Steven E. Seitz, Director,
Federal Insurance Office
U.S. Department of the Treasury
1500 Pennsylvania Avenue,
Washington, D.C. 20220

Re: Comments in Response to FIO's Request for Information on the Insurance Sector and Climate-Related Financial Risks

Dear Director Seitz,

Enterprise Community Partners (Enterprise) appreciates the opportunity to provide input to the Federal Insurance Office (FIO) of the U.S. Department of the Treasury (Treasury) future work relating to the insurance sector and climate-related financial risks. We are pleased to see FIO's commitment to identify solutions to address the growing protection gap exacerbated by climate change as well as assess the availability and affordability of insurance coverage in high-risk areas, particularly for traditionally underserved communities.

Enterprise is a national nonprofit on a mission to make home and community places of pride, power and belonging, and platforms for resilience and upward mobility for all. In addition to increasing the supply of affordable homes, Enterprise is committed to advancing racial equity after decades of systematic racism in housing as well as supporting residents and strengthening communities to be resilient to the dramatic increase in the frequency and severity of climate-related disasters. We operate in all 50 states plus the District of Columbia and Puerto Rico. This end-to-end approach, combined with 40 years of experience and thousands of local partners, has enabled Enterprise to build and preserve 793,000 affordable homes, invest $61 billion in communities and improve millions of lives.

As part of our work to shape new strategies, solutions and policies to protect and strengthen low- and moderate-income communities, our Building Resilient Futures initiative aims to ensure affordable homes and low and moderate- income communities can withstand the harmful impacts of flooding and extreme weather, and we have been active in disaster recovery and promoting affordable multifamily, as well as single-family, housing resilience around the nation.

Climate Risks are Impacting Health of Affordable Housing Industry, Insurance Costs are Rising

Enterprise works closely with affordable housing developers, low- and moderate-income homeowners and residents to ensure housing is designed, built, and operated to be affordable and safe. Climate Change and Natural Hazard risks are putting millions of affordable homes at risk, causing escalating insurance rates for owners and renters who are struggling financially. The rising cost of insurance, or the lack of insurance in some markets, is interfering with the ability to build affordable housing—further aggravating the shortage of affordable housing across the nation—leading to displacement and homelessness, at a time when American Households need shelter to reduce exposure to pathogens and viruses.

With catastrophic events damaging homes and infrastructure on a scale rarely experienced before, and with costs of insurance rising with each "event", the nation needs to double down on investing in pre-disaster strategies to reduce risk, reduce loss and keep insurance affordable.

In 2015, the City of New York commissioned Enterprise to study the insurance uptake of housing in New York City's Floodplain.[1] The study found that only 20% of affordable buildings in the high-risk areas of the 2007 Flood Insurance Rate Map (FIRM) had the National Flood Insurance Program (NFIP) Coverage; 45% of affordable buildings in the high-risk areas of the 2013 Preliminary FIRM have NFIP and that the communities with most vulnerability to flood risk (low income) were uninsured. Millions of low-income households are unable to afford insurance coverage, if it is available, and this will only be aggravated as rates continues to rise.

In terms of the nation's leading disaster, repetitive flooding, the National Flood Insurance Program (NFIP) insurance rates are rising[2], subsidized insurance rates continue to mask the real risks of flooding to properties, the program fails to adequately reward community-level actions to reduce flood risks, and the floodplain maps that serve as the basis for rates and local land-use decisions are out-of-date, and do not account for current risk, let alone future risk. These deficiencies in the program pose numerous challenges for housing developers and communities.

Rising rates pose a socio-economic threat to cities that have a significant number of lower-income homeowners and businesses located in flood hazard areas. Rate increases will affect owners of older buildings (i.e., built before codes that require building elevation or flood

[1] http://www.nyc.gov/html/planyc/downloads/pdf/publications/HR-A-Multifamily-Flood-Insurance-Affordability-Study-2016.pdf
[2] https://www.reuters.com/business/sustainable-business/us-flood-insurance-rates-rise-77-policyholders-study-2021-09-21/

proofing) who previously received insurance subsidies. For lower-income homeowners and those on a fixed income, rising rates could price people out of their homes, or force people to drop flood insurance, which might otherwise be their sole source of funds to rebuild in the event of flooding. Rising rates may also force landlords to raise rents, exacerbating housing affordability crises facing many cities.

