Senate Standing Committees on Investigations and Government Operations; Insurance; and Housing, Construction and Community Development

Joint Public Hearing on the Cost and Availability of Insurance for Residential Property

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Testimony submitted on behalf of The Community Preservation Corporation, to be delivered by Emily Klein, AVP Deputy Director for Policy and Public Affairs

Thank you, Chair of the Committee on Insurance Senator Bailey, Chair of the Committee on Housing, Construction, and Community Renewal Senator Kavanagh, and Chair of the Committee on Investigation and Government Operations Senator Skoufis for convening this hearing and providing the opportunity to speak today. My name is Emily Klein, and I am the Assistant Vice President and Deputy Director for Policy and Public Affairs at the Community Preservation Corporation (CPC), a nonprofit affordable housing and community revitalization company that was formed in the early 1970s to help New York City and State restore and rebuild communities which were devastated by disinvestment. Today, CPC uses over fifty years of expertise in housing finance and public policy to expand access to quality housing, drive down the costs of affordable housing production, advance diversity and equity within the affordable housing development industry, and finance the construction of energy efficient housing. Since our founding, CPC has invested over $16 billion to finance the creation and preservation of more than 275,000 units of housing through our lending and investing platforms. CPC is a permanent lending partner to the New York City Retirement Systems (NYCRS) and on behalf of HCR, CPC is administering the Climate Friendly Homes Program, a $250 million program to electrify 10,000 units of housing across the state. Additionally, CPC is the servicer of a portion of the rent stabilized multifamily loan portfolio formerly held by Signature Bank, which includes just under 35,000 units of housing across

New York City, and we are working diligently to preserve the physical quality and financial stability of that critical portion of the housing stock.

Today's hearing is an important opportunity to dive into how the rapidly rising cost of insurance is threatening the stability of our state's affordable housing. According to a 2022 study by the New York State Department of Financial Services, "the U.S insurance market has experienced a significant hardening in recent years, characterized by an increased demand for insurance, fewer coverage options, and steady and significant rate increases."[1] We have absolutely seen that dynamic play out across the properties that CPC finances across New York State through our annual survey of borrowers to gather property income and expense data. Our most recent data, collected in 2025 and showing expenses as they were in 2024, includes data from a representative sample of 12,650 units within CPC's New York City rent stabilized portfolio. Since 2020, insurance has risen 61% cumulatively, with a 23% jump from 2022 to 2023 alone and reaching an average cost of $1,636 per unit in 2024. This escalation has been particularly acute in the Bronx, where premium amounts per unit average $200 greater than the other boroughs (see Figure 1). We are seeing a similar escalation of insurance costs for properties outside of New York City as well – buildings in our servicing portfolio in New York State, excluding New York City, have seen a 76% increase in insurance

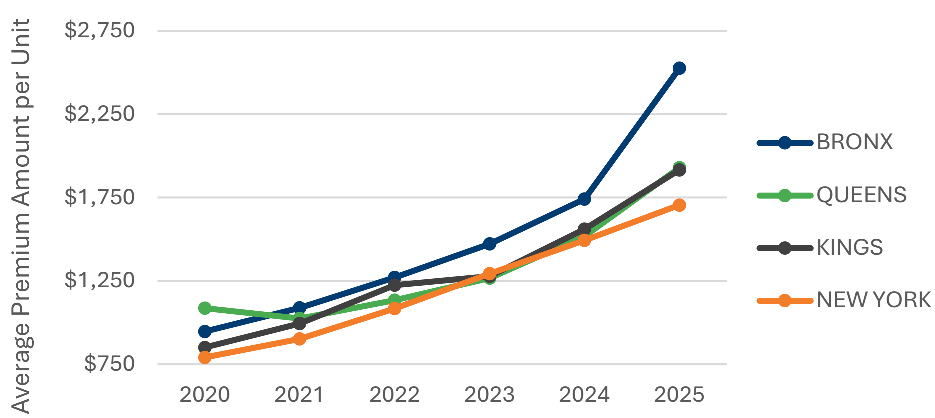

Figure 1: Average Premiums by Borough

[1] https://www.dfs.ny.gov/system/files/documents/2022/12/affordable_housing_report_insurance_20221122.pdf

costs since from 2020 to 2024, reaching an average of $1,005 per unit in 2024. Both upstate and downstate insurance costs now account for 16% of total per unit expenses.

This phenomenon aligns with what other affordable housing industry partners are seeing across their portfolios. According to a 2024 brief from the New York Housing Conference which collected data from 18 partners on insurance policies and pricing, insurance premiums are increasing an average of 26% annually, with an over 100% increase from 2019 to 2023[2]. Insurance costs look even worse in geographies facing significant climate risks and in communities such as the Bronx, where increasingly few insurance providers are willing to provide coverage.

