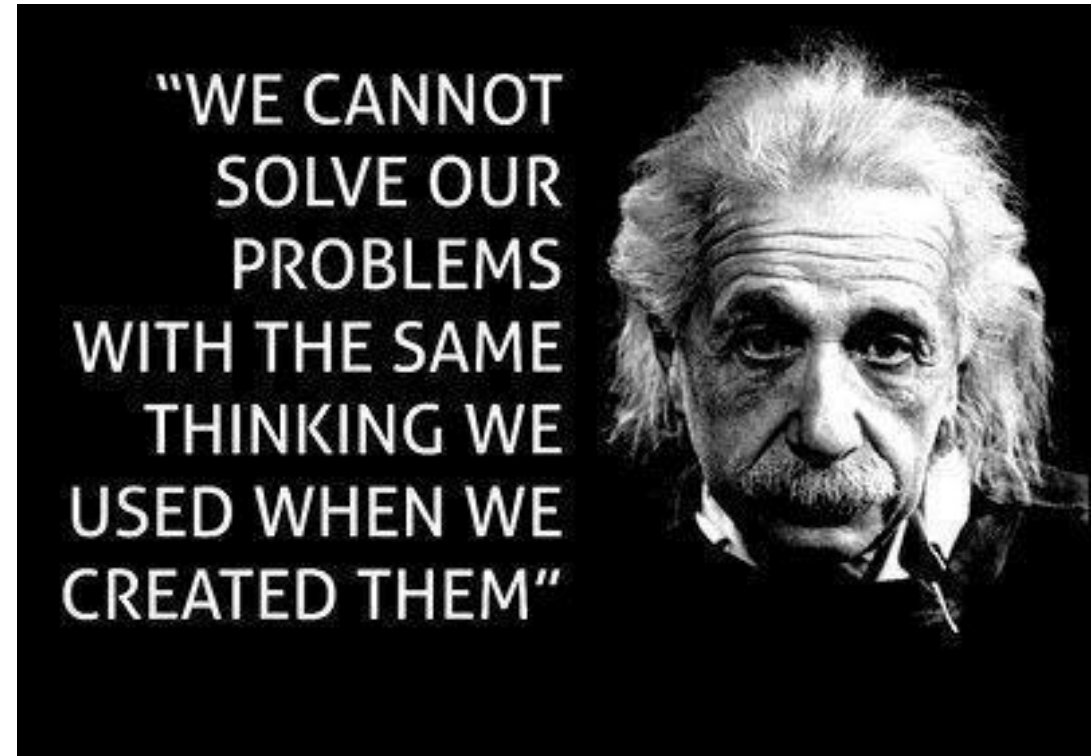


## Bridging to a Structural Solution: Potential Administrative Actions

- HUD PD&R
  - Revise Income Limits Caps
  - True Up OCAFs
- LIHTC Basis Issues/Opportunities – HFAs
- Reprioritize Existing Federal Grants & Resources
  - ARPA/SLFRF
  - CDBG
  - FEMA Flood Risk Mitigation Grants
- Fair Housing
- Data Aggregation
  - Federal Insurance Office
  - National Association of Insurance Commissioners
  - Industry Clearing House sponsored by Fairview Housing Partners
- GSE Overlay (see next slide)

## FHFA – Fannie Mae – Freddie Mac - FHA Ideas

- Update/Revisit Agency Lender Insurance Requirements
  - Deductibles
  - Captives
  - Valuation Methodologies / Modeling
- FHFA
  - Leveraging GSE Balance Sheet or Guarantee as Backstop
  - GSE Resiliency Products
  - GSE Facilitated Community-Based Catastrophe Insurance
  - Affordable Housing Goals
  - FHLB / AHP Resiliency Focus
  - Product Innovation



## Leveraging The FHLB Bank System's Mission to Address Affordable Market Challenges

### Background:

- Insurance companies have been members of the FHLB System since its inception
- Over the past twenty years have become an increasingly large segment of its membership
- As of 2022 there were more than 565 insurance company members of the FHLB) System (up from roughly fifty in 2000)
- Insurance company members access low cost, flexible wholesale funding from the FHLBs as well as multiple forms of liquidity (back-up liquidity, emergency liquidity when needed or creating liquidity from illiquid assets)
- Other FHLB members depositories and CDFI's have regulatory or mission driven reasons to support affordable housing however insurance company members carry no such requirement.
- This presents an opportunity to have the insurance industry play a more prominent role in supporting affordable housing.