Flooding is not the only peril where insurance is escalating in costs—fire insurance is also rising due to the number of events and claims. In California, increasing number of Californians are unable to acquire home insurance following the devastating wildfires.[3] Many face an increase in premium rates or have been dropped by their insurer after repetitive wildfires that cost billions of dollars in losses. As a result, there was a 61% non-renewal rate in 2019 among zip codes that had moderate to very high fire risk. On top of a housing crisis in California, many low-income populations can't afford expensive premiums or lose their insurance coverage. The appreciating home prices in urban areas are already pushing these populations to rural areas, which are prone to a high fire risk, leading to a vicious cycle for these vulnerable communities. The state has taken steps to stabilize the insurance market including a provision of a one-year ban for the insurer's refusal to renew the policies of impacted clients. However, more permanent and robust solutions are needed to regulate the insurance market and mitigate climate disasters as California faces a climate emergency, with hazardous events likely to increase.

Recommendations

1) Provide accurate, up-to-date information about current climate risks and future conditions

Most communities want to rebuild in a more resilient manner but don't know exactly what steps they should take to be safer. The federal government should help put the information out there, as well as build local capacity and increase funding for mitigation projects to protect assets, especially in underserved communities.

Specific Recommendations:

- Increase awareness of foreseeable climate risks communities face by working with the private sector, the White House and Federal agencies to provide the best available science and data on climate risk uniformly across the country – at the address level and that this data should be future facing. Address-level data can help identify the risks of climate-related events on properties and insurance portfolios.

[3] https://www.bloomberg.com/news/features/2020-12-04/wildfire-risk-leaves-californians-without-homeowners-insurance?sref=pjP8bvoL

- Federal planning and data initiatives like the National Climate Assessment, Federal Emergency Management Agency flood maps, U.S. Climate Resilience Toolkit and Regional Integrated Science Assessments are key in helping cities understand and reduce risks. These initiatives should be maintained, strengthened and improved. At the same time, technical guidance, such as resilient infrastructure metrics, can help cities be safer, stronger and more resilient.
- Enterprise has developed a planning tool, Portfolio Protect, that helps housing owners and operators as well as developers understand their risk to natural hazards. We are happy to share it with you: Portfolio Protect | Enterprise Community Partners.
    - This tool offers users the ability to identify highest risk properties and offers recommendations and resources to help minimize potential harm to your property or properties and keep residents' homes safe.

2) Incentivize risk reduction products to protect vulnerable communities and economically disadvantaged and "at risk" households from natural hazard perils including flooding, fire, wind and earthquakes

It is essential for the Federal government to lead the way, providing multi-pronged solutions that holistically address educational, capacity, policy, institutional and capital barriers in order to ensure that affordable housing is prepared to withstand future risks.

Specific Recommendations:

- Develop Climate Risk Reduction and Resiliency programs. Enterprise has designed a program, Keep Safe Miami, to support Miami Florida's Affordable Housing Community to prepare for and mitigate risks from Hurricanes, Heat and Flooding. This program provides free technical assistance to owners and financing through the City of Miami's Housing department for retrofit. More than 200 owners have taken advantage of this program. This type of accessible program is responsive and helps to reduce risk and increase resilience of housing stock—and is an example of the type of products and services needed.
- Support programs that directly install or "retrofit" housing at high risk from perils such as fire, flood or earthquake. The California Earthquake Authority's Brace and Bolt Seismic retrofit program is a leading risk reduction program to help California's seismically vulnerably buildings adapt to exposure by directly installing retrofit strategies to improve the housing stock at no cost to the owner.[4] These are the kind of programs and services sorely needed in at-risk communities to ensure housing is

[4] https://www.earthquakebracebolt.com

protected from harm, and that insurance becomes a “last resort” claim, not the first resort.

- Providing direct support and accessible products to incentivize green and resilient building standards, which integrate materials and methods that promote efficiency, environmental quality, resiliency, economic vitality, and social benefits through design, construction and operations of the built environment. Enterprise Green Communities is the nation’s only national green building program designed explicitly with and for the affordable housing sector. Today, because of our efforts, more than half of the states in the nation require that affordable housing developments receiving public funds comply with our standard.

3) Update flood maps to expand insurance coverage uptake

Federal flood maps are developed for the purpose of setting insurance rates, but they are used by cities to make decisions that have much longer-term consequences, such as land-use decisions, and decisions on how to design critical facilities and infrastructure.
In many cities these maps are outdated and are developed using only historical flood data. They do not accurately reflect either the current or future flood risks that cities face. As a result, developers and individuals are using imperfect information to make choices about where to buy and develop. Many homeowners are not adequately informed about the risk of flooding when making decisions about purchasing a home or whether to carry flood insurance after their mortgages are paid off.