There are numerous factors that contribute to the cost and availability of insurance in a given geography, which make it hard to holistically diagnose the causes of this problem. Influencing factors can include both legitimate challenges like climate change and price inflation, and other more intangible and potentially nefarious factors like third party litigation funding, insurance provider withdrawal, burdensome regulatory environments, and intractable discrimination. These factors combined have led to the unchecked escalation of insurance costs throughout New York State and especially in parts of New York City. Without regulatory frameworks, like the Community Reinvestment Act which requires financial institutions to invest across geographies regardless of a community's financial strength, insurance providers have no mandate to provide coverage equitably across communities. If an insurer determines a state, city, neighborhood, block, or building too risky for any reason, they can charge exorbitant rates or refuse to provide coverage all together – even though robust and comprehensive insurance is precisely what is needed for buildings and communities that face outsized risk. And since multifamily buildings are required to have insurance nonetheless, the few providers they are left to choose from can charge outrageously high rates simply because there is no competition on pricing. These

[2] https://thenyhc.org/wp-content/uploads/2024/03/Affordable-Housing-Insurance-Policy-Brief-3.16.24-Final.pdf

compounding inequities leave the most vulnerable with the least comprehensive and more costly protection.

Despite these challenging conditions, we have seen encouraging innovation in the insurance industry over the last few years. Last session, the State passed legislation to prohibit insurance discrimination based on a tenants' source of income or a buildings' affordability level. Additionally, insurance captives like Milford Street are demonstrating how affordable housing developers and managers can take control of their escalating insurance costs while changing the focus of insurance from profit to stability achieved through risk mitigation. Captives present an alternative model designed to deliver lower rates to mission aligned properties and are fertile ground for expansion and scaling up. Relatedly, HCR's recent announcement of a $5M Risk Reduction and Insurance Affordability (RRIA) Pilot program will help advance the industry's understanding of the risk analysis and mitigation measures needed to support affordable housing providers in joining insurance captives.

In light of the challenges of continuous cost escalation and the opportunities of growing consensus around the need for tactical policy responses, we have been engaging in discussions with peer organizations, government partners, and insurance experts in order to better understand the situation and possible remedies. Based on our conversations and research, we would recommend these Committees explore the following solutions:

- **Risk Mitigation and Premium Relief:** Similar to how car insurance rewards good driving behavior by lowering premiums, the State should encourage insurance providers to factor risk mitigation efforts into pricing and offer lower premiums contingent upon certain risk mitigation efforts. RRIA is an excellent first step in this direction and will lay the ground work for future opportunities to scale.

- **Third Party Litigation Funding (TPLF) Disclosure:** TPLF allows third parties such as hedge funds and other financiers to provide funding for a plaintiff's case in exchange for a percentage of the settlement or judgment. While this practice is relatively new in the United States, according to a 2024 study by Allianz Global Risks Insurance Company[3], TPLF is already impacting the insurance industry, enabling prolonged legal battles and leading to an escalation in the frequency and size of very-large, or "nuclear", verdicts. Larger payouts can lead insurers to raise premiums to ensure sufficient capital on hand for nuclear payouts. Disclosure of and data on TPLF should be required in New York State so that the relevant oversight bodies can dimension, monitor, and if needed interrupt the impact of this practice.
- **Scaffold Law Carve Out for Affordable Housing:** New York State's regulatory environment around risk and liability laws is incredibly complex and complicated, with entrenched parties on all sides that make comprehensive reform unlikely. In the absence of state tort reform, the State should explore avenues for a Scaffold Law carveout for affordable housing projects.
- **Public Insurance Program for Affordable Housing**: Similar to how the National Flood Insurance Program has stepped in to provide insurance to properties that would otherwise struggle to find sufficient and affordable coverage, so too can the State of New York step in to create a publicly funded property insurance program. We recommend the state undertake a feasibility study to assess the role, impact, and associated costs of a public insurance program for affordable multifamily housing.

These recommendations and others shared by other housing experts today provide pathways to better understanding the drivers and impacts of insurance cost escalation and will be essential to inform

[3] https://commercial.allianz.com/content/dam/onemarketing/commercial/commercial/countries/usa/marketing-brochures/Commercial-North-America-Growth-of-Third-Party-Litigation-Funding.pdf

the solutions so desperately needed to help bring stability to the affordable homes that millions of New Yorkers depend on. CPC stands ready to provide our data and insight to help support this critical work.

On behalf of CPC, I would like to thank Senators Bailey, Kavanagh, and Skoufis for the opportunity to testify today and we look forward to partnering with the State to advance solutions and right-size the cost of insurance for affordable housing across New York State. I am happy to answer any questions you may have.