## FHLB Core Mission Activities and Mission Achievement RFI

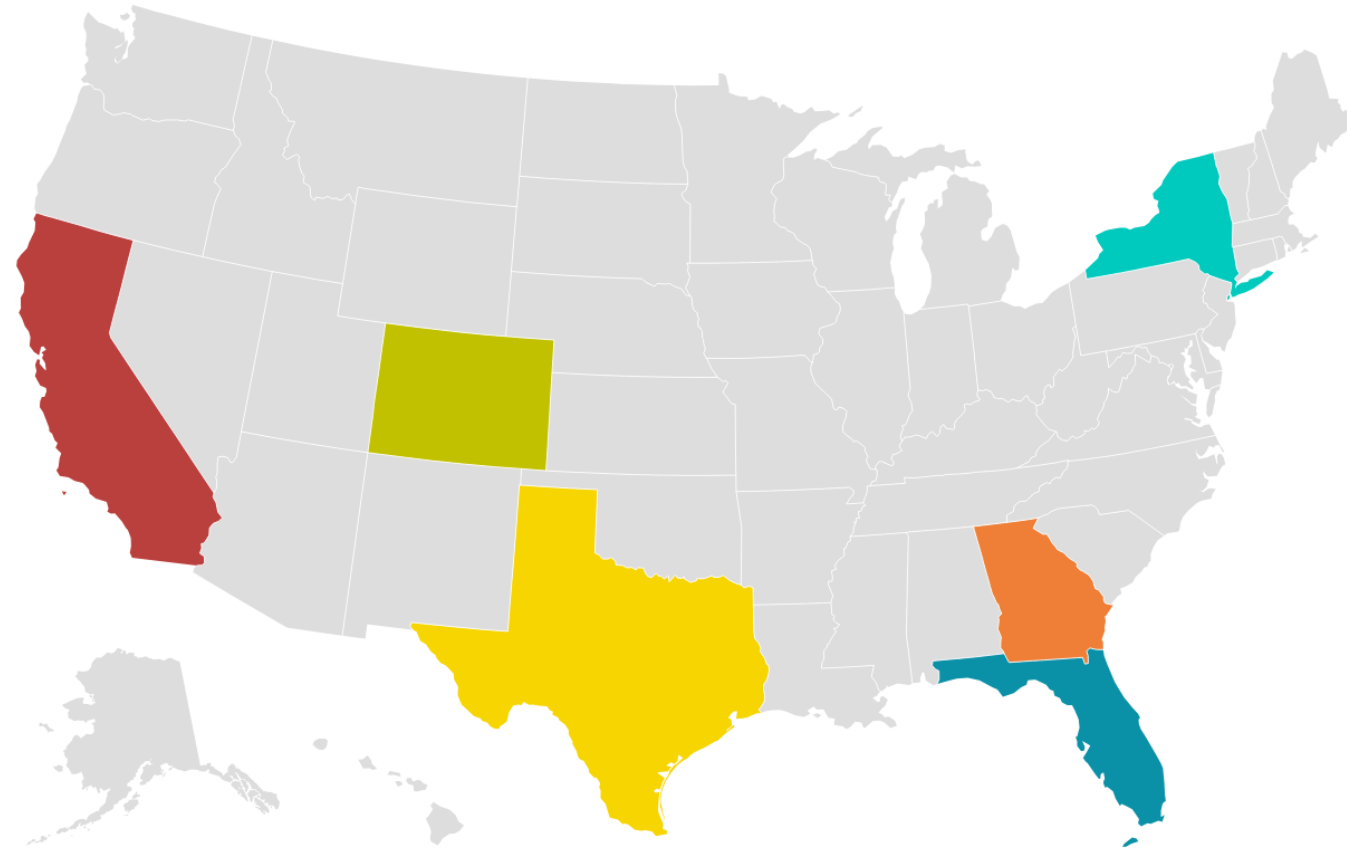
- **Background:**
  - FHFA Published “FHLBank System at 100: Focusing on the Future” (Nov. 2023)
  - Report Recommends FHLBs Find Innovative Ways to Increase Multifamily Production
- **FHFA Issues RFI: 5/16/2024 Deadline: 7/15/2024**
  1. Updating the regulatory statement of the FHLBank System’s mission to better reflect its appropriate role in the housing finance system;
  2. Developing metrics and thresholds to evaluate mission achievement; and
  3. Identifying how the FHLBanks could incorporate incentives for members with a strong and demonstrable connection to the FHLBank System’s mission.
- **Opportunity:** Rulemaking creates opportunity for FHFA to consider new requirements, incentives and/or mission goals insurance company FHLB members to directly serve affordable housing stakeholders.
- **Ideas:**
  - Requirements or Incentives to require P&C members to provide a minimum level of flexible and/or subsidized coverage for affordable rental housing
  - Requirement that insurance FHLB members invest in and/or lend to affordable housing properties
  - Expand Funding for AHP program (perhaps linked to FHLB dividend)

## State & Local Work Streams

- Tort Reform / Premises Liability Reform
- Community-Based Catastrophe Insurance (CBCI)
- Source of Income Discrimination Legislation
- FAIR Plan Expansions
- State Insurance Commissioner Outreach Regarding Rate Increase in Covered Markets
- QAP Opportunities & Issues

## State Affordable Housing Insurance Legislative Initiatives

■ 2024 Legislative Interim Charge ■ Affordable Housing Pooling Legislation (failed) ■ Ban on Source of Income Discrimination Adopted in Budget ■ Fire Insurance Legislation (pending) ■ Hearing (Pending) ■ Premise Liability Reform (Pending)



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Questions?



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