Specific Recommendations:

- Cities, developers, homeowners and businesses all need accurate, future-looking flood risk information to help them effectively understand flood risks, make decisions about where and how to build, and implement projects to mitigate flood risks.
- The floodplain mapping program should be fully funded, and FEMA should be given authority to provide detailed flood hazard information, including information about future conditions and long-term flood risks to help cities make better land- use and capital-investment decisions.
- Options should be explored for the creation of digital platforms that provide tools to better visualize flood hazards, and allow for the integration of data from different federal agencies, and state, local and private sector partners.

4) Maintain insurance affordability, especially for low-income populations

While we support efforts to bring premiums more in line with risk, we are concerned that increasing flood insurance costs will force owners of affordable housing properties to raise rents, exacerbating the shortage of affordable rental housing at a time where the nation is experiencing an affordable housing crisis. Regulators should ensure risk is reduced while spreading premium increases for affordable housing owners in an equitable manner.

Specific Recommendations:

- More specifically, the NFIP should be reformed to increase coverage or encourage private excess coverage for multifamily properties, to ensure adequate coverage based upon the size and uses of buildings.
- Insurers should offer means-tested assistance to ensure that no household is displaced or forced out of coverage because of the rising costs of flood or wildfire insurance.
- Means-tested assistance should clearly communicate the full-risk rates that are being offset, and provide support to help property owners and businesses reduce their flood or wildfire risks with mitigation measures.
- Federal agencies should continue to take steps to send accurate risk-based price signals to property owners in hazardous areas and should be encouraged to communicate the full-risk insurance rates for a property (even where the rate is ultimately discounted), and provide transparent data and information on coverage and policies for multifamily and mixed-use buildings.

5) Enforce stronger building codes to protect assets and ensure they can withstand future risk

Enterprise has developed the Keep Safe guide and the Guide to Multifamily Strategies for Housing Resilience to help boost the immunity of housing to Climate Risks. These guides offer access to free, easy-to-use tools and guides for assessing portfolio and property vulnerability to hurricanes and impacts of climate change, actionable strategies and guidance to address issues and opportunities to apply for capital for necessary improvements. Please visit https://keepsafeguide.enterprisecommunity.org for more information.

Specific Recommendations:

- FIO in partnership with others Federal agencies should work on precisely defining what is meant by climate adaptive and resilient infrastructure.
- We recommend increasing alignment and coordination between agencies at all levels of government to create the right incentives to develop resilient infrastructure, including

affordable multifamily housing, as well as a federal framework for rating resilient infrastructure.

- Ensure that all federally-funded infrastructure projects – including housing – are built to resilience standards[5]. These standards should be appropriate for the region, from earthquake to fire to flooding to extreme heat.
- Federal rebuilding grants, which are typically disbursed through HUD and FEMA, come with standards for resilient rebuilding, such as increased elevation of homes and critical facilities located in the 100-year flood plain. However, non-disaster-specific federal resources available for infrastructure projects, affordable housing and other public facilities do not always require resiliency standards.
- Therefore, we recommend to consistently require a consideration of flood risk and other foreseeable risks over the course of the useful life of infrastructure as well as encourage strong building codes through federal incentives and tax credits.

Overall, climate change poses a major risk to the stability of the U.S. financial system and to its ability to sustain the American economy. U.S. financial regulators must recognize that climate change poses serious emerging risks to the U.S. financial system, and they should move urgently and decisively to measure, understand, and address these risks.[6]

We commend FIO for taking a leadership role in analyzing how the insurance sector may be impacted by, and help mitigate, climate-related risks, especially in marginalized communities. Thank you for your consideration of these comments, and if you have any questions, please do not hesitate to reach out to me (lschoeman@enterprisecommunity.org) or Ayate Temsamani (atemsamani@enterprisecommunity.org).

Sincerely,

Laurie Schoeman
National Senior Program Director, Resilience and Recovery

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[5] A study released this November by FEMA, Building Codes Save: A Nationwide Study of Loss Prevention, shows that modern building codes continue to be one of the most cost- effective ways to safeguard against natural disasters and if all new construction adopts I-codes, it could result in a $600 billion loss avoidance by 2060. Despite this, 65 percent of counties, cities, and towns across the country still have not adopted modern building codes.

[6] https://www.cftc.gov/sites/default/files/2020-09/9-9-20 Report of the Subcommittee on Climate-Related Market Risk - Managing Climate Risk in the U.S. Financial System for posting.pdf